Harvard Business Review
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HBR Case Study

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Oil and *Wasser*

by Byron Reimus

Reprint R0405X

England's Royal Biscuit Company and Germany's Edeling GmbH are in the final stages of a merger. Will a global culture clash cause the deal to crumble?

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Michael Brighton felt as if he'd been slapped. His back stiffened into the cold leather chair as Sir John Callaghan, the temperamental chairman of the London-based Royal Biscuit Company, angrily brandished the memo. "There is no evidence the two of you collaborated on this leadership development plan!" he hollered, glaring at Brighton while his German counterpart, Dieter Wallach, stared stone-faced at the conference table.

"This is a disgrace," Callaghan said. "You've had over three months to put together a coherent program, not a mishmash of features culled from warmed-over HR presentations!" He slammed the memo on the table.

The conference room's glass doors rattled slightly. Anthony Miles, Royal Biscuit's head of marketing, overheard the commotion as he passed in the hallway. He raised his eyebrows and quickened his step.

Callaghan, a self-made billionaire who did not suffer fools gladly, was famous for his displays of temper. But Brighton had never been on the receiving end of his boss's fury, despite serving as Callaghan's head of HR for over five years. Brighton was inclined to place the blame on his German counterpart, from onetime competitor and now merger partner Edeling GmbH, for the lack of progress. Still, he kept his mouth shut. "If Dieter weren't such a stickler for process, we would have been a lot further along," he thought grimly.

To some outside observers, Callaghan's tantrum would have seemed like the inevitable result of an overly ambitious marriage of two proud firms. On January 30, accompanied by Edeling CEO Heinz Burkhardt, Callaghan had stepped proudly before packed conference rooms in London and Frankfurt to announce the merger. On one side of the deal was Royal Biscuit, an entrepreneurial powerhouse that had single-handedly transformed the British

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snack food business in ten short years. On the other was Munich-based Edeling, a family-owned, 120-year-old model employer and beloved German brand. The new company, Royal Edeling, would amicably blend the British and German organizations, creating the world's second-largest consumer foods business. It would be a "merger of equals," the top executives proclaimed, and a great example of European togetherness.

Callaghan would serve as the CEO of the new firm, headquartered in London, with Burkhardt becoming nonexecutive chairman of the supervisory board. Shares of the company would be listed for trading in both London and Frankfurt. Under German law, the new organization would be governed by a management board that kept an eye on operations and by a supervisory board that oversaw management and represented all the stakeholders.

On paper, at least, the deal made perfect sense. But the merger was proving more difficult than the leaders of either company had imagined, and it was already May. Integration planning was dreadfully behind schedule, and stockholders had been promised the details of the new organizational structure, including a precise timetable, by June 1. As far as Callaghan was concerned, the difficulty Brighton and Wallach were having merging the two firms' leadership development programs bordered on the ridiculous. He had bigger fish to fry. The press was being neither cooperative nor patient. The British and German governments had yet to sign off on the merger. And the final verdict of investors was anything but certain. The last thing he wanted to contend with was bickering between two HR lieutenants.

"The two of you are supposed to be part of the solution, not part of the problem," Callaghan snapped. "Beyond the fact that the success of the new company depends on your success in shaping excellent managers, you are leading an effort that has tremendous symbolic importance. Our high-potential managers have to see that, going forward, we are of one mind on what it takes to get ahead in this organization. And that advancement will be a question of proven merit, not politics."

"But sir," Brighton began weakly.

"No buts!" Callaghan shouted. "You have one week to come back with a program that is demonstrably better than the initiatives either of our companies had before. And don't bother submitting anything less, or…" He left the threat hanging in the air and abruptly exited the room.

On the way out, Wallach was the first to break the glum silence. "If we have learned anything from this, Michael," he said with what seemed to Brighton a self-righteous air, "it is that we will have to draw on some additional perspectives, beyond our own, to produce the plan."

