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Creating Successful Acquisitions

Less than one-third of mergers or acquisitions meet their business objectives. Only 23% of M&A initiatives recover the costs of an acquisition. During the acquisition process productivity usually drops, often as much as 50%, and key talent are likely to leave, resulting in a brain drain. Business studies of acquisitions have found that 50% of the key managers who have contributed the most to the success of the target organization leave within one year and 75% are gone within three. Being successful at acquisitions requires thorough due diligence in assessing a prospect, thorough planning in preparing for the acquisition, and rapid execution of the integration plan for absorbing the acquired organization.

Due Diligence

Once an acquisition is under consideration, it is very easy for “deal fever” to set in; enthusiasm for pulling off the transaction can cloud judgment and trigger irrational exuberance. To mitigate this problem, it is essential to establish clear, objective criteria for determining if the proposed acquisition fulfills sound business goals.

Many acquisitions fail because the purchaser fails to appreciate the conflicts that will arise from differences in culture and leadership. The greater the discrepancy in the cultures and leadership practices of the acquirer and the potential acquisition, the greater the difficulty that will arise in executing a successful transition. Assessing the culture of the target and evaluating the degree of change people will experience if they are required to adopt a significantly different culture helps anticipate the time and effort that will be required to absorb the new organization. If the leadership practices of the acquirer and the acquired organizations differ, the integration process will be marked by confusion and potential conflict over what is the “right way” to manage the work and people. Even if the acquirer has a healthier culture and effective leadership practices that are more supportive to employees, the process of adapting to new norms will still be an effort. It does not come automatically.

There are other hidden costs in potential acquisitions that do not typically show up on most balance sheets. In the HR arena, these costs are often in the form of liabilities related to personnel costs, though there are others, as well. Among the potential liabilities that must be evaluated are:

- Pay scales
- Future obligations, e.g., bonuses or raises that have been committed
- Employment contracts
- Benefits
- Accrued vacation and sick leave
- Pension plans and employer contributions to other plans
- Training commitments
- Schedules for future promotions

As with all aspects of faithfully completing a thorough due diligence evaluation of the benefits and costs of proceeding with an acquisition, assessing the organization, its culture and leadership, and its HR “assets and liabilities” must be an integral part of that assessment.

Integration Planning

The plan for assuming the new organization should be established prior to the conclusion of any agreement to acquire the target organization. Crafting the integration plan along with negotiating the final agreement helps keep a focus on the difficulties that will be faced in bringing the new organization on board and sets the stage for communicating the how the acquisition will be integrated into the new organization as soon as the agreement is announced. The overriding concern among the workforce in the target organization, and possibly within parts of the acquiring organization, will be “What happens to me?” The second most pressing question for most people will be, “What happens to my best friends at work?” The sooner these two questions are addressed, the more quickly people’s apprehension about the future can be eased. Announcing the integration plan along with announcing the acquisition agreement helps address these concerns up front.

An integration leader who is responsible for successfully bringing the new organization into the acquiring organization should be assigned to the integration project. This integration leader should report directly to the manager or executive responsible for the active supervision of the acquired organization. The integration leader will be responsible for implementing the integration plan and for all internal company communications related to the acquisition.

An integration team should be established prior to the acquisition agreement being concluded. Upon conclusion of the agreement, team members from the acquired organization should be added to the team. The team will be responsible for developing the integration plan and implementing that plan.

A complete integration plan needs to address the following issues:

- Who stays and who will be terminated?
- Who will lead the integration process?
- How will the integration plan and progress toward integration be communicated?
- What will be the structure of the new organization and what will be its relationship to the parent organization?
- What happens to pay, comp, and benefits?
- What will be the new name?
- How will the integration process and expectations be communicated?
- How will concerns be addressed?
- What say will acquired employees have in shaping their future?
- How must we change the way we do business?
- How will records, MIS or HRIS be integrated?
- What legal requirements to protect personnel records or employment practices must be met?

Execution

The general wisdom across industries is that acquisitions must be integrated into the new organization within 90 days. Failure to meet this deadline greatly increases the risks that the acquired organization will not fully adapt to its new home and that key leadership who can support the integration will leave for greener pastures.

Conclusion

While acquisitions should be looked on as high-risk ventures, they can be successful if four key conditions are met:

1. The acquisition significantly increases the capacity of the existing organization.
2. The acquirer does not overpay for the acquisition and does not take on hidden costs that negate the economic benefits of the acquisition.
3. The acquirer has an integration plan in place at the time the acquisition agreement is concluded.
4. The acquirer concludes the main parts of that integration plan within 90 days and follows through on supporting the acquisition for the next year.