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?

Oil and Wasser
by Byron Reimus

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 snack food business in ten short years. On the other was Munich-based Edel-ing, 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 shape-

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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.

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, 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.

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?”

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

Can a clash of cultures undermine this cross-border merger?

Five commentators offer expert advice.
One hallmark of a great merger is the creation of business approaches that neither company could have undertaken on its own.

A CULTURE CLASH can indeed undermine this merger. Witness Volvo and Renault’s attempted 1993 merger, which was canceled in part because of doubts that the French and Swedes could get along. Sony’s acquisition of Columbia Pictures in 1989 triggered a $3.2 billion write-off in 1994, largely because the Japanese didn’t succeed in understanding or managing the cultural aberrations of Hollywood. And in 1998, Daimler and Chrysler imposed waves of culture shock on each other, some of which are still resounding.

Despite Thomas Jefferson’s declaration that the spirit of commerce knows no country, those who practice commerce are deeply shaped by their cultural roots. It’s difficult enough for two domestic firms with markedly different cultures to combine. But in a cross-border context, opportunities for equals to misunderstand and disagree multiply like weeds. Differences in language, customs, values, and training shout that the two firms in this story are not equals, a reality confirmed by Royal Biscuit’s dominance of the management and supervisory boards.

Moreover, most so-called mergers of equals aren’t equal at all. More often than not, the acquiring company cloaks the merger in a false amity designed to disguise painful organizational and economic realities from the target company’s employees and shareholders. Ultimately, calling the deal a merger of equals simply worsens internal power struggles, because it defers the ultimate reckoning on who will rule.

Despite the difficulties inherent in a cross-border merger, there is a glimmer of hope for Royal Edeling, provided the CEO, John Callaghan, makes the vision for the new company clear and appealing to parties on both sides and gives his managers sufficient authority to implement it. One hallmark of a great merger is the creation of business approaches that neither company could have undertaken on its own. Callaghan should focus the executive teams and boards of both companies on developing a new vision, a clear set of expectations, a solid operating style, and a culture that draws upon and respects the Anglo and German traditions but rises above nationalism.

Callaghan needs the help of HR heads Michael Brighton and Dieter Wallach, but he can’t force them onto the bandwagon simply by fiat. Temper tantrums, intimidation, and threats won’t work to create a more unified culture; indeed, his fury has the effect of further dividing the middle managers and increasing their timidity. Brighton and Wallach are understandably confused, and they don’t feel they have the authority to act on their own. Callaghan will do much better with them if he makes it clear that he understands their fears and if he challenges them to rise to the occasion. He should turn the tables by telling them he wants them to take a direct role in inventing the new way. He needs to express Royal Edeling’s “cause” in compelling terms and enlist everyone in it.

For their part, Brighton and Wallach should realize that they have taken the path of least resistance; they have merely pooled good ideas from each side without asking how the whole can be greater than the sum of the parts. They need to start fresh with a creative plan that surprises and delights Callaghan. It will require leading from the middle. Though they may not have buy-in from their superiors, peers, or subordinates, they need to reach beyond the simple task to align, inspire, and lend direction to those around them.

The first step toward leadership is personal rapport. Brighton would be wise to follow the advice and model of his friend Anthony Miles. He should invite Wallach out for a beer and try to develop a personal relationship with him. A shoot-talk-free evening in which Michael discovers more about who Dieter really is as a human being might go a long way toward melting away stereotypes.
For Michael Brighton, there is a British “us” and a German “them.” For Dieter Wallach, the “us” is German and the “them” is British. For both, “us” is trustworthy and competent, “them” is neither. Before the merger, Royal Biscuit and Edeling were what psychologists call rival coalitions in a zero-sum game. Each was a highly cooperative group whose members coordinated their behavior to achieve a common goal: taking market share from “them.”

Is the difference in cultural norms causing the impasse? Or is Brighton’s and Wallach’s dislike of each other’s norms a result of their previous membership in rival coalitions?

