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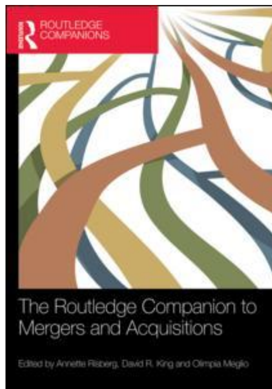

The Routledge Companion to Mergers and Acquisitions

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Leadership, power, and collaboration in international mergers and acquisitions

Publication details
https://test.routledgehandbooks.com/doi/10.4324/9780203761885.ch11
Kathleen Park
Published online on: 06 Jul 2015

How to cite :- Kathleen Park. 06 Jul 2015, *Leadership, power, and collaboration in international mergers and acquisitions from:* The Routledge Companion to Mergers and Acquisitions Routledge
Accessed on: 29 Mar 2023
https://test.routledgehandbooks.com/doi/10.4324/9780203761885.ch11

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11

Leadership, power, and collaboration in international mergers and acquisitions

Conflict and resolution

Kathleen Park

Introduction

The global business environment rests on the ongoing formation, renewal, and integration of international investments. Mergers and acquisitions (M&As) represent a foremost form of foreign direct investment and internationalization (Mody 2004). Acquiring firms and assets in other countries effectively contrasts with relatively slower-paced or more limited methods of international expansion such as licensing, exporting, alliances, or greenfields (Bartlett and Beamish 2011). As with other forms of business strategy, internationalization and acquisitions involve the input of strategic leadership (Covin *et al.* 1997; Vaara 2003). The value of top leadership has been sometimes questioned but has been found essential to the forward momentum of firms contingent upon the exploration and exploitation of strategic opportunities suited to the evolving business environment (Wasserman *et al.* 2010). The strategic leadership, context, and actions must fit together.

Global strategy and internationalization draw on a context of companies and countries representing a spectrum of cultures and economic development. Worldwide, family business interests play a crucial role (Palmer and Barber 2001) and operate on a scale from large (e.g. Wal-Mart or Ikea) to small (corner stores). This role intensifies in developing regions, where enterprises in emerging markets and with aspects of family involvement are increasingly contributing to the global economy and the global market for corporate control (Yadong Luo 2011; Yadong Luo and Zhao 2013). With this background in mind (Figure 11.1), the present study explores what are the factors affecting CEO leadership for internationalization from emerging markets, with the internationalization specifically occurring through mergers and acquisitions, and considering aspects of family business. To investigate this research question, this chapter analyzes a case study of a rapidly internationalized and now global business emanating from the Arabian Gulf. The international, multicultural, and resource-rich endowments of this region make it a crucible and a context enabling rapid business globalization in a manner providing insights for the more established and developed Western and Asian economies, as well as the economically developing areas of the world such as in Southeast Asia, Latin America, North and Sub-Saharan Africa, and Eastern Europe.

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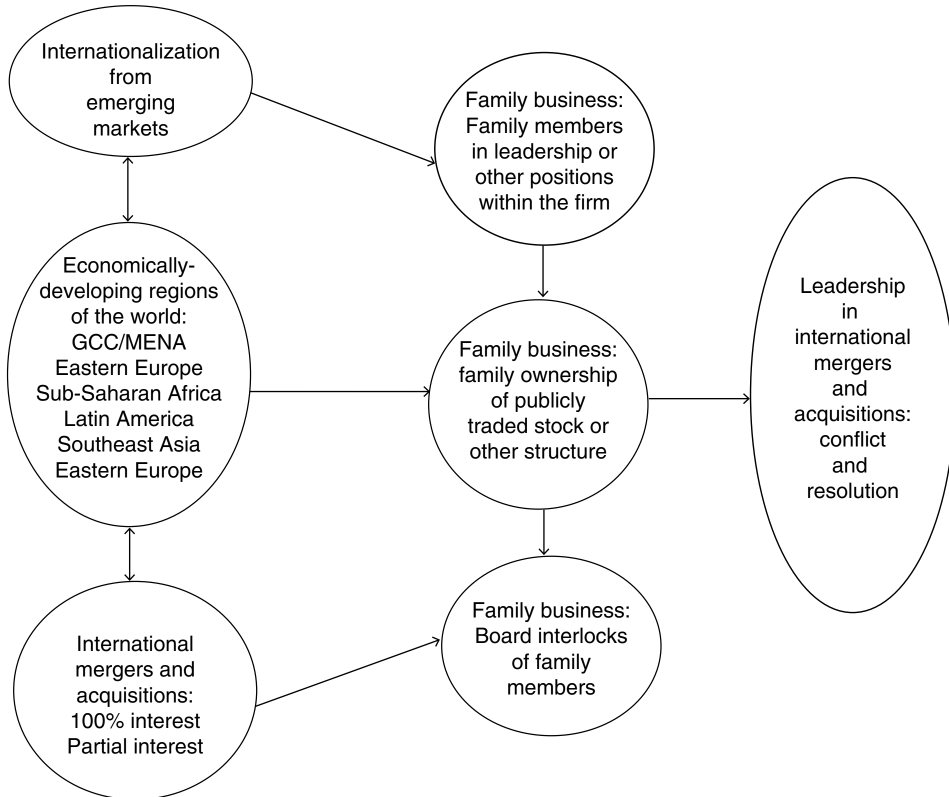

Figure 11.1 Proposed model of the international and family business context

The prevalence of cross-border acquisitions coexists with the frequently problematic nature of these transactions (Hitt *et al*. 2006; Moeller and Schlingemann 2005), motivating the related question, "What are key issues of conflict, resolution, and the deployment of power in the leadership of international mergers and acquisitions?" Specifically this chapter explores international acquisitions from a conflict and resolution perspective of top leadership in a global firm situated in a high-income, rapidly developing emerging market, intersecting with family business. In addition, the analysis brings to the fore the importance of speed and timing in international strategy. Moreover, the chapter emphasizes a methodology employing an in-depth, open-ended, ethnographic style of interviewing within single or multiple case study domains for increasing understanding of these issues.

