Connecting the Dots

Why most M&A continues to underperform, and an approach for today’s business climate that helps you beat the odds
Getting M&A to deliver has always been hard. The enticing promise of new customers, enhanced capabilities and of course increased profits is all there for the taking, but the taking is rarely as easy as originally hoped. Most who have seen even a few acquisitions will recognise some of the classic symptoms post-close: operating costs that stubbornly go up instead of down; painful jags as new processes and systems are introduced; chronic management distraction; and loss of some of your best people just when you thought the dust had settled. That’s not to say that all M&A encounters such turbulence, but even those that don’t still frequently fail to deliver all that was promised. According to a recent paper by Harvard Business Review, study after study still puts the failure rate of mergers and acquisitions somewhere between 70% and 90%.

And here’s the thing: Despite years of academic study, corporate experience and maturing best practice, for most firms this situation is clearly not improving. Current studies of long-term M&A success largely mirror those conducted a decade or more ago. Despite the years, the research and multiple cycles of M&A boom and bust, why has so little changed?

Underneath this picture something interesting emerges: While the majority of today’s organisations still find M&A success elusive, some have managed to break from the pack, turning acquisition and integration into a true competitive differentiator. Organisations such as Microsoft, GE Capital, Xstrata and others keep acquiring, and consistently generate long-term value from these deals. What makes these firms consistently successful at M&A, and what can the occasional acquirer learn from them?

Dozens of papers, articles and books published over the last 10-15 years describe best practices in acquisition integration, and we agree with much of what they say. Deal objectivity, financial modelling, comprehensive communications, a focus on people, clear definition of vision and risk, structured planning – these and more are vital to a successful deal.

But across all these, two things are rarely mentioned, two inconvenient truths about the M&A industry, business practices and cultures that underpin most M&A underperformance:

- Acquisition and integration are viewed, planned and delivered as two discrete activities. The pre-close community – both in-house and external – generally supports this divide;

- Like any good diet, following M&A best practice is harder than it looks. Most firms unintentionally encourage their own managers to avoid it.

So, the real question is: Are you satisfied with the current performance of your M&A strategy, and is it improving as quickly as you need it to? If not, this may be the best time to take action: The post-recession climate is no longer giving firms the luxury of growing their way out of a bad deal, or one that is poorly-integrated. This impacts deal sponsors as much as businesses: Even during the ‘good times’ of the last M&A boom of the 1990s, 47% – almost half – of CEOs in acquiring businesses were actively replaced by their Boards within five years of deal announcement; as witnessed by several recent high-profile deals, this trend will only continue. While

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customers and investors reward successfully-executed inorganic growth, they also punish signs of business inertia or distraction.

A connected approach to M&A: walking the talk

Ability to buy does not guarantee readiness to own: Never has it been more important to ensure before the deal is closed that integration can deliver the goods, and do so quickly without disrupting or burdening the wider business.

An obvious statement perhaps, but in our experience more often understood in principle than realised in practice. In our work with organisations across sizes and sectors, this disconnect remains the single biggest reason why M&A fails to deliver.

What prevents firms from bridging theory and practice? Part is pure emotion: Doing a deal is for many simply more exciting than worrying about life after Day 1. Part is driven by the structure of the M&A industry itself: the majority of deal advisors (brokers, banks, corporate finance houses) are incentivised to get the deal done as quickly as possible; even with the highest levels of ethics and professionalism, their interest in making sure the benefits can be delivered post-close is academic and commercially immaterial. As individuals they may understand the principles; as organisations, their collective mindset, capability and experience will tend to relegate anything beyond the deal to the sidelines. This can equally apply to in-house Strategy and M&A groups, who often see everything post-close as ‘the job of operations’, intellectually and materially distinct M&A itself.

Successful acquirers see and deliver acquisition and integration as a single initiative involving the same goals, information and people. As apparent as this may seem, this represents a genuine paradigm shift for many businesses, especially larger organisations where there may be a structural, process or even cultural separation between a corporate centre responsible for doing the deals, and operating units responsible for managing the business post-close.

Large or small, those who connect the dots between acquisition and integration hardwire this approach into their pre-close process. Steps include:

- Translating acquisition goals into measurable post-close objectives and initiatives up-front. We recognise the difficulty in developing an accurate picture at early stages of the deal, but it is possible to develop a ‘rough sketch’, the results of which are then used to drive the pre-deal process, and improved along the way.

- Beginning post-deal business design and integration planning early, and using both to drive assessment and due diligence. Successful acquirers see post-close integration/improvement as a unified, cohesive initiative that establishes the business’ new operating model, in turn delivering deal objectives. Working on these two items up-front lets you conduct a target assessment and due diligence process that tests the future ability of the combined business to deliver deal benefits, not merely the past performance of the stand-alone target.