In the wake of World War II, psychologists, like everyone else, were wondering how the Holocaust could have happened. Is there something fundamentally different about German people or German culture? Or is there something universal in human nature—something triggered by particular kinds of situations—that causes people to see the world as a zero-sum game between rival coalitions?

In the 1950s, psychologist Muzafer Sherif randomly divided an ethnically homogenous sample of 11-year-old boys into two groups at a camp. During the first week, neither group knew about the other. The boys hiked together and engaged in cooperative work and games with other group members. The groups were then introduced to each other and told they would be competing in a tournament. Within a day, the boys were beginning to sound like Brighton and Wallach. Each group was derogating the skills, character, and norms of the other and bragging about its own. Within two days, small-scale warfare broke out between the groups, complete with fistfights, commando raids on cabins, and improvised weapons. (Counselors intervened to protect the boys.) The results of studies like this were crystal clear: The programs that create an us-versus-them psychology are present in everyone and easy to activate.

Why is this so? Natural selection equipped the human mind with a set of programs, each specialized for solving a problem faced by our hunter-gatherer ancestors. Our ancestors lived in bands; their lives depended on their ability to cooperate with group members and defend against rival groups. Neighboring bands were sometimes friendly but sometimes not. That which was most precious might be lost in a day—children killed, women taken as wives, foraging territories seized.

A fight is a conflict between two individuals, but a war is a conflict between two coalitions, each of which must coalesce and function as a cooperative unit. This poses specific problems, solved by specialized programs. To defend against a rival coalition or launch a raid, individuals must be able to do three things: coordinate their behavior with one another to achieve a common goal, share the resulting benefits with others who participated, and exclude free riders from these benefits. The common goal of competing against a rival coalition in a zero-sum game leads to cooperation among “us.” Resources? Use them to strengthen “us,” not “them.” Attitudes? Build cooperation among your coalition mates and consider their strengths in forming a plan of action—and don’t trust “them.” Brighton and Wallach were coalition rivals until recently; their attitudes are a product of their us-versus-them psychology, not the result of a culture clash.

In uniting two coalitions, a leader has to define the merged organization’s common goals. Brighton, Wallach, and other executives will agree on methods once John Callaghan specifies which values the new leadership program should cultivate. And how can he get people to stop bickering? Instead of being content with Royal Edeling’s position as the world’s second-largest food company, he should focus his employees on a new goal: beating the competition and becoming number one. As this happens, the distrust and resentment within the newly blended Royal Edeling will gradually subside. Rival “them’s” will become a united “us.”

Once the CEO focuses the merged company on a new goal, rival “them’s” will become a united “us.”
The merger is in danger, not so much because of the nationalist differences but because John Callaghan has let the horse out of the barn too soon. Having delegated important tasks without giving Michael Brighton and Dieter Wallach a clear idea of the new company's overarching goals, he has abdicated his responsibility. Before he does anything else, Callaghan needs to call a halt to the troops. Then he must put together a balanced management team from both companies and lock that group in a room. He and the team must hammer out a completely fresh strategy, an organizational model, and guiding principles for the new company. Moreover, he should not compromise the new company's goals and values for the sake of making anyone comfortable. By failing to set a clear strategy and articulate a new value system before setting people loose on various projects, he has placed the merger in much worse jeopardy than it might otherwise be.

Still, Callaghan has my sympathies. His is not an easy position to be in. As the CEO of a company born from a giant international merger of equals, I've stood in his shoes. In 2000, my company, Syngenta, was formed from the marriage of the agribusinesses of two major pharmaceutical companies, the British firm AstraZeneca and the Swiss company Novartis. While our postmerger life has been successful, the planning process was not always smooth.

Strategically, the deal was designed as a merger of equals, the mutual goal of which was to build and sustain global leadership in its regional structure, under which powerful local managers oversaw control of everything from strategy to utilization of working assets. Their attitude was: Why try to fix something that isn't broken? The other company believed strongly that all of us in the new organization needed to break from our standard ways of doing things. I, for one, passionately believed that we needed to assume a new, broadly global stance with regard to product management, manufacturing operations, financial reporting, and research.