Background and theory

The theoretical framework for leadership conflicts and resolutions in international acquisitions addresses (1) the centrality of CEO leadership in mergers and acquisitions (Covin *et al*. 1997; Vaara 2003), (2) the counterbalancing of competition and cooperation within and between corporate governance structures (Balmaceda 2009), (3) the importance of family business aspects for key geographic acquisition milieus (Palmer and Barber 2001), (4) the impact of emerging market dynamics (Yadong Luo 2011; Yadong Luo and Zhao 2013) in the global market for

Figure 11.2 Proposed model of influences on leadership in international mergers and acquisitions

corporate control, and (5) the interplay of acquisitions across sovereign borders and gradients of economic development (Hitt *et al*. 2006; Moeller and Schlingemann 2005) (Figure 11.2). These considerations interconnect in such a way that family business multinational corporations (MNCs) in high-growth (emerging) economies are undertaking acquisitions and then rapidly verging on or accomplishing full global engagement (Oviatt and McDougall 1995). Strategic leadership plays a crucial role in engendering a worldwide corporate vision and brokering the acquisitions to achieve this success.

Importance of leadership and management in acquisitions and organizations

The research questions articulated in the introduction highlight the construct of leadership, which occurs throughout an organization, not exclusively in the upper management ranks (Stein 2005). While top leadership decision making and strategic actions guide international M&As (Fendt 2006), the formulation and deployment of these strategic initiatives extends through at least several levels of management to accomplish the designated goals. For instance, the CEO and top management level can instigate corporate-level strategizing (Darling and Fischer 1998), which could involve particular business units, in particular in the implementation of relatively smaller-scale acquisitions. The divisional leadership then becomes heavily involved in enacting the post-acquisition integration or even in running the acquired firm as a distinct

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subsidiary (Morris and Snell 2011). The middle management in the subsidiaries or business units has frontline responsibilities for handling acquired products and services. Multiple levels of leadership and management work in concert toward effective acquisitions.

It has long been established that mergers and acquisitions are high-risk strategic maneuvers, which often depress value creation (Dewing 1921; Kitching 1967; Livermore 1935). In addition, these transactions carry considerable risks for the leaders of the involved organizations, who can jeopardize their jobs, reputations, and careers in undertaking these expensive, failure-prone, emotion-laden amalgamations (Krug and Shill 2008). Moreover, the transactions present myriad complex challenges to leadership in all phases from inception, through implementation, to assessment of performance (Park 2012). Hence collaboration presumptively assumes vital importance in M&A activity toward increasing the likelihood of favorable outcomes. This collaboration can occur within the focal organization (for instance, within top management teams and throughout the corporate governance) or across organizational boundaries (in interactions between respective CEOs and boards of directors). Power differentials become especially critical in the interpersonal and inter-organizational interactions (Meyer and Altenborg 2008). The greater power does not necessarily rest with the larger, more established firm with higher revenues or with the older, seemingly more respected and entrenched CEO. Rather, the power imbalance could favor the firm with the faster rate of growth, the greater present or prospective profitability, and the larger cash pool. Likewise, the power imbalance could favor a younger, newer, more aggressively forward-looking CEO who has mobilized substantial board and investor support.

Competition, cooperation, and timing in organizational settings

Top management teams are important within organizations for the distribution of power and sharing of leadership responsibilities across various functions, lines of business, and geographic regions. Typically, the top team would consist of the C-level (CEO, COO, CFO, CIO, and so on) executives and sometimes senior vice presidents. Of these executives, the CEO bears the greatest responsibility for conceiving and negotiating large M&A deals (Brown and Sarma 2007). The top management team members can assist in particular with the implementation of the deal (Shanley and Correa 1992). If any of these top team members in addition to the CEO sit on the board of directors as internal members, they can assist with the approval or disapproval of the deal as voted by the board. The external directors on the board can function as liaisons to the proposed acquiring or target firms, in addition to voting to approve or deny deals. The interactions among the CEO, top management team members, and directors form the crux of the leadership power and collaboration issues within an organization. The interactions between the acquiring and target CEOs and the acquiring and target boards constitute the nexus of the power and collaboration dynamics across organizations (Capron and Guillén 2009; Li and Aguilera 2008). In the case at hand, both the intra- and inter-organizational exchanges provide compelling evidence for the importance of the individual and group level leadership factors in acquisitions involving simultaneous family business (Dyer 2003), emerging market (Perkins 2013), and international aspects.

This collaborative framework becomes especially important for international transactions, where the cross-border cooperation should diffuse from the top ranks initially negotiating the deal down through the levels (both managerial and non-managerial) involved in various aspects of implementation. In international acquisitions, issues of both national and organizational culture differences arise. Effective leadership of acquisitions involves effective leadership of cultural issues and differences across organizations (Shearer *et al.* 2001). National differences

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could ironically seem less pronounced at top levels where an overlay of elite educational and family backgrounds and global management experience exists, even across various regions of the world (Maclean *et al.* 2006). In the divisional and middle management ranks, as well as at supporting levels, there could be additional need for extensive intercultural learning to facilitate the interactions across borders, yet now within the same company (Keys *et al.* 1993; Schweiger and Goulet 2005).

