

Financial Services Industry

# Nomura's Transformation: Two Years Following the Acquisition of Lehman Brothers

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Since its acquisition of Lehman's Asia, Europe, and India operations, Nomura has undergone changes in its human resources, business, and governance structure, in what can be described as the "Lehmanization" of Nomura. While many of these may have been planned from the outset, some key changes were responses to unexpected turn of events. The case of Nomura's acquisition and post merger integration of Lehman provides important lessons for cross-border M&As, including the importance of early involvement by top management, flexibility in response to unexpected events, and management of divergent corporate cultures.

## I. Introduction

On September 22, 2008, Nomura Holdings Inc. (Nomura hence forth) announced the acquisition of the bankrupt Lehman Brothers Inc.'s (Lehman hence forth) Asia-Pacific business. The next day Nomura additionally acquired Lehman's Europe and Middle East operations, and two weeks later, Lehman's India offices and IT operations as well. Thus, within a period of three weeks, Nomura completed a mega merger, acquiring most of Lehman's operations outside of the US and taking on around 8,000 of its employees. Given the typically conservative nature of Japanese firms, it was an exceptional outcome.

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\* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as the Korea Capital Market Institute's official position.

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At the time, opinions regarding the merger from the media and industry were mixed. Some saw it as an opportunistic move on the part of Nomura to leverage the global financial crisis and take a step towards becoming a top tier financial institution. Others, on the other hand, were pessimistic about Nomura's ability to acculturate Lehman's diametrically opposed corporate culture, and predicted that Nomura would fall into a winner's curse.

Even in successful M&As, things rarely go according to a master plan, both in the acquisition and post integration process. More often than not, factors of politics and culture come to play an important role. The case of Nomura has been no exception, and to get a more holistic picture of Nomura's transformation, a qualitative understanding needs to supplement quantitative indicators.

This report examines the events, as well as their context, that have transpired within Nomura in the two years since its acquisition of Lehman, relying on media accounts and other references. Particular focus is placed on the changes in the areas of human resources, corporate culture, business, and governance structure. Then, recommendations are given regarding implementing cross-border M&A from the perspective of Korean financial firms looking to achieve overseas expansion.

## **II. The Acquisition of Lehman Operations**

### **1. Background**

Nomura, Japan's foremost leading brokerage firm, has always aspired to become one of the leading global financial firms. However, despite its dominance at home, its standing outside of Japan has been less than desired. Established in 1925, Nomura opened a New York office two years later, the first by a Japanese brokerage to do so, and ever since has tried to expand its overseas operations. During the 1980s~1990s, Nomura achieved some degree of success,<sup>1)</sup> but the Russian moratorium, LTCM's<sup>2)</sup> bankruptcy

1) During the 1980s, Nomura was among the top 5 in the Eurobond market and during the 1990s achieved significant revenues from its MBS and junk bond business in the US.

2) Long-Term Capital Management

in the late 1990s, and the sub-prime crisis in the 2000s caused Nomura to scale back its foreign operations.

Prior to its acquisition of Lehman's operations, around 80%<sup>3)</sup> of Nomura's revenues came from Japan and its share of the global IB market was only 1.5%. Of its M&A deals, 95% relied on Japanese clients, and Nomura's Asia M&A league table ranking fell to 70th when excluding deals involving Japanese firms (17th when including Japanese firm deals). Also, only around 15% of its workforce worked in offices outside of Japan.<sup>4)</sup>

With its predominantly domestic oriented business portfolio, coupled with the decade long stagnation of the Japanese economy, Nomura struggled to achieve added growth. The person who broke the status quo and boldly led the acquisition of Lehman was Kenichi Watanabe, who was appointed CEO in April 2008. Nomura's previous top

**Prior to its acquisition of Lehman's operations, Nomura was at the limits of sustained growth, faced with the situation of a domestic reliant business portfolio and long term stagnation of the Japanese economy. The key persons who broke from Nomura's conservative past and spearheaded the Lehman deal were the newly appointed pair of Kenichi Watanabe (CEO) and Takumi Shibata (COO).**

management was also aware of the need for globalization, but conservative attitudes failed to deliver meaningful results. Watanabe is known for putting particular emphasis on speed in management, and his appointment as CEO reflected Nomura's strong desire for change. Joining Watanabe on as chief operating officer on Nomura's top management was Takumi Shibata, who would later go on to lead the actual negotiations in the Lehman deal.

