

Look Beyond the Deal

BY AMIE J. DEVERO



The failure of many mergers to yield real value is well known. It's a problem in every industry.

Overall, the rate of failed mergers and acquisitions is estimated at between 74% and 83%.

The promise of most mergers is rarely borne out in reality. Why is this so?

In working on the Caribbean Acquisition Project, a study of why so many American acquisitions of Caribbean companies had failed, we found that the success or failure depended on the approach of the “deal team,” those preparing for and executing the acquisition. When the merger failed, the team had what we named a “*deal mentality*.” When the merger succeeded, the team had an “*integration mentality*.” That distinction is evident in every acquisition, regardless of geography or industry.

Unfortunately, the usual approach to an acquisition today is a deal mentality.

DEAL MENTALITY

For those with a deal mentality, the point of the exercise is to close the deal for the best price and generate the highest stock value in the shortest amount of time. If you look at acquisitions pursued with a deal mentality, there are some commonalities:

Numbers and facts. The impetus for the acquisition resides in clear financial or analytic issues, such as acquisition of new technology, a marketable patent or a saleable product. For example, when BP bought out Amoco Oil, it wanted Amoco’s natural gas reserves and its oil technology to strengthen BP in the long run. *How* it would do that was irrelevant.

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to Avoid a Failed Merger

The deal is done when the ink is dry. Deal teams are focused on past results and on the closure of the deal rather than the future of the new entity. It's analogous to thinking that a beautiful wedding guarantees a successful marriage, when, in fact, the marriage starts *after* the wedding.

Retaining talent. Often, deal teams create enticements for key personnel to smooth the deal-making process, but they fail to focus on how to retain those key people after the ink has dried. According to a study by American Management Association, one out of four top executives leaves within three months of the announcement of a merger, and 47% of senior managers do so within the first year.

Numbers, not culture. Failing to assess the impact of corporate culture on the ultimate integration can be a major weakness in acquisitions. When Yegen Associates, a fifty-year-old finance company was purchased, the acquiring company had a traditional, conservative banking culture. Yegen was a family business with multiple revenue centers run by entrepreneurial, results-oriented managers. Ultimately, the centralized and bureaucratic nature of the acquirer led to Yegen's strong managers either leaving or being fired. According to Louis Iorio, a former senior vice-president with Yegen, the deal was made based on historical information that showed that going national would grow the business. But the culture clash was terminal. Yegen was dissolved within five years.

INTEGRATION MENTALITY

Those with an integration mentality see the process of acquisition as a long-term project that starts with a due diligence and isn't over until the merger, including integration, is complete—a process that may take several years.

INTEGRATION NECESSITIES

- ▶ Human resource leaders are on the deal team from the beginning and remain there throughout the integration.
- ▶ Due diligence includes a cultural audit and an assessment of possible culture clashes in the deal preparation.
- ▶ There is an integration team created early on, and some of the members of the deal team should serve on the integration team.
- ▶ All stakeholders are included in the preparation phase, including customers, vendors and strategic partners.
- ▶ Leaders from both organizations participate on the deal and integration teams.
- ▶ The integration team plans every aspect of the process from the merging of systems to the exploration and analysis of all operational and cultural functions, i.e., asking “How do we do things like...?”
- ▶ Regular reviews of progress, challenges and results take place, and are open enough to uncover difficult issues and to resolve them.
- ▶ Compensation for key personnel is explicitly designed to retain talent over the lifetime of the integration and beyond.

Let's examine those aspects of deal integration that lead to successful acquisitions and mergers:

HR is on the team. Integration-mentality teams include human resources personnel on the team, both before and after the merger. In an extensive survey of human resource managers, American Management Association found that in only 59% of mergers were HR managers included in the post-merger process, yet this inclusion is fundamental to dealing with all the many people issues that most likely will arise.

Self-criticism. Part of a successful integration process is the existence of regular status reviews throughout the process. The subjects of these meetings must be able to uncover failings, obstacles and conflicts—they should not just be formal occasions for the reading of balance sheets or the extension of congratulations to one another. By conducting ongoing analyses of tough issues, problems are either avoided or noted earlier than they might otherwise be.

Planning the cultural marriage. Integration-mentality teams will also often include one or more people from the target company on the deal team to help identify issues of culture, operational and management styles, possible pockets of resistance and ways to retain key personnel. Those individuals will participate in the integration and provide continuity.

By realizing that the deal is only one small stage of a successful acquisition, teams can have far greater success. The ultimate gains in value stem as much, if not more, from the integration than on the apparent synergies, or even the price paid. Unless the purpose of the acquisition is solely to gain a new patent or a specific technology, the people are probably the main source of value, and they are the most sensitive aspect of the integration. So, attention must be focused on the people involved and how they will fare in the merged entity. Despite its greater time and commitment, establishing an integration mentality is the most important step that an organization considering an acquisition can take to ensure subsequent success. [MW](#)

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