"Didn't you hear him?" Brighton responded defensively. "He already perceives it as a dog's dinner. And in any case, we don't have any more time to collect opinions and juggle calendars, as you keep pushing for. Sir John is right. The consensus will come *after* we have designed a world-class program."

"He is certainly right to demand a higher-quality plan," Wallach replied. "But I don't see how we can devise that in a vacuum." He looked at his watch. "I must catch a plane back to Munich in two hours. Can we meet at my office the day after tomorrow, preferably first thing in the morning?"

"Yes, of course, but please understand that we've already had three meetings. The clock is ticking. We must make some decisions, and fast. If we could just come to agreement on a few of the major components, then I can quickly…"

"We have a proverb in Germany," Wallach interrupted. "'What's the use of running if you're not on the right road?'"

"In England, we have a saying of our own. 'Any port in a storm.'"

Why Can't They Be Like Us?

On the way back to his office, Brighton stopped to make himself tea in the kitchenette off the reception area. Moments later, Anthony Miles walked in.

"Did you see this?" asked the marketing executive, showing him a press clipping.

Brighton put on his reading glasses and peered at the article. It read:

> Royal Biscuit's incipient merger with German biscuit maker Edeling is among the largest in the food industry's history. Despite the assurances of top corporate executives, however, British workers are not impressed. According to some employees, who spoke on condition of anonymity, there is growing concern about job

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losses and changes that might threaten the company's hard-charging culture. A few self-described "Royal Biscuit Men" were particularly vocal in their anti-German sentiments.

Brighton sighed and removed his glasses. "I know about this. In fact, I spoke with one of these fellows recently." He quickly summarized what he had heard from Andrew McCabe, a quality assurance engineer at Royal Biscuit and an affable, trustworthy, and productive employee. Forty-nine years old and the father of two teenage daughters, McCabe had never attended university but had quickly risen to a supervisory position. "Andrew is apparently worried that he might be let go in favor of what he called 'some sausage-eater,'" Brighton said.

"You know, the same kind of stuff is coming out on the other side," Miles observed, citing stories his salespeople had spotted in the German press. In one, Edeling employees fretted about whether those brash types from Royal Biscuit would have any respect for Edeling's proud history. In another, a financial columnist made much of the fact that seven of the ten seats on the new company's management board would be held by Royal Biscuit executives and less than half of the positions on the supervisory board would go to representatives of Edeling stockholders, who had received a modest 10% premium for their shares. "The British will gobble up every last one of Edeling's cookies," the reporter lamented.

The real challenge, Brighton decided, was to design a program that could remake those plodding Germans in the image of his best managers.

Back at his desk, Brighton scoured the lists that he and Wallach had exchanged of high-potential managers in various divisions. It was inevitable, he knew, that to honor the "merger of equals" intent, leadership assignments would be divided between the two firms' people more or less evenly. Some of the people he had seen come so far would now find Germans sitting squarely in their career paths. Still, they were luckier than their colleagues who hadn't been tagged as high potentials. Brighton mused bitterly about a few borderline candidates who hadn't quite made the cut. Undoubtedly they had more spark than anyone on the lower half of Wallach's list. The real challenge before him, he decided, was to design a program that could remake those plodding Germans in the image of his best leaders—though he could never express it to Wallach in those terms. Meanwhile, the prospect of the talent exodus he would witness over the next two years—and the dilution of the culture he had worked to build—was depressing, indeed.

Calling a Spade a Spade

On Wednesday evening, Brighton flew to Munich for another of his increasingly irritating meetings with Wallach. After landing, he went to an old hotel in the city center, where he slept fitfully in a small, stuffy room. The following morning, after a quick breakfast of strong coffee, cold cheese, and hard rolls, he hailed a taxi. The driver, of uncertain origin, seemed to speak only two words of English: yes and no. After the driver missed the autobahn exit, Brighton arrived at Edeling more than ten minutes late. Rushing through the lobby, he imagined Wallach making note of his tardiness in some thick book of black marks.