Along with Watanabe and Shibata, Sadeq Sayeed, the long time head of Nomura's overseas operations, is recognized as being a key contributor in the Lehman deal. Sayeed is said to have extolled his colleagues to "dare to be bold" in pushing ahead with the Lehman deal, and is considered by some as the "architect" of the plan to acquire Lehman's Europe and Middle East operations.<sup>5)</sup>

3) Nikkei.com, February 2, 2011.

4) Foley (2009).

5) Sky News Online, August 17, 2010.

## 2. Acquisition Process

From the summer of 2008, Watanabe and Shibata began to keep a close eye on market movements related to Lehman and developed acquisition plans. When it became evident, on September 16, that Lehman's US operations would go to Barclays Plc., Watanabe and Shibata quickly shifted their focus to Lehman's Asia-Pacific, Europe, and Middle East operations.

The acquisition of Lehman's non US business was a race against time. For one, Barclays Plc. and Standard Chartered also entered the bidding for Lehman's Asia-Pacific operations. Also, the longer it took the negotiations, the more likely it was that Lehman employees would defect the company. Compounding matters, the slow speed and lack of sufficient information flowing from Lehman's bankruptcy process made it difficult to get an accurate valuation of Lehman's operations. Against this backdrop, on September 20, Shibata headed for Hong Kong, carrying with him a hurriedly drawn up offer sheet.<sup>6)</sup>

In Hong Kong, Shibata was greeted by his counterparty, Jasjit Bhattal, a 20 year Lehman man and chief executive of its Asia-Pacific operations. Under Bhattal's stewardship, Lehman's Asia-Pacific revenues increased close to sevenfold.<sup>7)</sup> Bhattal is said to have played up the bidding conditions in the Lehman sale and was revered almost as a "cult figure" by former Lehman bankers for having saved their jobs.<sup>8)</sup>

Nomura succeeded in winning the deal for Lehman's Asia-Pacific business, outbidding its competitors with a price of \$225 million. Another key factor in securing the deal was agreeing to Bhattal's demands to guarantee the employment of Lehman's 3,000 employees along with the salaries and bonuses of some 500 top staff for two years at 2007 levels. Shibata, on the other hand, insisted on the condition that Nomura not take on any of the toxic assets and financial positions on Lehman's books.<sup>9)</sup>

6) Foley (2009).

7) Bhattal joined Lehman in 1993 and became CEO of the Asia-Pacific units in 2000. Lehman's Asia revenues rose from \$425 million in 2001 to \$2.9 billion in 2007.

8) The Wall Street Journal, April 19, 2010; Financial Times, April 21, 2010.

9) During the negotiation process, Shibata communicated with Watanabe by phone on several occasions to get clearance on accepting Bhattal's conditions.

The bonus guarantee was not a trivial condition, given not only the amount of money it entailed but also due to the possibility of reverse discrimination with existing Nomura bankers. At the time, some Lehman business unit heads received bonuses of up to \$10 million, while the total compensation of a comparable Nomura banker was only \$250,000.<sup>10)</sup>

Having achieved success in Hong Kong, Shibata quickly boarded a plane to London to negotiate the acquisition of Lehman's Europe and Middle East operations. In London, Nomura again got what it wanted. By agreeing to guarantee the employment all 2,500 staff members and bonuses of senior officials, Nomura acquired Lehman's 20 offices in Europe and the Middle East for \$2.<sup>11)</sup>

On October 6, Nomura additionally announced the acquisition of Lehman's India offices and IT services units.<sup>12)</sup> Lehman's India operations would provide a support platform for Nomura's global business, as well as upgrade its IT capabilities, such as adding a high frequency trading engine.

### 3. Synergy Potential

Given the low overlap of their existing business portfolios, there was high potential for creating synergy between Nomura and Lehman. In 2008, only 20% or so of Nomura's revenues came from overseas, while for Lehman its Europe, Middle East, and Africa (EMEA, 35%) and Asia-Pacific (17%) units accounted for 52% of revenues.<sup>13)</sup> In terms of core customers, Nomura's primary base was domestic mutual funds and institutional investors, while Lehman had a global client list, especially among hedge funds. Also, while Nomura's equity capital markets business overseas only occupied a niche market position, Lehman was one of the leading players globally.

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10) Wall Street Journal, July 29, 2009.