When addressing the dispersed leadership capabilities and issues throughout a company in the incidence of a merger or acquisition, it also becomes important to bear in mind issues of timing (Angwin 2004). Temporality surfaces in several ways in strategic transactions (Gersick 1994): through elapsed calendar and clock time as calculated in standard units, through relative timing to accomplish milestones and goals so as not to lose momentum established, and through organizational and national cultural time-related norms. Punctuality and efficacy become interrelated to different degrees in different countries—for instance, as commonly portrayed, from the promptness and by-the-minute timing in Germany and to somewhat lesser extents throughout the Western countries, to the more fluid conceptions of "timing" in Latin America and other areas of the globe. Moreover, acquisitions are generally arduous and intensive strategic endeavors, with expectations from investors and observers that the transaction itself and subsequent results would occur within relatively brief time spans (Hadida and Seifert 2008) and in accordance with related events (Ancona and Chong 1996).

Family business concerns within key geographic acquisition contexts

Extant theoretical and empirical perspectives on emerging multinational companies (E-MNCs) have relatively minimized the importance of family businesses as venues of global strategy in general and international acquisitions strategy in particular (Miller *et al.* 2010). MNCs in emerging economies can be family businesses, and family businesses can become MNCs, and these phenomena merit further research attention. Family MNCs in emerging markets can serve as engines for growth and internationalization from those markets. Acquisitions function as a means for not just regional but global expansion into the top tier of industries worldwide (Gaur *et al.* 2013; Gubbi *et al.* 2010).

Family businesses have been recognized as important in the market for corporate control (Filatotchev *et al.* 2007). In nations ranging from frontier economies to fully developed economies, family presence in private and public companies remains at notable levels (Nicholson 2008). The word "emerging" broadly encompasses economies at phases of economic development from "frontier" to "emerging" to "developing," and the word here applies in that general sense. In these markets, family businesses predominate, including in emerging multinational companies engaging in international acquisition activity (Bhaumik *et al.* 2010). These E-MNCs play both acquiring and target roles in the global market for corporate control. The E-MNC leaders, who may be progenitors or inheritors of family businesses, make deals in markets at all levels of economic development.

Family business MNCs from rapidly expanding economic regions such as the Arabian Gulf have an advantage for this type of expansion because of the natural and financial resources as well as the international networks, affiliations, and opportunities already available. The larger region has become known as the Gulf Cooperation Council (an economic single market especially for the oil-producing countries of the Arabian Gulf), Middle East, and North Africa (hereafter GCC/MENA). This broader region generally shares some religious and cultural characteristics as well as economic interests, although not all the countries have the high-income, high-growth aspects that make the Arabian Gulf nations contiguously unique among global

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emerging markets—in contrast to, for instance, Latin America, Eastern Europe, the Indian subcontinent, and East Asia. Kuwait serves as a focal country for sustainable rapid development in the Gulf, similar to Brazil, Russia, India, and China within their respective regions. In the focal case for the chapter, the E-MNC launched its global growth with the acquisition of a much larger MNC from a developed country, where that MNC had fallen into distressed circumstances, necessitating takeover by private equity and resale to the emerging corporate bidder. The deal thus involved cross-border business considerations as a crucial part of the context.

International dynamics in the global market for corporate control—acquisitions across sovereign borders and gradients of economic development

Cross-border M&As have long interested scholars of strategy, finance, and organizations because of their intrinsic occurrence in a global economy (envisioned by economists in a pure form even before the actual evolution) alongside their often problematic aspects (Park and Vambery 2010). The literature has been equivocal to date on whether the international nature enhances or impedes the performance of the acquisition (Cebenoyan *et al.* 1992; Moeller and Schlingemann 2005). Culture (Björkman *et al.* 2007), goals (Meyer and Altenborg 2008), and expatriation of executives (Hébert *et al.* 2005) can all be instrumental in the success or failure of the deals. Regardless of the unclear aggregate performance, cross-border deals are especially important for continued worldwide economic interconnections and the multilateral flow of assets, goods, and services (Collins *et al.* 2009; Shimizu *et al.* 2004).

Mergers and acquisitions are an essential strategy for the international as well as domestic expansion of companies. The repeated intensive waves of M&A activity from the late nineteenth century through the present represent the popularity of this form of strategy (Harford 2005). Acquisitions can occur across sovereign borders as well as across gradients of economic development and are one of the more advanced modes of foreign direct investment as part of corporate global strategy and internationalization (Mody 2004). Nevertheless, research has decisively shown that most M&A deals fail to generate the desired value or create the intended synergy (Bruner 2002; Selden and Colvin 2003). In spite of the cumulative and collective experience resulting from waves of mergers and acquisitions, the extensive pre-acquisition financial and legal due-diligence, and the large number of scenarios run to simulate expected outcomes in the newly integrated entity, the failure rate of mergers and acquisitions remains around 50–70 percent (Agrawal and Jaffe 2000).

As part of the worldwide economic setting, it is worth emphasizing that international mergers and acquisitions leadership occurs within the general strategic context of global merger waves (Alexandridis *et al.* 2011). Mergers and acquisitions have been demonstrably cyclical over the past century, while the market for corporate control has been largely global for about three decades. As a major method of firm growth and international expansion, mergers and acquisitions provide a potential outlet for the disinvestment of individual family members from family firms while preserving the future of the firm (Alsayrafi 2010; Xiaowei Luo and Chung 2005). In considering such a family business and global strategy overview, it is again important to note the region of the world. Merger markets have typically been considered as: the USA and Canada, Europe, Asia-Pacific, Latin America, Middle East, and Africa (Gomes *et al.* 2011). Clearly variations exist within and among these markets. For the purposes of this chapter, I concentrate on the manifestation and evolution of leadership issues related to international acquisitions emanating from family-owned or family-controlled MNCs from the Arabian Gulf.

