

Managing across borders essay



**ASSIGN
BUSTER**

In a merger, cultural differences are more vital to overcome than fighting for equal power or profits. (Harford, 2003) The marriage of Alcatel and Lucent was never going to be easy. To some extent the merger was a good business step. Lucent's with its wireless business nicely complemented Alcatel's global image and its prowess in fixed-line and broadband. However their cultural differences were among many challenges that Alcatel-Lucent had to face during the merger. One was hierarchical and centrally controlled, the other entrepreneurial and flexible were among the many differences that caused the company to suffer in sales, stocks and employees. (Massie, 2007)

1) Referring to the case, what conditions and negotiation factors pushed forth the merger in 2006 that were not present in 2001?

One of the factors that the merger happened again in 2006 was because of the increasing number of new competitors in the telecommunication industry. Business Monitor International (2010) quoted that " Alcatel acquired Lucent for US\$13.4bn with hopes of facing down the increasing competition in the market from ZTE and Huawei as well as larger rivals that had also gained scale from mergers and acquisitions"

If Alcatel and Lucent were to stand alone it would not be able to compete with new giant companies such as ZTE and Huawei. They needed each other in order to survive in the industry in 2006, something they were not worried about in 2001. As mentioned in Barron's article in August 2006, the current condition in the industry caused both companies to be pushed into each others arms out of desperation in order to survive a brutal and even more competition in the future.

Sometimes companies merge in order to survive or to be more powerful. (Harford, 2003) In this case, Alcatel and Lucent did exactly that; to survive and be “ truly global” as mentioned by Mr. Tchurk.

Another factor is the negotiation in 2006 was more detailed and fair than in 2001. Both companies were clearer on the amount of control they have. This time around it was more “ merger of equals” rather than Alcatel trying to take over Lucent like in 2001. This can be seen by the company’s name being renamed to “ Alcatel-Lucent” in 2006. This shows both companies have respective power in US and Europe and equal amount profit in both their region including Asia (Austen and Bajaj, 2006).

2) Research the status of the merged company at the time of your reading of this case. What has happened in the industry since the merger, and how is the company faring?

Since the merger, the company did have some up’s and down’s. Today Alcatel-Lucent has about 78, 373 employees working in the organization. For about last six consecutive months the stock price has strengthened and during the last 12 months company’s net sales was \$20. 17 billion. (Savvy Stock Picks, 2011)

Savvy Stock Picks (2011) quoted that Alcatel-Lucent has more “ products, solutions, and transformation services offerings, which enables service providers, enterprises, governments and strategic industries (such as transportation or energy) globally to deliver voice, data and video communication services to the consumers”. The Company now has expanded their business into 4 segments; Carrier, Application Software,

Enterprise and Services. The growth and profit of Alcatel-Lucent is fairly divided between both the company and all operations and new technology comes under one name which is “ Alcatel-Lucent”.

Alcatel-Lucent is growing stronger and becoming one of the tough competitors in the industry. Besides Europe, US and Asia, Alcatel Lucent has now expanded into Middle East and Africa to compete better with new entrants such as ZTE and Huawei Technologies. (Business Monitor International, 2010) This shows that both management has come into terms and are working as one giant company together. Neither the French or American management are being parochialistic anymore which was one of the reason cross culture conflict aroused between Alcatel and Lucent. This also shows that management controls are fairly divided between both the countries.

However it was not all smooth sailing ever since the merger. With 77, 000 employees and operations in 130 countries, combining the two entities was a heavy task and Alcatel-Lucent had struggles managing everything. The company had a week financial results following the merger. Several profit warnings were issued in the early days and shares have dropped. In 2008, the group had a net loss of EUR95mn on sales. (The Bank New York Mellon, 2008)

Based on the case, at the beginning many cross-culture conflicts aroused causing two top CEO to resign. Different culture management conflicts were one of the main causes for a slow start after the merger. Alcatel French style of management clashed with the American style of management. However

management conflicts were overcome by two new CEOs who had a neutral management style and most importantly they got along. Mr Verwaayen stated that you need a complete understanding in the top management first in order for the company to succeed.