11) The acquisition excluded Lehman's fixed income operations.

12) Nomura acquired Lehman Brothers Services India Private Limited, Lehman Brothers Financial Services Limited and Lehman Brothers Structured Finance Services Private Limited.

13) Excluding fixed income operations.

**Table 1. Nomura and Lehman Customer Base**

	Nomura	Lehman
Global Equity	Traditional	Hedge Funds
Domestic Fixed Income	Japanese	Overseas
Overseas IB	Niche	Broad
Others	Retail & HNW	Wholesale

Source: "Acquisition of Former Lehman Brothers Operations," Nomura, 2008

When not accounting for any synergies, Cassim et al. (2009) assesses the net present value of the Lehman units purchased at -\$668 million. Adding potential synergies, such as expanding the fixed income business in Europe, can add between \$936 million to \$1,021 million, according to Cassim et al.'s estimations using real option analysis. They also find that, using Nomura's one month share price movements immediately following its acquisition, the market valued the deal at \$2.2 billion.<sup>14)</sup>

While Cassim et al.'s figures are sensitive to the assumptions made, what they show is that for the Lehman deal to achieve a positive net present value, a substantial amount of synergies need to be extracted. This, in turn, depends on how much of the key Lehman personnel Nomura manages to retain, as well as how well it executes the post merger integration process.

**The low overlap between Nomura and Lehman in terms of business portfolio implies a high potential for synergies to be gained. However, how much of the synergies are actually realized depends on how well Nomura manages to retain the key Lehman personnel and implements the post merger integration process.**

14) Cassim et al.'s estimation is based on the Lehman units' financial performance just prior to its bankruptcy, coupled with an "optimistic" growth scenario for the following years.

### III. Post Merger Integration Process

#### 1. Culture Clash

While differences between Nomura and Lehman in terms of business portfolio bode well for creating synergies, the differences in culture worked in the opposite direction. Nomura set up a transition team immediately after the acquisition and dispatched them to all the overseas offices to aid the integration process. There was a formidable set of challenges, and Nomura ran into trouble from the onset.

Episodes of culture shock were quickly reported by the media: Teams of Nomura traders singing company songs each morning to kick off the day; the unilateral decision by the Nomura HR department to change former Lehman female employees' e-mail addresses to their married names without asking which they used professionally; the new employees training session where the women were taught how to wear their hair and serve tea, just to name a few. While these problems may simply be chalked up to differences in customs between the East and West, the more fundamental issues stemmed from the differences in corporate culture.

Lehman's corporate culture was in large part an embodiment of the personality of its former CEO, Richard Fuld. He was a trader by nature, and during his tenure as CEO, he instilled an aggressive and bold attitude among his employees. Lehman bankers were used to a culture of high risk tolerance, frequent use of leverage, and swift

**The clash in culture between Nomura and Lehman became evident right from the beginning. Especially, the conflicts due to differences in corporate culture began to build up and worsen as time went on.**

decision making.<sup>15)</sup> Nomura's corporate personality, on the other hand, was more hierarchical, conservative, and favored more stable revenues based on moderate levels or risk taking.

The difference in corporate culture between the two firms also was evident in their approach to client prioritization. Lehman used to place more emphasis on fee generation as a determinant of which client to serve,

15) Sorkin (2009)

while Nomura tended to place more weight on factors such as length of relationship and loyalty in regards to client relations. Consequently, conflicts arose between former Lehman and Nomura bankers regarding which client deals to take on. The former complained that Nomura's overly conservative attitudes were costing them opportunities to make money, while the latter looked down upon the former's all too willingness to abandon long term clients for the sake of a quick buck.<sup>16)</sup>

## 2. Lehmanization of Nomura

Watanabe's plan to remedy the gap between Nomura and Lehman was to establish a new hybrid corporate culture. He envisioned a situation where the Lehman system of pay-for-performance and low job security and the Nomura system of moderate pay with high job guarantees co-existed in the same organization.<sup>17)</sup> The results, however, looked closer to a 'Lehmanization' of Nomura, with some even describing it as a case of a reverse takeover of Nomura by Lehman.

