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Pre-Acquisition: 1990s Notes For the CEO

By Maureen McGuire and Terrence C. Walsh

During the '80s mergers and acquisitions dynamically changed the financial and investment community. But despite, and perhaps because of the present M&A climate, there still remain considerable opportunities that can be pursued. It is also precisely because of this demanding financial environment that companies focusing more on making a deal can sometimes overlook the fundamental issues.

There are a number of examples of unsuccessful M&A that are talked about in today's press. Even so, there are still a number of them whose stories go unpublished. But, after sifting through the information available, certain root causes for failure surfaces. These are:

—Paying too much for a company. Overpaying invariably implies putting too much debt on a company and substantially impairing its operational ability.

—Inexperience in handling the process of acquisition and subsequently inexperience in managing the acquisition itself.

—Inability to retain key management and personnel of the acquired company.

—Failure to assess the significant differences in corporate cultures and incompatibilities of those cultures.

—Failure of the acquiring company to provide or have available sufficient resources and management for the acquired company. (This would imply purchasing a company that is too big for the acquiring company to manage.) Two common threads of failed acquisitions are apparent here: first a lack of "planning" that is symptomized by "leaping," and secondly, a lack of sensitivity—an unawareness of the importance of the human element involved.

Preparing for Take-Over

Any plan for M&A should be within the scope of the strategic plan of your business. To develop a meaningful business plan, it is vital that many layers of managers and key employees be involved. Such involvement will set the stage for effective integration of the different cultures. Also, a successful acquisition program built upon your own strategic business plan should embrace the following elements:

To keep the key players in the acquired company, reassure them of their value along the way.

1. An overview of the business and the market that the potential acquired company is in.
2. An analysis of that company's historical and projected performance.
3. A preliminary assessment of the product's family and lines.
4. The relationships between production, manufacturing and cost.
5. A management assessment and organizational analysis including:
   - What type of decision-making process is in place?
   - Is the company operating on a decentralized or centralized basis?
   - What type of incentives and personnel review program is in place?
   - Are there training programs in place?
   - What are the experience level and average tenure of the key management employees?
   - What's the turnover rate for both administrative and production employees?
6. The financial capability and capacity of the company.
7. A review of the markets served and the marketing programs and strategies.
8. Product development capabilities and engineering support.
9. An assessment of both the competition and the industry performance.
10. An evaluation of the environmental issues as may pertain to that particular company.

The emphasis on most acquisitions has generally been focused on the quantitative elements—financial performance, sales history, profitability, etc. These elements are easier to measure than qualitative ones such as attitude, competence level, and cultures. Without downplaying the obvious importance of quantitative measures, we suggest that such measures are incomplete unless sufficient attention has been placed on the qualitative, more subjective elements.

Team Building

As CEO, you must keep foremost in your mind that the proper assessment and analysis and interpretation of the preceding data are performed by personnel on both sides. By having a comprehensive program in place, you'll be able to communicate your vision for the strategic development of the company, why it makes sense and why the two companies together are stronger than each one individually. The ability to communicate such a plan can lay the foundation for creating a management team with enhanced capability.

First, become acquainted with the principals of the company and their objectives. Begin by performing the management assessment of the principals and assess the management depth of the company. Be candid and forthright, and try to minimize anxieties. To keep the key players in the acquired company, reassure them of their value along the way.

And if—as often happens— the president, a founder and/or key managers leave, anticipate what you will do to minimize the organizational disruption.

Team building sessions are key tools to consider what steps executives might take to manage the chaos that may follow. Firms that work together to develop common goals and plan the terms with care will enjoy better relations form the start.

Corporate Loyalty

It should not be the objective of your team to dismantle corporate loyalties in the new company but to build upon them and to transfer them to the new entity. The best method to prevent the dismantling of those loyalties is for you as CEO to have an active part in both the development of the acquisition program and in the acquisition process.

The following programs would prove useful in successfully managing the acquisition:

—Ensure that the objectives of your own strategic plan and the objectives of the acquisition process are clearly communicated to your team.

—Ensure that your team has a responsible leader that you've designated who will be acting in your stead and be ultimately held accountable for the key issues of the acquisition process.

—Regardless of your own intentions as to whether key managers or a founder be retained, plan for the continuity of the company and have a transition plan ready.

—Once an agreement has been initiated, plan to have personal meetings with the key managers of the companies. As soon as the managers of the company are informed of your strategic objectives and the common goals of the companies, then ground work has been set for better cooperation. Do not postpone these meetings too long. Keep in mind that the "rumor mill" will begin running as soon as any tangible information concerning the acquisition is announced. It is vitally important that you and your key staff be prepared to candidly and honestly answer questions that arise.

If you as CEO are not involved in the process of acquisition, and rely too much upon intermediaries to communicate your vision, the greater the chance that rumors, missed communication, and a lack of misunderstanding of objectives will lead to failure. ★

Avoiding Post-Acquisition Trauma

By Terrence C. Walsh and Maureen McGuire

The period during which an acquisition is planned and implemented often is fraught with distrust, fear, and anger among the managers and employees of the company being purchased. This situation does not have to be. Rather it can be a time when–through synergy and cooperation–loyalties form, teams strengthen, new markets unfold, and programs rebound.

The right cues will mitigate the fear of change that so often obstructs the acquisition process.

CEO Leadership: The Key to Success

Which scenario unfolds depends largely on the quality of your leauership as CEO. You must assume responsibility for the continuity and health of the company you acquire. Your role will be to manage the human dynamics and set the key objectives for the acquisition team. People in your own company and the one you are purchasing will take their cues from you. The right cues will mitigate the fear of change that so often obstructs the acquisition process.

Show People That You Are Fair

Your first challenge–and a crucial one–is to treat the acquisition's managers and employees fairly. This engenders loyalty and personal commitment, which are essential to future success. If key managers and founders will exit soon, help them depart with dignity. Typically, in a well-managed merger or acquisition, the purchasing company offers bonuses, severance packages and outplacement for affected employees at termination. These arrangements send clear signals to all employees about the kind of treatment they can expect after the acquisition.

Win Management's Confidence

Once the acquisition has been finalized, you and your team must win the confidence of the managers in the acquired company. Be honest. Give as complete information as possible. If you don't know whether there will more layoffs or changes, just say so. Otherwise, rumors can fly, disrupting work and lowering morale. As soon as possible, get back to business–not business as usual, but better business.

Get the Employees Involved

You'll also need to get the employees of the acquired company involved in integrating the two organizations. One way to do this is to set up a getting-to-know-you event–an informal meeting, a cookout, or a luncheon–with these employees. Introduce yourself and your managers to them and encourage them to ask questions. You may want to invite your own employees to take part in this event.

Solicit Continuous Feedback

Getting feedback is never a one-time event. Employee surveys can continue to take the pulse of the people and learn the areas where critical attention is needed. That information can become the fuel of your total-quality efforts–keeping you on top of opportunity. ★

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