M&A deals

– getting the people factor right

Despite the risks, M&A is increasingly popular. In the first of a series of articles, **Doug Ross**, MD of change management boutique Square Peg International, reveals how to minimise potential risks and maximise the value of deals through careful management of people and cultural factors

It seems not a day goes by without an announcement in the news of one high-profile amalgamation or another. As economies picked up in the second half of 2005 and into 2006, the merger bug continues to bite fast growing private and public-sector organisations of all sizes, and M&A activity continues to escalate. Regardless of the scale or finances of the companies involved, the rush to 'do the deal' can result in costly mistakes that surface months after the final papers have been signed.

Regardless of the strategy, your success will be measured not by what you do to grow but by how well you do it. Although the upside impact is what led to the appeal of M&A as a growth strategy in the 1990s and again more recently, it is still the riskiest method of achieving growth objectives.

WHY SO MANY M&AS FAIL

Culture and people issues are the most common factors for failure. A recent major study showed 70% of M&As failed to achieve anticipated synergies, while 50% suffered an overall drop-off in productivity in the first four to eight months. People problems were cited as the top integration failure factor in a sample of 45 CFOs from Fortune 500 companies that had recently merged or acquired.

When a merger or acquisition is announced, the value of the acquired company's stock typically increases. But the same cannot always be said for the stock value of the acquiring organisation, which rises in only 30% of cases. Analysts and investors generally prefer to wait for management to deliver the synergies essential for the financial success of the deal.

A CULTURAL INTEGRATION PLAN TO MAXIMISE DEAL VALUE

Traditionally the legal, financial and operational aspects of M&As and Joint Ventures (JVs) receive greatest attention, but anyone who has been closely involved in a merger process will also recognise the need to manage the cultural side of change to maximise deal value.

Management in the acquiring company is often unprepared to deal with the post-merger dynamics and politics that can lead to reduced revenue, increased cost or unmanaged risk. Underestimation and/or lack of consideration of the people or cultural integration challenges and the impact of varying leadership styles are some of the factors that can erode your expected deal value. Any resulting loss of customers and revenues can actually negate the anticipated benefits.

You should therefore develop an integration plan that directly confronts cultural factors, as they can be deal killers, regardless of how carefully the financial and operational aspects of the deal are managed.

DEVISING A PLAN

The 'deal flow' in M&A can be viewed as a chain with five distinct links. This is called Watson Wyatt's FLINI model:

FORMULATE > LOCATE > INVESTIGATE	> NEGOTIATE	> INTEGRATE
Pre-deal	*Deal*	*Post-deal*
(Assessing, Planning, Forecasting Value)	(Agreeing Value)	(Realising Value)

Photograph: Getty Images

PRE-DEAL

During the ‘pre-deal’ phase, growth objectives and an acquisition strategy are defined. Target companies are identified and assessed for potential fit and due diligence is conducted.

Your human capital due diligence should consider commonalities and differences in areas such as company culture, leadership models, organisation structure, performance management systems and workforce development approaches. Although this analysis may not unearth obvious deal-breakers on the scale of pension plan deficits, workforce compensation or collective provision liabilities, it will indicate the potential cost of realising deal value, particularly where a high degree of cultural integration is required.

DEAL

In the emotion and momentum of the ‘negotiate’ phase of the deal, obvious areas of risk identified through due diligence are often ignored by deal makers.

POST-DEAL

This is often the stage at which a deal fails, particularly when there is excessive focus on the financial aspects at the expense of integrating people from the two organisations. Disciplined enterprise-wide integration coordinated simultaneously and speedily across all functional departments and business units will ensure both organisations are integrated smoothly into a single cohesive entity. A single infrastructure should be used to coordinate all integration efforts and communications across the combined companies and rigorous project management, process consulting and tactical problem solving will be essential to your success.

KEEPING EVERYONE ON TRACK

By moving fast you will deliver expected synergies within the shortest time and you will retain key employees and customers by minimising any period of uncertainty. Effective two-way communications will help manage any problems you have encountered. You will also need those managing the process to be 100% behind the integration.

The degree to which your employees keep focused on running the business and on continuing to deliver seamless service to customers will be a result of timely communications that address issues about their own position in the ‘new’ organisation. While it will take some time to determine if all your long-term objectives for the merger have been met, speed of integration will help to capture estimated pre-consolidation synergies and ensure the new company achieves its first-year financial objectives.

It is strongly recommended that the desired culture, vision and values be reflected in all decisions and communications. The strategic framework below illustrates some alternatives in identifying a desired future culture:

The move to a new culture is a not simply a new programme, new set of reports or new training. It is most often a significant change initiative fraught with all the perils of workplace change. Once the organisation knows what it wants to be, aligning systems, processes and procedures to reinforce the desired culture is critical. These mechanical adjustments are the easy part; the difficult part is aligning the employees and leadership team with the new culture. Your handling here will make the difference between success and failure.

Doug Ross is managing director of Square Peg International and specialises in areas related to the people side of change, focusing on mergers, acquisitions, joint ventures and cultural alignment. In 2003 Ross was recognised by The Independent *as one of the top 10 management consultants in the UK. Most recently he was invited to be a visiting fellow at Kingston University.*

Square Peg International is a boutique consultancy firm focused on the people side of change, helping leaders and their organisations through transitions.

M&A: seven deadly sins

If any of the following ‘sins’ are committed you are guaranteed deal failure:

Poor financial and human capital due diligence – the former results in money being left on the table. The latter leads to unanticipated integration costs.

Delaying the start and dragging out the finish – if integration drags on with issues left unresolved, productivity suffers and takes longer for synergies to be realised.

Allowing divergent initiatives – integration can be viewed as a race in which the objective is to have everyone cross the finish line together. By allowing divergent initiatives, you delay crossing that line.

Taking too long to answer the ‘me’ issues – you can expect a drop in productivity while employees search for answers to the questions that are important to them. Both the duration and magnitude of the drop are within your control.

Insufficient communication – if you do not communicate enough, you effectively create an information void quickly filled with rumour and innuendo.

Putting no-one in charge – the M&A team needs a ‘go-to person’ who can make things happen. The project leader must be someone who is respected and has the authority to make decisions.

Ignoring project management disciplines – perhaps the deadliest sin of all, given the risks of such a major project. Disciplined project management is the only way to plan, monitor and measure your progress to achieve your goals.