- Using this detailed view of post-close to inform deal valuation. The right acquisition value is one based on a picture of the combined, improved business performance, not on a view of ‘stand-alone-plus’. Alongside synergy size, valuation also
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Line management involvement from the very start of the process builds commitment to the real work post-close; their own approach to this exercise will speak volumes about their level of belief in the deal itself, and their own ability to deliver it.

Ensuring a structured process to avoid deal momentum or deal phobia. First and foremost, successful acquirers invariably have, share and follow a wider strategy against which to formally screen opportunities. Moreover, they insist on ‘moderating’ mechanisms along their pre-close process: Balancing enthusiastic deal sponsors with cautious detail-observers across the table; taking a measured pace with formal stage-gates; and ensuring post-close challenges and risks are formally considered at every step along the way. Above all – and perhaps counter-intuitively – they ensure external advisors stay within their role of advice and support, and do not become surrogate decision-makers on behalf of the business.

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Involvement will also build commitment to the real work to follow; their own approach to this exercise (especially development of the associated post-close business targets) will speak volumes about their level of belief and engagement in the deal rationale, and give insight into their own ability and willingness to deliver it.

A connected approach to integration: setting the stage for delivery

The deal is signed, post-close plans are approved, and integration begins. Senior executives intuitively get the need for a co-ordinated approach and strong communications to ensure rapid integration and a return to business as usual as quickly as possible. In practice however, whether it starts the day after completion or years later, integration is typically painful, distracting and demotivating, leading to personal, organisational and financial underperformance.

Over the years we’ve supported over 50 acquisitions and integrations and have observed a myriad of symptoms, but in fact only a few root causes:

1. Insufficient focus on the initiatives that deliver deal benefits – and the delay or exclusion of all others;

2. Lack of material accountability and support for delivering these initiatives;

3. Not enough people with the right experience tasked and available to deliver;

4. Proper co-ordination of the end-to-end programme post-close – soft and hard; integration, operational improvement, communications, and the rest – to ensure smooth delivery and minimum business distraction.

More on this topic can be found in Getting M&A on the Right Track, Beyond the Deal LLP, 2011
ACQUISITION & INTEGRATION
FOR THE POST-CRUNCH
ECONOMY: A CONNECTED
APPROACH

- Develop post-close objectives alongside acquisition goals.
- Develop your post-close Business Model & Integration/Improvement Plan iteratively during due diligence.
- Engage line management early in the process as designers of the future, not just advisers.
- Use Due Diligence to test these objectives and plans – can you deliver post-close?
- Include detailed integration & improvement assumptions into your valuation model – synergy scale, timing, likelihood.
- Build and follow an objective pre-deal review process to encourage objectivity and avoid deal momentum.
- Shape and prioritise your post-close programme to focus on acquisition goals.
- Incentivise your leaders to take accountability for delivering acquisition, integration and improvement targets.
- Assign experienced people to co-ordinate integration, and give them time and space to be effective.

While some deals ultimately fail even with these in place, we’ve never seen one deal succeed – objectives met and sustained, on time, on budget – unless each of these four are properly adopted.

So what prevents these relatively simple success factors from being in place? In short: The business itself.

Before embarking on any acquisition, ask yourself:

- Does your organisation encourage and materially reward delivery of business change and improvement? What motivates your leaders?
- Are your people genuinely excited about their role in making new acquisitions a long-term success, or are they uninterested tourists or unwilling passengers?
- Does your organisational culture expect and encourage personal accountability alongside collaborative, apolitical teamwork?
- Many of your people probably have integration experience. Are they in a position to lead or contribute to the effort, both pre- and post?
- Are you genuinely giving your leaders time and space to deliver integration alongside their day job, or will integration be squeezed into the cracks between the ‘real work’? Who is taking some of the day-to-day load off your managers during this period?
- Who is ensuring that the right things are getting done at the right time, and that all the strands across the workstreams – milestones, risks, impacts, processes, communications, systems, structures, people – are known, understood and tied together? If your answer is ‘no-one’ or worse still the ‘CEO’, you’re likely to fail. Nominating an existing manager to do this as a secondary role rarely works: This individual – internal or external – must have the experience, time, and tools to do this properly.

- Are your people really learning and improving from one deal to the next? How is this learning actively applied to new opportunities and new people?

ABOUT THE AUTHOR

Carlos Keener is a specialist in M&A Integration, and the founder of Beyond the Deal, a business that provides acquisition and integration strategy, planning and execution support to clients worldwide. In addition to leading M&A and integration programmes, Carlos advises businesses on corporate and acquisition strategy; enterprise operating model design; integration strategy, planning and execution; and turnaround of poorly performing acquisitions.

Before establishing Beyond the Deal in 2001, Carlos was a senior consultant at PricewaterhouseCoopers, and a senior manager within Accenture’s Corporate Strategy and M&A practice. Based in the UK, Carlos’ work has taken him across Europe, the US, Africa, Latin America, the Middle-East, and the Far-East.

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