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‘Buy on rumour, sell on confirmation!’

The last decade of mergers and acquisitions can be summarised in the following way; an unprecedented level of merger and acquisition activity with no significant improvement in value creation as a result.

The consulting and academic world is awash with exhaustive analytical studies that come to the same conclusion. The average merger either has no effect on company value, or a slightly negative one.

Depending upon which survey you read your merger or acquisition has between a 30% to 50% chance of success. Where success is measured when the value of the combined business is greater than the sum of the individual businesses before the deal was announced.

Even more worrying than that is the fact that 75% of respondents to one survey believed their transaction had created value!

We deduce that embarking on a strategic direction where the chances of success are less than 50:50, then deluding yourself that you did well has three likely outcomes; disappointed shareholders, loss of market confidence and value destruction.

An unhappy shareholder base and a disillusioned market, one would hesitate to suggest, is not the best environment in which to improve the longevity of a Chief Executive’s tenure in office.

‘It was alright when I left, let me know how you get on!’

A deal faces three fundamental hurdles;

- Is it the right strategic option?
- Is the price right?
- Can you integrated the businesses to realise expected value?

There is lots of evidence to suggest it is possible overcome the first two hurdles with relative ease.

The amount of pre-planning that goes into a deal has significantly increased prior to an announcement, consequently the market does not generally find any major faults in the logic for proposed deals.

Research has found little of no correlation between the value created by a deal and the premium paid, thus refuting the argument that agonising over price will have a significant impact on the likelihood of a positive outcome for the shareholders of the acquiring company.

Increasingly attention is focused on, and questions asked about, the ability of management to combine businesses whilst, in parallel, continuing to succeed in an increasingly competitive marketplace.

Managing a transaction, from inception to implementation, is a continuous process. Your chance of success is improved when knowledge and experience of the key challenges associated with integrating businesses is prevalent at the outset and remains in place for the implementation.

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‘Help is at hand’!

Here’s a few ‘helpful’ hints on what you need to do, distilled from the plethora of ‘best practice’ that has been written on integration management;

- Appoint a full time, charismatic leader
- Blend people and cultures
- Get management back to work, and work at pace
- Identify key talent
- Plan and execute effective communication
- Create a robust process and detailed plans
- Decide on technology early
- Focus on those initiatives with the greatest value

The impact of all this ‘helpful’ advice has tended to be the creation of overwhelming lists of integration tasks which can not possibly be delivered and which have served to shroud the whole process in confusion.

On the whole many of the ‘best practice’ insights are valid yet impractical and focus on areas where traditionally many businesses have been relatively poor;

Would you characterise your organisation as having deep seated skills, capabilities and leadership in;

- Cultural diagnostics and re-alignment?
- Succession planning?
- Effective communication?
- Project prioritisation and delivery?
- Systems integration?

Faced with the problem and the guidance that is available, it should come as no surprise that the chance of creating value through a successful integration is so low!

‘Ride the rollercoaster’

Despite the rhetoric, experience tells us you need to excel at three things to stand a reasonable chance of success;

- Clarify and understand the nature of the transaction
- Construct an integration process that works
- Manage that process ruthlessly

In choosing how to combine businesses it is critical you understand the ‘integration tipping point’, at which the loss of autonomy can destroy value. This assessment can have far reaching implications on the likely success of the deal.

The process is a journey you will travel with the whole organisation. It’s not about structure, timelines, milestones and deliverables, although they are necessary. It is about engaging with a multitude of staff and riding the emotional rollercoaster with them. It means inclusion, tolerance, motivation. In essence, enabling people at all levels to make a difference.

Lastly and possible most challenging is finding the right people to manage the process. With a strong hand on the tiller the journey is more likely to stay on course. A ‘charismatic leader’ is not enough. You will need people with a rare blend of self confidence, low ego, supreme organisational skills and emotional intelligence. People who take the initiative and can get Executives to make the right moves, over the life of a transaction.

Integration management is the key to successful mergers and acquisitions. It is very hard to do, but then again, if it was easy we’d all be at it!

Would you like to learn more?

If you are concerned by what you have read, congratulations! You have overcome the first hurdle, deluding yourself that you can beat the odds!

What can we do for you?

Pre-deal support; we provide a diagnostic of your readiness to execute a deal and realise the proposed business outcome within the projected timeframe.

Deal closure; we assist you to structure a programme to achieve your goals, providing pragmatic advice on governance, integration programme teams, key milestones, deliverables, programme management discipline and process rigour.

Implementation; we assist you to manage the integration for its duration, not just the 'first 100 days'! We support your Executive, the Integration Director and the project teams that combine to deliver the overall Integration effort.

How are we different?

We provide experience, a rare yet essential ingredient in the creation of value. We commit for the duration of your programme of change. We assist you to secure the expected benefits alongside your Executive team.

Our mission is to make your deal a success. We measure our performance on your achievements.

Who should you contact?

If you are about to embark on, or are in the midst of a major change initiative, you will benefit from talking to us.

In the first instance please contact David Ryan, Managing Director as follows:

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Notes:

David Ryan is MD of Integration Associates. He has over twenty years experience of directing the implementation of major mergers and acquisitions in the UK, Eire and the United States. David has extensive knowledge of Financial Services having worked alongside a number of blue chip Banks and Insurance companies. He is a former Director of PricewaterhouseCoopers Consulting where he led the firm's development of its M&A Integration consulting solutions.

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