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Emerging market dynamics in the GCC/MENA, Arabian Gulf and Kuwait

Research focusing on emerging multinationals has been gaining ground. Likewise, research on mergers involving the Middle East and African regions (Gomes *et al.* 2012), or mergers involving family aspects (Allred *et al.* 2005; Davis and Stout 1992; Miller *et al.* 2010; Palmer and Barber 2001; Walsh and Kosnik 1993), has been attaining increased attention. Within the Middle East, key oil-producing countries such as Kuwait, UAE, and Qatar, exert an economic impact disproportionate to their geographic and population size. (Saudi Arabia, in contrast, has both large economic impact and large area size.) Multinational family businesses have also flourished within these countries. With generous resources and successful acquisitions, these businesses have broadened their international platforms. Although a relatively small country in area and population, Kuwait has a high-income, fast-growing economy with five multinational companies ranked on the Forbes Global 2000 lists for 2012–2015. Its national oil company (Kuwait Petroleum Company) and sovereign fund (Kuwait Investment Authority) rank respectively seventh in terms of reserves (Marcopolis 2012) and eighth in assets (KPMG 2013) in the world. Hence the country stands as resource-rich, not merely in oil but also in the type of corporations appropriate for researching issues generalizable for global business relevance. Key family businesses such as Kharafi, Alghanim, Alshaya, AlBahar, Behbehani, Bukhamseen, and Sultan dominate within the region; additional prominent family businesses include Al-Wazzan (Mezzan), Boodai, Al-Zahem, and Marafie (Marcopolis 2012). Such businesses have for the most part remained privately held, with closely guarded financials, and a total of only about 8 percent of GCC family businesses are currently publicly traded, with a total of about 20 percent expressing interest in having an initial public offering (IPO) (Alsayrafi 2010). The increased interest has arisen as the power for capitalization within publicly traded markets becomes more of an imperative and a facilitating factor for international expansion. Whether the firms remain private or opt to become publicly traded, influence and ownership interlocks are common within the top families.

Due to the similarities in economic, demographic, and political structures within the region, the findings become highly relevant to other countries in the Arabian Gulf and to a somewhat lesser extent throughout the GCC/MENA. The findings could also apply to other emerging economic areas and countries, in particular those with rich natural resources, such as in Latin America (Mexico, Brazil, and Venezuela), Africa (Algeria and Nigeria), and Southeast Asia (Malaysia and Indonesia). Moreover, Kuwait as an economically important region of the world has already made huge strides in partnering with Western and non-Western MNCs and organizations in the government and corporate sectors (Forbes 2012).

According to a report from Barclays Wealth Insights (2009), family businesses represent 70 to 90 percent of global gross domestic product (GDP), with the Middle East predominance of family businesses at the upper end of that spectrum. Due to the laws governing inheritance and also due to the typical structure of bequests, the GCC/MENA region has one of the highest occurrences of dynastic wealth in the world (SCAS 2010). This wealth largely occurs through businesses owned, operated, or controlled within the family. Some family businesses have escalated into global enterprises susceptible to worldwide economic effects at the same time that they are vulnerable to internecine conflict, intergenerational tensions, and succession planning issues. Such conflicts are not necessarily the norm in family businesses, but some striking examples have occurred—for instance, in the NewsCorp (UK) tabloid publishing empire, where offspring of the thrice-married, family-oriented Rupert Murdoch have had degrees of disputes and competency struggles. Despite pressures on multiple fronts, family businesses that are MNCs have tremendous potential for coordinated, effective strategic action, drawing on a deeply interrelated shareholding base.

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Empirical design, data collection, and analysis

Another key research issue for the case in the chapter involves methodology. To obtain insights into the leadership functions and interactions in M&A activity as a larger research project, a series of interviews have been conducted with pivotal leaders of acquisitions in two regions, (1) North America and (2) Middle East and North Africa area (GCC/MENA). Interviewing as a method enables the collection of data replete with reflections on decision making, successes, struggles, failures, and resolutions. The introspection and retrospection from rich, in-depth, ethnographic-style interviews provide strong complementary or alternative data to survey, archival, or more cursory interview methods. Quantitative data from acquisitions and business databases as well as from corporate sources have been further obtained to enhance insights from the interview-based data.

The empirical evidence for this chapter derives from the study of a large, successful, publicly traded yet family-controlled business in the Arabian Gulf, referred to by the pseudonym, LLC. In the interests of potential generalizability to a range of industries worldwide, the company business does not center on the energy sector. The top leadership reflects a bilingual, multi-cultural and internationally oriented educational, work, and travel background.

Direct observations, documentation, and interviews, all involving the particular company, supplied the three main sources of data for the present part of the study. The observations tended toward the unstructured, arising from the opportunities provided by visits to the company. The documentation derived from a combination of online searching of reputable business sources for the region and also information provided by the company—for instance, on their lines of business, emerging markets presence, and corporate social responsibility program. The online sources included EMIS, the Emerging Markets Information Service; ASMA, the Arab Stock Market Analysis; and Zawya, the Middle East and North Africa business intelligence service of Thomson Reuters. The interviewing relied on a set of 17 open-ended questions to invite in-depth responses and interaction. Similar methodologies have been previously used by Mintzberg (1973) and Carlson (1951) in their now classic studies of managerial work. As the focal company, LLC pursued an intensive acquisitions program over about a 5-year period, then continued with acquisitions at a less fervid pace into the present; each acquisition represented an embedded event or mini-case within the larger case study. The acquisitions were purposely cross-border in scope for acquiring geographically diversified partners, customers, and locations, thereby internationalizing from a business focused on the GCC/MENA region to a services provider to the world.