In contrast with Royal Biscuit's ultramodern home office, with its high-tech accoutrements, Edeling's bland headquarters suggested a no-nonsense firm determined to keep a low profile. In Wallach's office, a letter box was the only item on the immaculate desk. There were two uncomfortable chairs for visitors and several faded prints on the walls.

The Englishman tried to be patient as he underscored for Wallach—yet again—what had to be accomplished. Their mandate, he said, was to lay out a program that would give Royal Edeling a unique and sustained leadership advantage. The June 1 deadline was looming, so they would have to prepare at least a rudimentary presentation, he told the German. "So you and I should have the deliverable at least outlined by the end of today," he announced.

Wallach would have none of it. "Michael, I understand that there is time pressure. But we still have fundamental disagreements. You fail to appreciate that we are an old company, and our existing systems and procedures are the product of many years of learning. And I must remind you that the way Edeling conducts business has always been very successful."

Wallach went on to explain—in what seemed to Brighton painful detail—how Edeling worked to cultivate its future generations of leadership, starting with recruitment. The company had always been very careful in selecting people for even the most junior management positions. Qualified candidates had to demonstrate high academic achievement in

the *Gymnasium* and university. After graduation, they had to show proof of a successful apprenticeship, complete with outstanding recommendations. During their first two years of service, they were required to attend management training courses at Edeling's in-house university, which, Wallach reminded Brighton, was considered "the model for the many corporate universities that have sprung up since." To be considered for promotion, managers were also expected to excel in a variety of posts, working with teams both inside and outside their areas of expertise. "I myself," Wallach pointed out, "started as an analyst in finance in Munich and was transferred to public affairs in New York before returning to manage benefits. So you see," he summarized, "developing top talent is a matter of identifying the best learners and giving them the benefit of expert instruction. Knowledge—even of what constitutes good leadership—becomes obsolete so quickly in this business that…"

"Yes, yes, I understand," Brighton said curtly, "but I know Callaghan, and he will insist that your program is much too insular." Royal Biscuit, he noted, had produced dynamic leaders by focusing on diversity of background and "action learning" in the field. "We recruit the best and brightest from the business schools *worldwide*"—he stressed the word—"but even more, the people we hire and promote have a certain attitude and style, if you will. They show creativity and entrepreneurial energy."

Michael Brighton shot back at his German counterpart: "Perhaps this is a Teutonic tendency, but you have a pessimistic view of human nature."

Rather than subject them to formal classes, Brighton explained, Royal Biscuit put these promising young managers in charge of teams. The ones who emerged with the most productive teams quickly rose through the ranks. "At the end of the day, leadership ability is more about emotional intelligence, energy, and cultural fit than anything else—and those are not traits that can be instilled in a formal setting. That's why we don't want to waste time putting people in a classroom; we want their feet on the ground and running from the start." And in light of Royal Biscuit's past five years of double-digit growth, it was hard to argue with the wisdom of that approach, Brighton added with some defiance.

Wallach shook his head in frustration. "Michael, you are more than hinting that Edeling should abandon the best practices we have refined over many years. And for what? A program that treats leadership as an art—and therefore resists any objective assessment? We see the development of leadership as a science. And to be honest," he added gruffly, "I would have a hard time endorsing a program that seems designed to pit your 'best and brightest' against each other. What leader ultimately succeeds without learning to collaborate and gain consensus?"

"They do learn that, because it works in practice," Brighton shot back. "You want to know what a large part of the problem is? And perhaps this is not so much your fault as it is a Teutonic tendency, but you have a fundamentally pessimistic view of human nature. You don't trust people to see what is good and to gravitate toward it naturally. That's why everything comes down to a disciplined process for you, and sticking with prescribed steps."

Wallach's stern, surprised expression made Brighton wonder if he had been too harsh. On the other hand, perhaps calling a spade a spade was the only way to begin making progress.