Lehman's influence became evident on many fronts. As the interaction between Nomura and former Lehman bankers increased in frequency, the main language of communication within Nomura, even in its Tokyo headquarters, quickly became English. According to one Nomura executive, "more than half of conversations and 70% of e-mails are in English."<sup>18)</sup>

Nomura's HR system also changed. Nomura employees<sup>19)</sup> were also offered a choice between the existing compensation scheme and a Lehman style performance based system with lower employment guarantees, and 45% chose the Lehman style package. In addition, the method of career development changed from Nomura's old generalist system, where employees rotated across different departments, to a Lehman style specialist system, where employees remained in one department to build up

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16) Wall Street Journal, July 29, 2009.

17) Forbes, July 29, 2009.

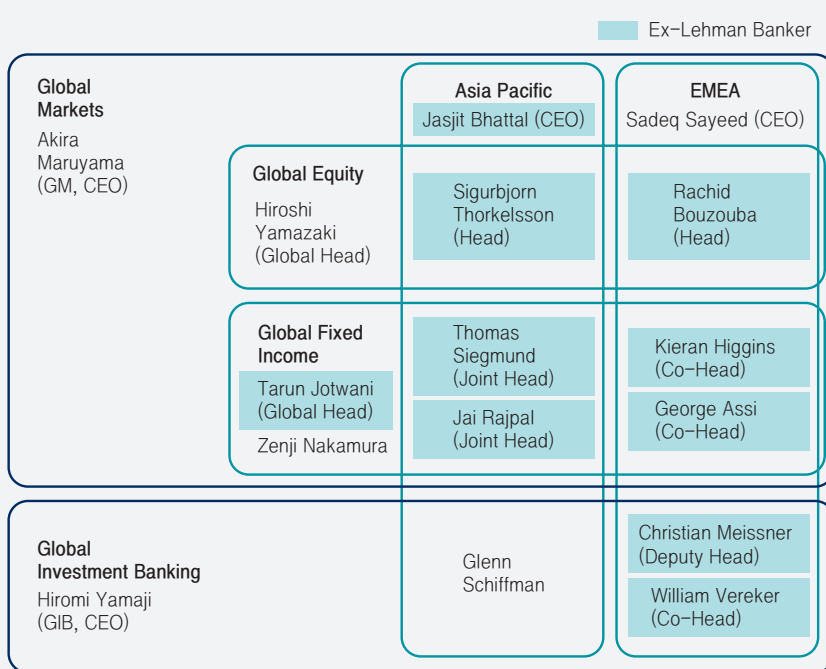
18) Financial Times, April 5, 2009.

19) The retail division employees in Japan were not given the option.

expertise.<sup>20)</sup>

Also, many Lehman bankers were given key posts as heads of overseas business units. This may not have been a hard decision, given that those Lehman bankers had a track record of solid performance, while Nomura’s past overseas achievements were mediocre at best. The heads of EMEA and Asia-Pacific equity markets, fixed income and investment banking all were occupied by former Lehman bankers (see Figure 1). By contrast, Nomura’s former heads of overseas operations were moved to more operational roles.<sup>21)</sup> Regarding the position of regional heads, Jasjit Bhattal was appointed as chairman of Asia-Pacific and Sadeq Sayeed was placed in charge of EMEA. According to media accounts, there was considerable tension between the two personalities over leadership of Nomura’s overall overseas business.<sup>22)</sup>

**Figure 1. Overseas Business Line Organization (excluding US)**



Source: 2009 Annual Report, Nomura; Media Reports

20) Wall Street Journal, May 7, 2010.

21) eFinancialCareers, March 9, 2010.

22) Sky News Onlien, August 17, 2010.

Nomura, however, did not accede to full control of the overseas business to the former Lehman bankers, opting to maintain the positions of global business unit chiefs with senior Nomura personnel. Instead, to help the globalization process, the business unit chiefs, who traditionally resided in Japan, were sent to the local foreign offices. Hiromi Yamaji, the global head of investment banking moved to London, and Naoki Matsuba, global head of equity capital markets relocated to New York.<sup>23)</sup>

Despite the high titles and responsibilities given, the former Lehman bankers were not awarded commensurate levels of independence and decision making authority that they were accustomed to. In major deals, they often had to get approval from the Nomura global unit chiefs and frustrations began to mount regarding the slow and conservative pace of decision making. Another major point of contention among ex-Lehman bankers was the lack of representation at the highest level of Nomura's management. One who felt such frustrations was Bhattal who, in July 2009, announced that he would be resigning within a year's time. With Bhattal's announcement the tension between the Nomura and former Lehman bankers reached a new level.<sup>24)</sup>