A total of about 30 hours were spent in interaction with various representatives of the company, including the CEO, a member of the board of the directors, and five managers from assorted business functions. In addition, an array of documentary sources in both English and Arabic were examined with the aid of three native Arabic-speaking research assistants and a cross-cultural consultant. The research assistants functioned also as cultural interpreters and as individuals familiar with the national business environment, customs, and corporate structure of the focal company and country in the Middle East. Two to three cultures—US, UK and Arabian Gulf—are in total represented within each key individual interviewed. From my personal educational and work experience, I had familiarity with the US and UK systems. The research assistants and cross-cultural consultant all had familiarity with two or three systems each. The importance of multiple cultural understandings emerged repeatedly in the segment of the study represented in this chapter, as the focal company successfully functions at a cultural crossroads, having enabled rapid expansion from regional to global presence through acquisitions.

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The LLC CEO has native-level English and could be interviewed directly by me for five hours total in three sessions in that language. In addition, there were present at different times two of the bilingual native Arabic-speaking members of the research team, who could provide insights for times when the CEO chatted in Arabic or made particular allusions indigenous to the country and culture. The data were parsed through manual content analysis of repeated phrases and themes throughout the total extended hours of in-depth interview time with all individuals within or related to the company.

Conflict and resolution, leadership decisions going into international mergers and acquisitions from MBA to the present

The empirical analysis broadly involves issues related to conflict between family heritage and individual aspirations, between leadership team objectives and broader shareholder expectations, and between governments and management levels across countries. These three conflict areas are related to specific issues for decision making by the CEO, presented in chronological order of major challenges encountered in his leadership tenure and in the time of his career from receiving his MBA from an elite US business program through the present. I interweave quotes and analysis to provide strategic insights into the development of both the business and the leadership across the past 15 years. The key strategy has involved numerous acquisitions within a relatively short period of time, spanning a full range of ease or difficulty of implementation, while rapidly building a formidably competitive global firm. The CEO himself effectively summarized the experience: "We have been very acquisitive . . . in over 50 acquisitions from 2004 to 2008, we have seen the good, the bad, and the ugly" (all quotes from interviews with the LLC CEO unless otherwise noted).

Issue: to join or not to join the family business

> When I came back to [my country in the Arabian Gulf], there were only a couple of options: one was to join the family business which was not very appealing because the family business can be very hierarchical, and not only hierarchical . . . . So I started a firm: it was just me, a secretary, and another guy to start. We focused on privatization because we thought it would be a really big thing at the time, which it was . . . I got the first mandate to do a privatization from the government, to acquire assets which had previously been primarily government-owned and could now be in the private sector.

This tension centers on the divergence that can occur between family heritage and individual aspirations.

At the time of the decision making by the key leader interviewed, he had felt, as he recollected, that the family business would be in many ways too confining. Based on other interviewing for this project, the opinions were expressed that family businesses can provide a great comfort level but can also limit opportunities for both personal and organizational development. Not joining the family business directly meant the opportunity for building a separate business that could still provide service to the family business as an arms-length service provider, and hence make a distinct but still meaningful contribution within a national, regional, and ultimately global network of interactions. Exemplifying the inspiration provided by the successful entrepreneurship of the interviewed leader, the earlier family business in this situation ultimately became publicly traded, unusually for the region, and subsequently built its own platform for international expansion. The conflict centered on what seemed like a separation decision from

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the family business, and the implicit and explicit strength of those ties. The resolution lay in an independent, transformative venture that turned out to maintain and strengthen intercorporate connections with both the original family business as well as with other internationalizing enterprises.

Issue: to buy or not to buy assets available for privatization

> The government had agreed to sell [certain state-owned assets] to groups of investors. There was a loophole in the law that the investors all had to be available on site at the announced time of the auction, but we realized that most of the investors would not be prepared with their valuations. We showed up at the auction and we outbid the other groups. They were authorized to bid [only in small increments]. We actually had no financing to do the deal, but we outbid them. The basic premise for buying the company was the real estate and concessions that they owned, especially the off-balance sheet leases not yet reflected as assets. We determined that [one pivotal concession] alone was worth more than the rest of the company. Our strategy was to have these valuable leases reflected as assets and also further to develop the services side of the business. After bidding and winning and not having any financing to do anything, it was funny that the share price actually doubled and tripled. The way the deal was structured, we had to sell about 50 percent of our shares afterward. It was very easy to do when the share price was already 100 percent–200 percent higher than what we had paid for it.

