Maximizing Value in Mergers and Acquisitions

The number of mergers and acquisitions is expected to grow exponentially in the future. This trend is driven by a belief shared by many leadership teams that acquisition is the only way to:

- Increase shareholder value
- Achieve rapid growth
- Ease market entry
- Defuse competition
- Capture prime customers
- Fill a market niche
- Plug a hole in a product line

The problem is, that in corporate combinations shareholder value is not realized until the cost of buying and operating the combined business is exceeded by the amount of add-on revenue generated after the transaction.

Integration of one company into another is rarely seamless. It may take as little as 3.2 years to see a return on investment. In many cases, however, an ROI is never achieved.

Naturally, the view of most stockholders and business leaders is that, given a choice, sooner is far better than later. Never is not an option. Yet, as strategic maneuvers go, **corporate combinations are some of the most risky initiatives** proposed by executives.

By some estimates, fully **two-thirds of all mergers and acquisitions fail to achieve intended value** or generate desired synergies. "Never" may not be an option – but in mergers and acquisitions, never happens more often than not.

How soon integration occurs and how much value is realized depends on how well the acquisition was planned, negotiated and executed. Each step involves discovering technical, operational and culture issues that must be resolved as the time that the acquired company is integrated into its new parent. When these issues go undetected or resolved, the outcome of the acquisition will fall short of expectations.

The Ultimate Change Challenge

The recent sting of well-publicized corporate failures underscores a single, unavoidable conclusion: Corporate combinations are the ultimate change challenge.

Under the stress created when companies join forces, employees and workgroups become mutually distrustful, defensive, rigid, uncooperative, and less adaptive. Cultures clash. Productivity falls. The predictable outcome is manifested in many forms of change resistance:

- Processes, technologies or frameworks that appeared to integrate seamlessly prior to the acquisition, don't work together as expected
- Technology replacements or combinations that should be synergistic are ignored, misapplied, or abandoned
- Employees who tacitly support new business goals, fail to demonstrate their support despite a blizzard of communication on vision, mission, value, strategies, and benefits
- The workforce of one company is unwilling to work with the workforce of the other, even after team-building exercises, training, and structure/process/policy reviews

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- Off-line, employees on both sides of the acquisition divide say: "Why should I help THEM succeed, I'll be out of a job", "WE are winning the merger", "I'm not doing anything until I figure out who's staying and who's going", "I really don't need the aggravation. . . I'm outta here".

All the while the clock is ticking. Executives, who sold the business opportunity to owners and other stockholders on the strength of quantifiable synergies view each day that passes as a compounding of the risks.

Managing People Side of Mergers

In an attempt to increase the odds, traditional change methods are often used in the M&A process to manage the "people side" of change. What this means in practice is that:

- During due diligence, the mission, vision and values of the candidate acquisition are evaluated for "culture fit"
- After the contract is signed and throughout the transactional period, communications are sent to employees from both companies to clarify direction and reinforce objectives
- Post-acquisition, the acquired workforce is interviewed, team-building events and training exercises are conducted, values and principles of the acquiring company are communicated to employees of the acquired
- The most cooperative (or most valuable) managers of the acquired company are identified and retained to ensure buy-in of new employees throughout the transition period
- Non-compliant employees (mostly from the acquired company) are terminated

When an M&A project is on a fast-track, traditional change management approaches may seem adequate. But compared to amount of analysis required to determine economic and technology synergies, culture analysis using traditional methods is usually incomplete and rarely accurate. It many cases, it fails to undercover the true impact of culture on the outcome of the deal.

Because traditional approaches tend to underestimate the need for culture change, they produce misunderstandings about the nature of culture changes required for project success. As a result, it is typical for the culture change portion of the initiative to be poorly scoped, understaffed, and underfunded.

Previously undetected culture issues cascade throughout the life of a project. Issues overlooked in due diligence emerge during transition where they hamper value creation and postpone the achievement of synergy.

A lack of emphasis on culture by acquisition team during pre-contact activities continues to increase risk in mergers and acquisitions even though culture issues and change resistance are cited by experts as the two primary reasons that M&As fail to produce desired business benefits.

Increasing Synergy

Although change resistance should be expected in any time two cultures meet, loss of synergy due to culture conflicts and change resistance in mergers and acquisitions is entirely optional.

