GPR Dehler
Leading thoughts

MERGERS & ACQUISITIONS – THE DEAL IS NO LONGER ENOUGH

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The global failure rate of M&As in achieving their stated objectives is nothing short of staggering. According to securities researchers, of over 90,000 M&As globally across a seven year period, around 20% culminated either in an unplanned sale or liquidation. Of the rest, approximately 85% failed to create the growth, operational savings or return on equity benefits flagged by management and the board. Why, and what can be done to prevent it?

TWO OUT OF THREE ISN'T ENOUGH

Even after the event, most M&As still look good on paper. Organisations tend to be right in their choice of business partner, they negotiate well and have genuine potential for success. The downfall lies in the fact that of the three key pillars needed for a successful merger or acquisition, typically, only two are designed and built properly.

LEGAL AND FINANCIAL

M&As tend to be dominated by the legal and financial aspects of the deal. Examine the books following any merger or acquisition and you'll quickly see where expenditure and executive time was concentrated. In part this can be attributed to the fact that market and media attention gravitates, not unreasonably, to the big ticket items such as the terms of the deal, benefits to shareholders, payouts to departing executives and the windfalls for those who stay.

The mindset is still 'that just takes time and will sort itself out later'.

In most cases, the financial and legal firms do their job well and both these aspects of M&As are executed diligently and effectively. The third pillar - integration of the business operations - is often ignored or inadequate. And, while increasingly this is being given more resources and thought, the mindset is still 'that just takes time and will sort itself out later'.

NO IT WON'T

Many executives have found themselves increasingly frustrated that the post M&A teething problems they assumed, and allowed for, don't go away with time. In fact it is usually the opposite. From our experience, the post-integration operational problems start slowly then accelerate alarmingly into a vicious circle that becomes harder to break with each passing day.

Employees from opposing cultures start to build trenches. Management styles clash. Key executives leave or start casting around for alternative employment.

Legal, financial and consulting firms may have a proportion of their fees contingent not merely on the deal going through but on it being successful.

IT problems surface as different platforms obstinately refuse to integrate and reports and data crucial to managing the business are either unavailable or cannot be relied upon. Production problems impact on volumes and quality. Service standards begin to suffer, employees become jaded with the constant criticism and staff morale drops. And as bad news is said to travel 80% faster than good news, it doesn't take long for people to become aware that promises aren't materialising and to feel cynical about the future.

Our firm has been called in on more than one occasion to rectify post M&A operational problems that were causing either massive losses to the organisation, or were preventing the expected financial gains from materialising. At a mine that had been recently acquired, production levels dropped to below 50% of target under a management structure that was unsustainable. At a media organisation the disharmony between a cutting edge business culture and an old style sales and production business proved too much. Sales were poor and cancellations were high as customers got tired of waiting for their orders to be fulfilled. In both cases the problems were rectified. And in both cases the problems could have been foreseen and prevented; saving shareholders millions of dollars.

VERIFY THE ASSUMPTIONS

Bringing in operational experts early in the piece can help test assumptions and determine if the expected financial and productivity benefits are going to eventuate from people, processes and systems. There is enormous value in knowing how well the new operation will run, being able to predict the results with accuracy, being able to anticipate the barriers to success and to take effective steps to remove or overcome them.

100 DAYS TO GET IT RIGHT

The consensus is that organisations have 100 days after a merger or acquisition to integrate successfully. After that, the size and complexity of the task balloons and the odds of success plummet.

Like any other major undertaking, merging or taking over operations needs to be planned, with clear strategic objectives, well-defined roles and responsibilities, an understanding of what the priorities are and what can realistically be achieved in the time frame, agreement on the style of implementation, knowledge of what skills and resources are needed and available, training requirements, external support, an understanding of what information systems will be required to brace all of this, interim goals and benchmarks, management reporting and reviews and the list goes on.

None of this is particularly easy and its importance and difficulty are often underestimated - as the high failure rate of M&As demonstrates. But the benefits are significant.

BENEFITS ALL ROUND

Putting the necessary time and resources into operational integration gives a reasonable level of certainty that both organisations will achieve their objectives and that the benefits promised by management and boards will materialise. Clearly this has substantial value to shareholders and stakeholders. With organisations increasingly looking for more accountability from specialist providers, it can also benefit the legal, financial and consulting firms who may have a proportion of their fees contingent not merely on the deal going through but on it being successful.

GPR Dehler has a long record of successes helping organisations to implement significant cultural and operational improvements to their business. To find out more about our company and the benefits we have brought to our clients, please contact GPR Dehler - email info@gprdehler.com or visit our web site www.gprdehler.com.