**Table 2. Key Ex-Lehman Bankers Departed After March 2010**

Name	Title	Departed to
Sigurbjorn Thorcelsson	Head of Equities, Asia-Pacific	Barclays
Geoffrey Feldkamp	Head of Equity Capital Markets, Asia-Pacific	-
Thomas Siegmund	Joint Head of Fixed Income, Non-Japan Asia	UBS
Christian Meissner	Deputy Head of Investment Banking	Bank of America
Colin Banfield	Joint Head of Investment Banking, Asia ex-Japan	Citigroup
Guarav Gupta	Head of Telecom., Media and Financial Services, India	Macquarie
Robert Chiu	Managing Director	Bank of America
Jane Wang	Vice Chairman of China Investment Banking	HSBC
Shunji Katoyama	Banker, Investment Banking, Japan	Olympus Capital

Source: Media Reports

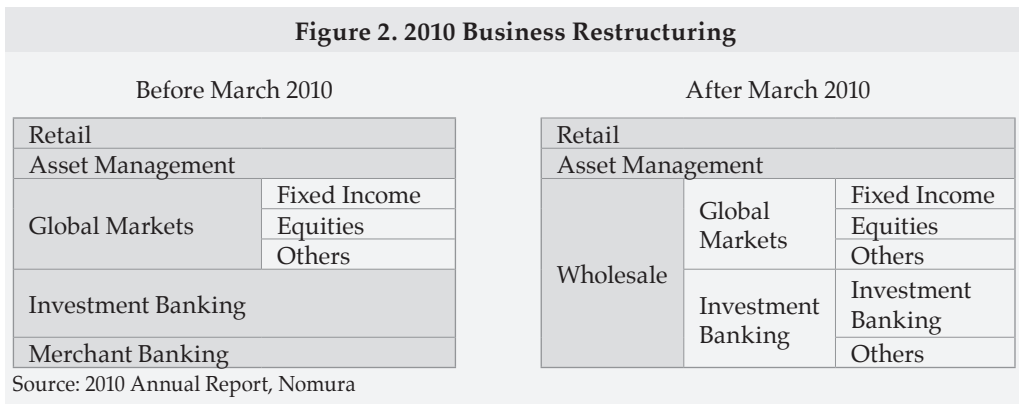
23) The Wall Street Journal, July 29, 2009.

24) The Wall Street Journal, March 17, 2010.

Things came to a head on March 2010, when the last of the guaranteed bonuses was paid out. Within a span of a month, 12 high level former Lehman bankers resigned. Nomura’s top brass had anticipated a certain amount of defections with the end of guaranteed pay, but they were caught by surprise at the level and speed with which ex-Lehman talent began to leave. Soon they began to fear that, with the looming departure of Bhattal as well, the trickle would turn into a flood, resulting in a mass exodus of ex-Lehman personnel.<sup>25)</sup>

**On March 2010, when the last of the guaranteed bonuses were paid out, a large defection of top level ex-Lehman bankers took place. In order to subdue a potential mass exodus, Nomura's top management promoted Jasjit Bhattal, the highly respected ex-Lehman banker, as the No. 3 man in Nomura as well as handing over to him the reigns to Nomura's overseas operations.**

In order to subdue a potential crisis, Nomura’s top management made a major announcement on April 2010. Jasjit Bhattal was appointed a seat on Nomura’s executive management board, responsible for setting the group’s strategy and budget, the first foreigner to take such a position in Nomura’s history. In addition, Nomura also announced that Bhattal would be in charge, as president and COO, of the newly created wholesale division that encompassed all of the overseas operations (See Figure 2). With the appointments, Bhattal became the third in command within Nomura, behind Watanabe and Shibata, along with being given the reigns to Nomura’s entire overseas operations.



25) Financial Times, March 18, 2010.

Nomura's official reason for Bhattal's appointment was the globalization of its management structure and improved synergy creation from its overseas business. However, it would not be a stretch to argue that the rapid departure of key ex-Lehman bankers did not play a large part in the deal. In fact, after Bhattal's promotion, the number of ex-Lehman bankers leaving declined and Nomura regained a measure of organizational stability.

A side effect of Bhattal's promotion was the announced departure of his rival Sadeq Sayeed, who was strongly opposed to the move.<sup>26)</sup> Bhattal's rise and Sayeed's fall is a reflection of the power shift toward ex-Lehman bankers within the ranks of Nomura, and can be seen as a measure of the degree of Nomura's Lehmanization.