Not joining the family business directly meant having the opportunity to found a new firm or transform a separate existing firm. The business situation in the country meant that the firm could be relatively quickly launched through the acquisition of previously state-owned assets, with these assets serving as a springboard to additional expansion. The difficulty becomes that the acquisition of state-owned assets does not constitute a long-term viable strategy for growth. In addition, the access to and success in the bidding can result from combinations of factors—funding, expertise, connections, risk, and serendipity—that are difficult to duplicate repeatedly. The analysis of this issue begins with an extended quote on the acquisition of privatized assets to illustrate how the now CEO of LLC identified and followed through on a tremendous opportunity that put the budding public company into such a strong position that the very success became a dilemma for the young leader. His team as well as observers or competitors of the company were uncertain whether he could sustain this success. Capitalizing on the privatization opportunity meant that suddenly he had a sizable public firm to run and the attendant challenges for any such firm and for any young leader newly in such a position. Avoiding the privatization opportunity would have meant many more years to reach the starting point of having a company of a size that could then grow even further through the acquisition of publicly- and privately-owned assets. Acquiring through the third form of ownership, the state, provided the early launch for moving into acquisitions of firms either publicly traded or privately held. The tensions of having an early leadership position and early success have been encountered in the past decades especially in high-technology businesses by entrepreneurs such as Steve Jobs, Bill Gates, Sergei Brin, Larry Page, and Mark Zuckerberg. Each of these individuals has had a different career and life route, and different chances inside and outside their respectively founded companies, for demonstrating competence, stepping relatively into and out of the spotlight and the top leadership position, and continuing to be influential in their chosen arenas. For the soon-to-be LLC CEO, it has been remarkable that he has now had a 15-year

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unbroken leadership tenure—and, interestingly, he very early on made it a strength and policy of the company to be very much in the vanguard of technological innovations for the industry.

Issue: to lead or not to lead from the start

> There is no way we could have known from day one that we could do this, that we could build a company like this—of this size, scope and profitability—in this amount of time.

This issue centers on the tensions between the leadership team objectives and broader shareholder expectations and interest in the transaction (extending also to shareholders beyond the family).

After the learning experiences and ultimately efficacious privatization acquisitions, the decision very quickly arose as to whether to lead the new venture that would rapidly become the global LLC. At the point of the conflict and decision making, very few people would have envisioned the ensuing fast-paced and profitable internationalization of the firm, or there would perhaps have been greater confidence in the young leader from the start. The newly privatized entity, formed from the acquisition of previously state-owned assets, had the infrastructure, finances, and social capital to move forward swiftly. For our focal leader, the decision also involved whether and how to lead, driven by the desire to be successful within an ethical and sustainable framework reflecting heritage values as well as the multiculturalism intrinsic in a three-country upbringing. This same multiculturalism that could be an asset could be viewed as a drawback by more conservative investors from the country of the founding of the firm. The multiculturalism amounted in essence to drawing on the home country context of a potentially longer-term CEO position, longer-range investment and performance time horizons, and emphasis on expanding into emerging markets, counterbalanced by exposure to and experience with a more Western, developed-market, hard-hitting, aggressive, and even imperialistic acquisitions strategy. Yet the US/EU-style strategy emanating from the GCC/MENA could be executed without being subject to quite the same business practices scrutiny, or financial transparency and disclosure requirements, of a company stock traded on a Western exchange. The conflict centered on counterbalancing leadership styles and corporate objectives from different cultures, on the appropriateness of a decision breaking with family business tradition, and on investor factions with differences stemming from longer-standing factors. The resolution lay in the financial efficacy of the earlier privatization, successful evocation of pivotal family ties through market-driven arms-length business constructs, and clear articulation of the mission and vision for control of the newly privatized venture that would become LLC.

Issue: to expand locally–regionally–globally through key acquisitions or not to expand

> We wanted to grow from our own skill and not just be in a position where we were waiting to see if the government would auction concessions. If you can get those assets, it's great, and we have tried and gotten them, but it's not something you can replicate in other parts of the world—it is a local, not a global strategy. We did some strategizing and figured out that we wanted to focus on services and build a network in the emerging markets and also in developed economies. Part of the strategy to develop that network—now in over 100 countries—was to leverage acquisitions . . . to build a platform for expanding from our founding location to all the places in the world where we are today.

> In the course of acquiring [on average over 10 firms a year for 5 years], we have become a global firm, and more recently we have focused on unifying our brand and growing organically, with the occasional, selected, strategic acquisition. We will be continuing to have more growth, possibly more acquisitions.

This area can involve potential conflict between host country governments and the expanding company leadership, and even between the national interests of two different countries.

This potential conflict area involved identifying the lines of business in which the company would operate in order to have the capabilities for expanding from local to regional to global. The vision for the scope of the company, whether in terms of geography or products and services, influenced the type of acquisitions enacted. Likewise the availability of certain acquisitions could influence the strategic direction of the company. The overarching objective became to expand to a global firm within a framework of essentially related lines of business, which evolved ultimately into four distinct divisions identifiable within a single industry (in other words, not conglomerate-style or unrelated diversification). The basic conflict for the expansion issues was not whether, but how. The "how" involved quickly creating a global meta-network of interlocking competencies within the industry.

> We have created a lot of value by putting together networks spanning the globe, and we did it in fairly short order [within about a 5-year period]. If someone were trying to do that today, it would cost literally billions and billions of dollars.

While favorable for the focal company, the speed of growth through acquisitions would be difficult for another firm to duplicate.

Not only were the cost effectiveness and the speed of the transformation from regional to global startling, but the financials and branding of the company have also been remarkably successful. The "how" therefore also meant defusing any negative feedback or backlash from an aggressive expansion program, which was up to that point unique for a publicly-traded company within the region. The "how" further included pursuing particular regions and countries as part of the initial expansion—in this case, targeting emerging markets previously untapped by the global firms in the industry and consistent with the emerging market heritage of the firm itself. As part of building a global presence, the company [LLC] has also developed and sustained a world-class corporate social responsibility program exhibiting outstanding corporate citizenship in all areas of the world where its services could be of assistance, in situations ranging from local educational initiatives to large-scale disaster relief.