While we did not engage in nationalist antagonisms, our discussions were nonetheless sometimes extremely difficult. In the period between the announcement and the merger completion, we spent three months in closed sessions going over the same ground again and again. The experience was at times exhausting for all of us. In the end, however, logic and patience won the day. After we had hammered away at the same intractable issues, it became clear that if we were to succeed as a new company, we all would have to surrender our attachments to old ways of doing things. We would have to start afresh. We developed a completely new set of strategic criteria and corporate values to which neither company had previously ascribed, then communicated these to everyone at both companies.

Another huge challenge — one that certainly faces Royal Edeling — was the issue of overlap, or "cost synergies." At the outset, we had announced an estimated $525 million in cost savings. This meant that we had to make painful decisions regarding the more than 3,000 associated job cuts. To confront this issue, we assigned 100 task teams around the world to deliver the cost reductions. Within three months, the teams had solidified plans to do just that, and the teams hit the ground running the moment the new company was formed.

Finally, in almost each country, we moved everyone to new headquarters so that they would physically leave the past behind. Within a year, we were on solid footing, and our earlier culture clash was long forgotten.
No one will begin to focus on work or truly cooperate until top management announces key positions.

The difficulty with the merger of Royal Biscuit and Edeltng appears at first blush to be primarily cultural, but it's not. Although culture is often a source of conflict, there are other factors, such as personal stakes and interests, that are at work here. The disagreement between the two HR executives is primarily a managerial issue, and it needs to be addressed head-on, well before the final papers are signed.

At the end of the day, the issues that drive mergers such as this one into the ground are lack of honesty and objectivity and the failure of systematically applied transition management. The first thing John Callaghan needs to do is to stop pretending this is a merger of equals, because — as the German press already suspects — it isn't. It's clear that Royal Biscuit is the acquiring company. Refusal to acknowledge that will simply make employees and stockholders — who are smarter than PR people think — at first skeptical and ultimately cynical. The political reality of the deal is that there is a winner and a loser. And the British company is the winner.

With this in mind, Callaghan should stop giving sound bites to the press and start delivering operational goals to his managers. He needs to clearly define and communicate the strategic and financial objectives underlying the merger. He must lay out the goals and the time frame for achieving them. Based on these, he also needs to create an integration transition structure and develop and implement a clear stakeholder communication plan.

Most important, he needs to shore up the staffing issues as quickly as possible. Despite assurances about jobs, people are worried about their survival. Clearly, this is on the minds of Michael Brighton and Dieter Wallach, who may be vying for the same job in the merged company. Neither they nor anyone else will begin to focus on work or truly cooperate until top management announces key positions from both companies. Regardless of the process, Callaghan must ensure that all employees are treated fairly, that key customers and employees stay on board, and that integration decisions are made objectively and implemented systematically.

Callaghan can't force Brighton and Wallach to get along, but he can challenge them by helping them recognize that they can either hang together or hang separately. He can do this by making the creation of a solid new leadership development plan part of their performance review. If they don't deliver, one or both of them may be out of a job. If they do, each will be assured of a place in the new organization. If it turns out that their jobs overlap, their successful collaboration might well lead to the creation of a new position for one or the other.

Given the prospect of an individual hanging, Brighton's and Wallach's minds will focus—and, it is to be hoped, move each from a position of defensiveness to one of learning, negotiation, and compromise. It would certainly behoove them to be as objective as possible. They should sit down and dispassionately articulate the desired outcomes of the project, including Callaghan's commitment to intercultural learning and a global mind-set. They can even map out on a piece of paper the pros and cons of various tactics for achieving leadership development goals. Similarities can lead them to common ground; dissimilarities can either lead to innovation or require compromises and trade-offs. If they find they are still not able to come to an agreement, they should seek the help of a facilitator. Theirs would certainly not be the first relationship that needed a marriage counselor. And if they fail, they will demonstrate that they are not the right people to manage leadership development for a CEO who is trying to create a firm with a global mind-set.

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