### 3. Re-entry into the US Market

Recently, Nomura has been making a strong push into re-establishing its US operations. Having lost out to Barclays Plc. in its bid for Lehman's US units, Nomura has been organically building up its US business since 2008.

Nomura announced that it plans to invest around \$2.5 billion in the US and in 2010 raised \$3 billion, through a US bond offering, to fund its endeavors. Also, it has increased its US workforce from 650 in 2008 to 1,900 in 2010. Nomura has been successful in recruiting from its rivals, such as Bank of America and Deutsche Bank. In particular, many of those joining Nomura in the US are former Lehman bankers, who are reuniting with their colleagues in Europe and Asia. The chief risk officer, chief economist, fixed income head, and many traders and sales personnel of Nomura's US operations

**Nomura is making a strong push to build up its US operations organically. It is scheduled to invest up to \$2.5 billion towards this effort, and in 2009, it increased its US workforce by more than 1,200 persons. A solid US presence is necessary, in Nomura's view, to maximize the synergies from the talent and product capabilities gained through the Lehman acquisition, as well as to attract and maintain top class talent.**

26) Financial Times, March 18, 2010.

are former Lehman bankers.<sup>27)</sup>

Nomura considers the expansion of its US operations as a key piece of the puzzle of its overall global strategy for several reasons. First, the US is attractive, in and of itself, as the world's largest financial market. Second, a US presence is needed to attract and maintain top level talent. Third, the US component is required in order to be able to provide customers global solutions and maximize the synergies with the Europe and Asia parts of the business acquired through the Lehman deal.

## IV. Financial Performance

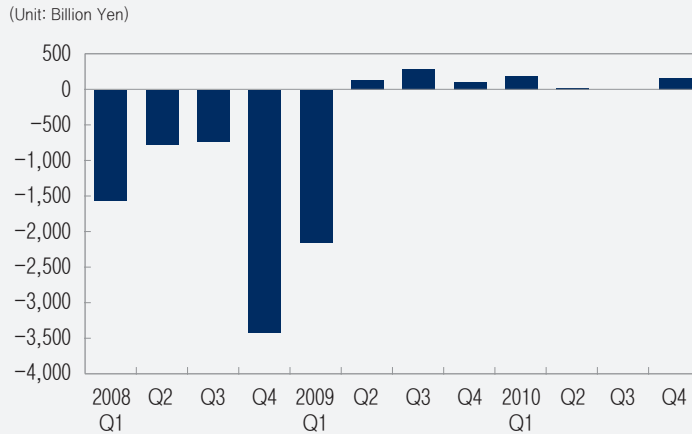
Nomura's financial performance, since its acquisition of Lehman, has been turbulent. In FY2008, Nomura recorded a net loss of 708.2 billion yen, the worst not only in its own but in the history of all public Japanese companies, for which Watanabe had to apologize to shareholders. While the financial crisis and disposal of distressed assets were the main contributors to the loss, the cost associated with absorbing the Lehman workforce also played a significant part. According to Nomura's 2009 Annual Report, of the net loss in FY2008, around 120 billion yen (16.9%) was attributable to the cost of integrating Lehman's operations.

Recovery began from the second quarter of 2009, and for FY2009 Nomura recorded a net profit of 67.8 billion yen. In addition to the rise in the Japanese stock market, gains from Nomura's European units contributed to the turnaround. Recently, Nomura has posted seven consecutive quarters in the black, up to the fourth quarter of 2010.

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27) Wall Street Journal, March 17, 2010.

**Figure 3. Nomura Quarterly Net Income**



Source: Nomura Form 6-K (SEC)

In addition to returning to profitability, Nomura's standing in the global financial markets is also rising. For example, Nomura was the leading equities trader on the London Stock Exchange for six months running in the second half of 2009, a position previously held by Lehman before its collapse.<sup>28)</sup> It is also participating in deals that were previously out of reach, such as being the sole M&A adviser in KKR's \$1.5 billion bid for UK's Pets at Home.<sup>29)</sup>

Also, helped by the acquisition of Lehman, Nomura has succeeded in regional revenue diversification, with its overseas revenue share rising to 43% in the first quarter of 2010. Overseas revenue even surpassed domestic revenue at one time, with the foreign share of revenue reaching 53% in the second quarter of 2009.<sup>30)</sup>

However, not all is positive. Nomura's pace of recovery lags behind those of its global investment bank competitors. In the first quarter of 2010, when Nomura posted a net gain of \$207 million, Goldman Sachs recorded \$3.46 billion, Morgan Stanley \$1.78 billion, and Citigroup \$4.43 billion in profits during the same period.<sup>31)</sup>

28) eFinancialCareers, March 9, 2010.