Issue: to rebrand for global marketing strategy or remain with the earlier firm name

> It has definitely been challenging acquiring 50 different company cultures and brands and putting that all together, which leads into one of the main reasons we did our rebranding. We chose to come up with a brand name and logo that was new to everybody, so that everybody had to give something up, and everybody got something in return. We did a lot of research and a lot of thinking to come up with the image, colors and name. We wanted to brand around our unique competencies and to reflect that we put customers at the center of our value proposition. We customize for our customers in a way that really contrasts with our competitors, and we wanted our new corporate brand to express these strengths and capabilities at a high level.

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The rebranding or not re-branding question arose as interrelated with the acquisitions strategy, as part of how to assimilate acquired businesses, products, and services. This conflict area captures an essential dilemma in many mergers and acquisitions: to what extent to integrate the target entity and to identify it with the acquiring firm? In this case, LLC had been operating under a highly descriptive, albeit rather cumbersome, name, reminiscent of function rather than the caliber of the company and services. When the company achieved a certain size, scope, and global reach, the CEO had compelling arguments for rebranding to exhibit the enhanced competencies. At the same time, the company originates from a part of the world where history and tradition remain highly important, and therefore the previous name has not entirely disappeared but rather has remained connected to the new name in certain official documentation. It should be noted that subsumed within the conflict areas was the decision whether and where to be publicly quoted. Although indisputably a global firm, the company has opted for listing on essentially regional exchanges. Before the global financial crisis, the firm had road shows in preparation for listing on additional exchanges in major financial centers of the world, but then put those plans on hold. Globalization has meant encountering the inevitable resistance in some form, somewhere, from host country governments. Countering this resistance has required unprecedented dexterity for the company in balancing global transparency with corporate and national privacy concerns, while remaining focused on the corporate objectives.

Discussion and implications

This chapter has addressed CEO leadership in international acquisitions in the context of internationalization from emerging markets. The explication has incorporated family business aspects and broached multiple decision areas as well as issues of multiculturalism and timing. The identified conflict areas (to join or not to join the family business, to buy or not to buy assets available for privatization, to lead or not to lead the privatized business, to expand from regional to global or not, and to rebrand in a global marketing strategy or not) have the potential for resolution with a multifaceted collaborative framework that can encompass dissension while also providing outlets for integrative decision making and actions. The use of power emerges as subtle and inspirational rather than blatantly controlling. Within the family, there can be sharing of responsibilities as well as separation of interests. The structure of voting shares, stock transmission, and intergenerational succession schemes can impede or enhance the flexibility for integration versus implosion, as in the aforementioned example of the NewsCorp empire of the Murdoch family. As further examples, the Hermès family has remained largely united in the face of repeated acquisition attempts by LVMH from 2010 to the present; the Bulgari family business, on the other hand, agreed in 2010 to be acquired by the LVMH conglomerate; the Porsche family battled for years in the second and third generations until guardedly reconciling through the full acquisition of Porsche (founded by Ferdinand Porsche in 1931 and later chaired by his grandson Wolfgang Porsche) by VW (founded in concept by Ferdinand Porsche in 1937, then passing through various levels of government ownership, then later run and chaired by grandson Ferdinand Piëch). In addition, the Porsche and Piëch families have complicated interlocking ownership structures and trusts for their shareholdings in VW (Automotive News Europe 2013). These examples of businesses with family involvement evidence the structural and legal flexibility that can be developed for mutually beneficial and collective strategic action among family members. Even when disagreements inevitably occur and when the time until reconciliation lengthens, shareholding structures can ultimately facilitate more integration than separation of interests. It can also be the case that expensive and time-consuming acquisition offers eventually separate family interests within shareholding structures, for instance as when NewsCorp in 2007

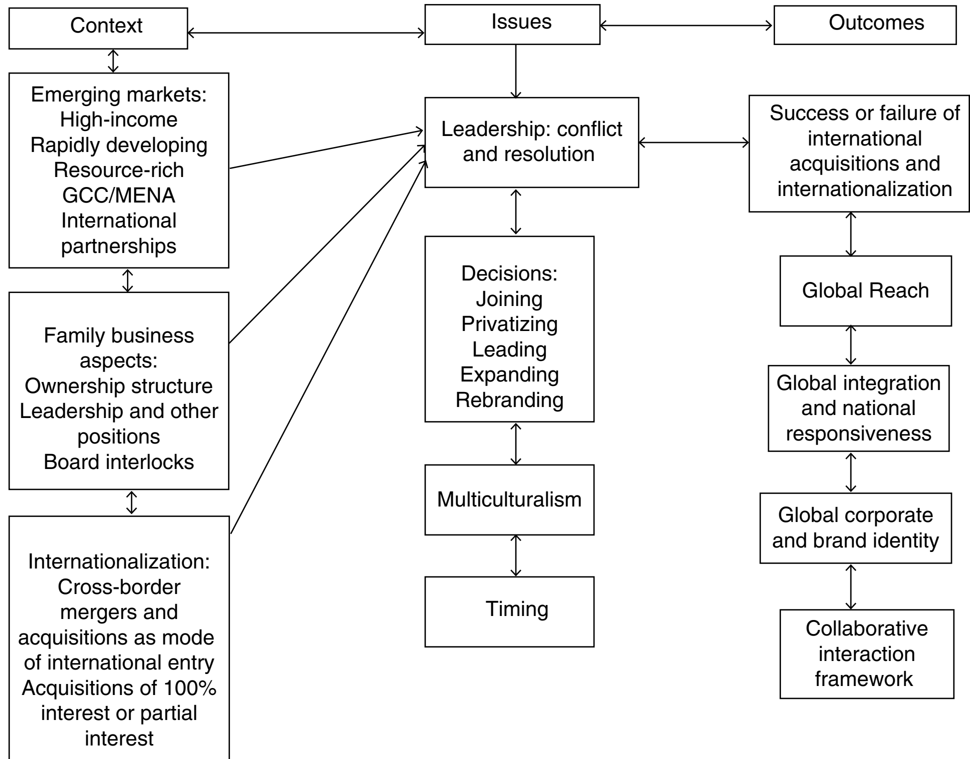

Figure 11.3 Emergent research model

acquired the *Wall Street Journal*, which was originally dominated and still substantially owned and influenced by the Bancroft family in the USA.