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The secret to success in M&As initiatives is to identify, plan for, and achieve culture synergies in parallel with business synergies starting during the due diligence period.

At the same time that the acquisition team is performing due diligence activities, a team of culture experts performs an evaluation of the culture of the target organization. By comparing *both* business and culture capabilities of the proposed acquisition against the business and culture requirements of the acquiring company, known culture barriers to change can be easily identified and culturally incompatible partners can be screened out prior to contract negotiations.

Once a partner with a suitable *business and culture profile* is identified, transition plans can be developed to address identified issues and close any gaps. Because the impact of culture is considered in these plans, the true cost, scope, timeline, and effort required for integration is well-understood prior to closing.

Once transition is underway, the two cultures can be integrated at the same time that business functions and technologies are combined.

Because each step of this two-pronged approach has a culture component and a business component performed in parallel, no additional time is added to the initiative. The comparatively small cost of the additional culture activities is more than off-set by cost reductions produced by:

- **Reduced change resistance** throughout the transitional period
- **Increased productivity** throughout the transitional period
- **On time transition**

Benefits of a Two-Pronged Approach

The tangible benefits of this two-pronged approach include:

- **Increased speed** of business and culture integration
- **Reduced transition cost** achieved through early identification of short cuts around potential culture road blocks
- **Shorter transition time** resulting from reductions in culture clashes and change resistance
- **Rapid realization of business objectives** and related synergies
- **Avoidance of unintended consequences** through the systematic merging of cultures, processes and technologies

Conclusion

Two conclusions can be drawn from the historically high rate of operational failure in mergers and acquisitions. Both can be attributed to change resistance:

1. **People issues matter** more in corporate combinations than most deal-makers are prepared to admit
2. **Traditional approaches** used to support M&A activities (Organization development intervention, change management, and human factors) **do not substantially reduce risk** related to culture during the due diligence process, or increase culture compatibility during transition, or ensure the delivery of maximum value after the transitional phase

Culture synergy activities (described in the following chart) **speed up the actualization of business and operational synergies by reducing sabotage and**

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change resistance. When integrated into an end- to-end M&A strategy, they ensure that the business value is delivered as planned.

M&A PHASE	CULTURE SYNERGY ACTIVITY	BENEFIT
Targetting	1. Prepare Culture Baseline of Acquiring Corporation 2. Prepare Change Leadership Style Indicators of Acquisition Team 3. Identify and Rank Desired Strategic Culture (SCP)Parameters and Culture Performance Indicators (CPI)	Acquisition team understands operating baseline of acquiring organization and culture/performance objectives of combined business
Due Diligence	1. Assess culture of Target Corporation against SCPs and CPIs and identify gaps 2. Prepare strategic plan for each identified gap	Acquisition team understands operating baseline of target organization and culture/performance issues present that might jeopardize value maximization of combined business
Integration Planning	1. Develop Change Leadership strategy that maximizes integration effectiveness 2. Create Culture Integration Plan based on culture gaps identified during Due Diligence 3. Identify Resource requirements for business combination 4. Develop Communication Plan and Strategy suited to sub-cultures of Acquired/Acquiring Corporations 5. Establish culture metrics based on SCPs and CPIs identified during the Targetting phase 6. Determine Integration Schedule for least cost, least effort integration of business, technology and culture	Scope and timeline of transition effort is understood, transition approach is suitable to overcome culture constraints in both organizations, and business and culture performance metrics are established
Integration	1. Clarify strategy, direction, goals, roles 2. Communicate status, progress, metrics 3. Restructure and align business, technology, culture, infrastructure 4. Involve & train using least cost, least effort methods matched to culture 5. Measure progress in areas essential for value maximization 6. Support management & staff	Integrate organizations per plan to optimize business value and maximize culture synergy. Metrics program drives on- time achievement of business and culture synergies

About Change Delivery Group

Change Delivery Group applies methods from the Science of Change to organization change initiatives including mergers, acquisitions and outsourcing Initiatives and International team building exercises. Our methods are proven to reduce change resistance when applied by Change Capable teams. If you are planning a merger, and acquisition or another type of multi-cultural project, contact us early in the planning process at 303-523-5541. Change Delivery Group is committed to help your team maximize value in your next project.

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