3) Evaluate the comment that the merger is “ a giant transatlantic experiment in multicultural diversity.” What evidence is there that the company has run into cross-cultural problems since the merger took place in 2006?

Besides a tough market and competitors, Alcatel-Lucent had added difficulties of achieving changes because of the American and French culture differences.

In a merger from different multicultural diversity, the merger tends to be a triumph of hope over rationality. It's just like how most marriages begin with both partners believing this is for ever...That may be taken as a weak metaphor however this is exactly why industry watchers acclaimed that the Alcatel-Lucent Merger was a transatlantic experiment to show that people from different cultures behave differently under similar circumstances.

Based on the case, evidence showed that both CEOs could not work with each other due to culture differences and control issues. (New York Times, 2006) There was confusion about who's in charge. Tchuruk became chairman and Russo became CEO of the combined entity. In American culture it means that Russo runs the company. After all, she's the CEO. But in a European/French culture, the chairman is the boss. Confusion at the top is deadly.

The other cultural dilemma was, when in crisis, Americans and French have very different ideas on how to manage it. According to Hofstede, American cultures will usually right-size the business by cutting jobs and lowering costs. French culture instead will defend the jobs by getting help from government and banks. (Deresky, 2011) Due to that, from evidence it showed that the company was slow in shedding jobs, partly because the two nationalities are trying to defend the jobs of their compatriots.

“ The problem is cultural,” Johann Gunther, a former board member of Alcatel Austria told the New York Times (New York Times, 2007) The French and the Americans have hugely different ways of doing business,” Gunther added. “ Within Alcatel-Lucent, there is resistance to making the tough decisions to rationalize the business because each side is protecting its own turf.”

From the case it can be understood that cross-cultural mergers may work for a period of time only. It works well when the business is growing in the early stages. However in reality, during tough times, cultural differences become magnified and the business management becomes unmanageable.

4) What are some of the international challenges that Alcatel-Lucent faces as it moves forward as a combined company?

Austen and Bajaj (2006) stated in their article that “ cultural divide” will still remain as one of the challenges for Alcatel-Lucent. The new CEO will still have to bridge the cultural divide between the Americans and the French and get all sides pulling together. This has to be applied again since the company has expended to Middle East and Africa. Alcatel-Lucent top

management will have to find a universalism culture and management style that all 4 management can agree on. However they still have to apply a relativism concept to adapt to the local culture in order to succeed.

In a merger, management differences are more vital to overcome than fighting for equal power or profits. (Harford, 2003) Both the management have to be sensitive on each others cultures and must not be parochialistic and ethnocentric.

Another challenge ahead is the ever changing industry and the increasing competitors. Quoted in Fortune CNN Money. com, CEO Russo stated that “ We’re trying to be realistic... This is an industry that’s got an awful lot of change. Our customers are going through (change), there are major technological changes we’re going through, and the competitive landscape for our customer is changing.” This shows that Alcatel-Lucent has to be constantly updated with latest technology and customers needs and wants in the industry. Decisions has to be made together and both R&D departments have to join forces to work towards the ever changing trends.

Besides Huawei and ZTE, in 2009 Global Telecoms Business reported that Ericsson, Nokia Siemens Networks, Nortel and Motorola have strong bases in the leading global operators’ networks. These are tough competitors for Alcatel-Lucent ahead.

Conclusion

It’s not going to be smooth sailing in any merger. Companies that merge will argue that the merger will cut costs and boost revenues. It acclaims that its

simple because its just combining computer systems, merge a few departments, use the size to force down the price of supplies and the merged giant may be more profitable then before. In theory, all this sounds great, but in practice, things can go wrong when culture differences collide. The Alcatel-Lucent was among many other mergers that had to suffer with this problem. However in a long run both companies eventually found the synergies and overcome the problem.

Reference

<http://www.adrbnymellon.com/files/PB23290.pdf>