Issues of multiculturalism and strategic timing recur in the context of the strategic challenges and collaborative frameworks and can be addressed as integrative aspects leading to identification of implications of this research for research and practice. Figure 11.3 illustrates the emergent research model relating context, issues, and outcomes.

Leadership multiculturalism and corporate internationalization objectives

The individual multiculturalism of the CEO contributes to, reflects, and reinforces the global orientation and intercultural competencies within the company and also the cross-cultural leadership of international M&As. Individual multiculturalism appears to assist with the handling of the cultural intersections of international mergers and acquisitions. Interestingly, the top leadership's multicultural adeptness and personal facility with navigating multiple cultural boundaries coexists with a highly streamlined and intensive approach to the cultural and logistical assimilation of acquired firms.

In a related manner, the initially successful (although financially and logistically ultimately failed) RBS–Santander–Fortis (UK–Spain–Belgium) European banking consortium acquisition of Dutch bank ABN AMRO in 2007–2008 was brokered by an internationally networked, multilingual investment banker coordinating three internationally oriented and ambitious CEOs. The globalization of construction and building materials firm CEMEX from Mexico, then

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Latin America, to the rest of the world (1985–present) has been facilitated by the manifold multicultural proficiencies of CEO Lorenzo Zambrano, as has the internationalization of Indian (by heritage) and European (by heritage and current headquartering) steel firm ArcelorMittal (1975–present), led by multicultural savant, CEO Lakshmi Mittal, championing the acquisition of Luxembourg firm Arcelor by his family firm Mittal. These examples emphasize the associations among individual leader, organizational strategy, and mergers and acquisitions successfully accomplished across organizational and cultural boundaries. The three examples also all have aspects of family business heritage, intergenerational leadership transfer, and venturing into new geographies.

Leadership and speed of acquisitions

The issue of timing occurs in at least three ways in the interview-based findings with respect to: 1) longevity of leadership, 2) speed of acquisitions, integration, and overall corporate growth, and 3) pace of decision-making timing as identified by the CEO as a cultural component of acquired firms. The CEO interviewed has led the company for over 15 years and has the backing of the board and shareholders for continued tenure, in essence for as long as the firm remains successful. As compared to publicly traded companies, family businesses in general have the benefits of longer vistas for performance, established leadership for stability, and an enduring sense of identity rooted in history and tradition (Barclays Wealth Insights 2009; Carmeli and Markman 2011). In contrast to widely held conceptions, family businesses do not necessarily suffer unduly from nepotism, greed, or pilfering of the corporate coffers for personal gain (SCAS 2010). The proven longevity and anticipated continuation of the LLC CEO, as well as the listing of the company on non-Western exchanges, mean that the time horizon for strategic formulation, implementation, and outcomes provides greater opportunities for innovation, patience, and persistence. Paradoxically, the present top leadership has exhibited exceptional swiftness in the rate, integration, and success of acquisitions as well as in the overall speed of growth of the company from respected regional contender to global competitor. Thus the juxtaposition of timing effects, from extended leadership longevity to compressed acquisition speed, has inculcated a heightened awareness for the importance of timing as a cultural component in decision making within organizations. The CEO therefore explicitly seeks to understand timing and guidance as two important aspects in the decision-making mechanics of the companies he acquires. Timing has surfaced as a fertile area for increased understanding of intercultural dynamics in international business strategy.

Implications for research and practice

Implications for business practice are for leaders of international acquisitions to have or develop multicultural competencies and to be alert for opportunities for intercultural learning. In addition, leaders of international acquisitions would benefit from an awareness of how each transaction potentially fits within an organizational or corporate strategy for internationalization and expansion. In addition to the individual leadership aptitudes and the firm-level strategy, practice implications exist at the network level of inter-organizational interactions. Top leaders can influence themselves and the organizations they run, but their influence on other organizations (and even on other individuals within their own organization) requires the collaborative approach emergent in the present case. Perhaps the focal organization has already developed an international orientation and deep intercultural learning capabilities, but the leadership should be prepared actively to work with firms being acquired, or firms with which alliances are being

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formed, to reach beneficial levels of reciprocal strategic and intercultural accord. Reaching those levels could require setting examples and recommending standards and practices for other firms as well as for the focal firm being led.

The linkages among multiculturalism, timing, and acquisition success could be explored further in future research, as could more broadly issues of leadership, internationalization, and acquisitions involving firms from emerging market countries moving into the global business sphere. Suggestions for future research include examining also the array of joining-acquiring-leading-expanding-branding issues identified here and potentially applicable to further companies, countries, and regions. The model of collaborative frameworks for intercultural interactions in international acquisitions could be extended on the basis of similar business environments to cases in other resource-rich nations of economically emerging areas of the world, and it could further be extended for investigating cases in more economically developed regions or in countries less endowed with desired natural resources. In addition, future research could examine leadership-specific issues such as human capital, social capital, acquisition experience, and also subjects such as obscurity-celebrity and confidence-overconfidence. Moreover, sector-specific considerations related to the particular industries of interest, as well as economic and political interconnections for certain industries could be taken into account.

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