Bitter Truths

Brighton was thirsty. The late-afternoon flight from Munich had been short but turbulent. His head hurt, and he was tired. After dropping his bag at his flat and changing clothes, he headed for a favorite pub on Blackfriars Road. The room was abuzz with conversations. Glimpsing Anthony Miles at the bar, he sidled over to the stool next to him.

"How did your meeting with Dieter Wallach go?" Miles asked, sipping his pint of bitter.

"I'm trying my best to work with him. But it's very frustrating," Brighton sighed. "He's stubborn and incredibly process driven, and—well, just so *German*." He paused, seeing the slight twist at the corner of his colleague's mouth. "Yes, I know. I'm stereotyping."

"Indeed you are," his friend replied, "though one cannot deny there are differences in style between you and Dieter."

Brighton ordered a Guinness.

"Pardon me for saying this," Miles continued, "but you're not doing much for your own leadership prospects if you keep coming back to Callaghan with problems—especially if he starts to believe they spring from prejudices on your part. Think about it from his perspective. He's put together a deal that is perfectly sound from a strategic vantage point. He sees it as your job, and the rest of ours, to get behind it

and make it work on the ground."

"But he has to acknowledge that this integration will be fundamentally different from the other ones we've managed!" Brighton blurted out. "It's hard enough to deal with different corporate cultures, but now we have all the additional complications of national differences." He lowered his voice. "And you know, it's not just Dieter. I keep hearing complaints from our people about how difficult it is dealing with the Germans. They don't think, act, work, or manage like we do. They take themselves far more seriously."

"Well, you're not going to budge Callaghan on that point. Remember what he said: 'Food people are food people.'" Miles added quietly: "I lived in Germany for a few years. Did you know that?"

"It doesn't show," Brighton said with a smirk. But he studied his friend's face. "OK. So go on."

"I had a girlfriend there," Miles recalled. "Ingrid. When I first met her, I kept thinking how serious she was. And organized!" He recalled that on their first date, she had welcomed him into an impeccably clean apartment. In the kitchen, the cups, plates, and glasses were displayed in a modern sideboard, with everything lined up just so.

"Sounds like a typical controlling German to me," Brighton observed.

"But she wasn't compulsive—Ingrid was actually quite adaptable." Miles paused. "And I began to appreciate the benefits of having that kind of structure around all the details of life. It can be quite comforting. I think you may be confusing that with being controlling.

"What's more," Miles continued, "once I got to know her better, I found she had this wonderful, irreverent sense of humor. In fact, she loved playing practical jokes on me. Maybe she thought I was the one who was too serious."

Brighton smiled. "I presume this is all by way of telling me that the problems I'm having with Dieter are really just a matter of perspective."

"Well, it's not for me to say," Miles noted. "But think about it. Ever since Callaghan took over, he has talked about how critical it is to have a global perspective. That's what he wants from his top managers. But what does it mean? Is it just thinking about what parts of the world we can sell more product in? Or is it more a question of seeing things in different ways?" Miles frowned for a moment. "Listen, you know more about these things than I do. But is that something you can train a manager to do? Stop thinking like a Brit or a German and start thinking at some higher level? Because if so, that's what your leadership development program should be aiming for."

Brighton took out his cash, ready to settle up. "Quite a speech," he said. He put the money on the bar and shrugged on his jacket. "But you're right, I'm sure. And it's absolutely true what you said earlier, that Callaghan is not going to tolerate any pesky cultural issues getting in the way of his grand plan. I appreciate the counsel."

Miles hadn't made a move to leave, though his glass was also drained. He appeared to be lost in thought. Brighton ventured a guess: "So, that German girl. Sounds like you liked her very much. Whatever happened?"

Miles pushed his glass forward and sighed. "Yes, well. Perhaps we did prove too different in the end. Anyway, it didn't work out." He gave a little wave, letting Brighton know he could go on without him.

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