29) Investment Dealer's Digest, February 12, 2010.

30) Wall Street Journal, April 29, 2010.

31) Bloomberg, April 27, 2010.

**After recording a record loss of 708 billion yen in FY2008 Nomura's financial performance made a turnaround in FY2009, with net profits of 68 billion yen. However, Nomura's pace of recovery lags those of its competitors, such as Goldman Sachs and Morgan Stanley, indicating that Nomura has yet to fully realize the synergies from its Lehman acquisition.**

Nomura's ROE also falls short of its competitors. For the third quarter of fiscal year 2009, Nomura's ROE was 3.6%, a low level when compared to past performances as well as against Goldman Sachs' 32% and Barclays Capital's 24%. Also, in terms of revenue per employee, Nomura garnered \$137,000 per head, while Goldman Sachs employees made \$434,000, and Morgan Stanley employees brought in \$168,000 each.<sup>32)</sup>

These figures are an indication that Nomura has yet to fully realize the synergy potential from its Lehman acquisition, while, despite efforts at reducing redundancies in head count in 2009, the cost of compensation and benefits remains a financial burden.

## V. Conclusion

Following the acquisition of Lehman's operations, Watanabe said he plans to complete the integration of Lehman's employees within three years.<sup>33)</sup> To this end, Nomura has made significant inroads, along various dimensions, and Shibata assesses the post merger integration process to be "50% complete" at this point.<sup>34)</sup> The merger of Nomura and Lehman is still a work in progress and it is too early to impart a final verdict on its success or failure. However, The case of Nomura's acquisition of Lehman provides meaningful lessons relevant to successful M&As, as much in the process as in the final outcome.

First, the Nomura case highlights the importance of early interest and involvement by the top management in the M&A process. The acquisition of Lehman's operations

32) Bloomberg, April 27, 2010. Figures for Barclays are averages for the full year of 2009.

33) Forbes.com, July 29, 2009.

34) Wall Street Journal, May 7, 2010.

was planned and executed in a top down manner, with Watanabe himself taking the lead. As such, the deal was a high priority agenda from the get go and Nomura was able to act swiftly when the opportunity presented itself. Also, there was a clear top management division of labor allowing for efficient decision making: Watanabe at home communicating with regulatory authorities and board members, and Shibata on the ground negotiating the deal. This is in contrast to the usual bottom up way M&A deals are developed by Korean firms. Typically, prospective M&A deals are reported to top management only after extensive market research, candidate target screening, and other analyses are performed. In this case, involvement by top management is late, and subsequently they are wont to have less confidence in pulling the trigger on any deal.

Second, Nomura's case shows the importance of flexibility and room to move in the event of unexpected occurrences. Employee defections was a scenario anticipated by Nomura, however, they were caught off guard at the level and speed with which it occurred following the payment of the last bonuses. In order to regain stability, Nomura was forced to respond by giving Bhattal extensive authority over its overseas operations, as well as opening up the doors to Nomura's inner sanctum. In cross-border M&As, a typical dilemma is the issue of how much authority and independence to give foreign operations, as well as how much trust to have in the personnel of the target firm, whom there is a natural tendency to view as foreigners. Acquiring firms should consider honestly what forms and to what extent they are willing to empower the target firm's employees as part of an M&A process.

Third, Nomura's post merger integration process reaffirms the importance of culture as a key component of successful M&As. As expected, the biggest issue in the integration of Lehman was the conflict arising from the divergent corporate cultures of the two firms. To remedy the situation, Nomura has tried to mesh the two cultures, but the result, so far, has looked closer to a 'Lehmanization' of Nomura. A key factor common to all successful M&A's is the level of open mindedness of the acquiring firm, and when the merger is between two firms of different nationalities, it becomes even more important. Thus, for those Korean firms that are seriously contemplating cross-border M&As as a means to overseas expansion, an open mindset towards foreign

cultures is a prerequisite. And such a mindset is best developed beforehand, rather than waiting until after the acquisition.

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