Understanding Mergers & Acquisitions

One of the key indicators of a healthy economy is an active M&A sector, because they are powerful economic drivers that create opportunity and spur growth. The complexities of the M&A event has caused some confusion about who benefits and how they are successfully executed.

This article is a general overview of merger and acquisitions, written to provide an understanding of the processes that make a merger or acquisition worthwhile and successful. In reviewing the triumphs and challenges associated with M&As, it becomes apparent why they are worthwhile business endeavors and why they should be promoted, particularly in developing economies.

Why M&A?

The most compelling reason a company considers a merger or acquisition is to achieve growth – revenue, market share, and valuation – in way that overcomes market forces that may be acting as inhibitors. By merging with or acquiring an existing company the new reality is one of the combined assets of the two enterprises, rending the initiating party a more substantial force almost immediately.

In many cases the urge for M&A comes from a desire to secure an asset of market based capability that the acquiring company currently lacks, whether it is in product, logistical capabilities, or proprietary technologies. Sometimes an M&A is executed because one company seeks to eliminate the competitive challenge of the other by incorporating into its operations the competitive threat – transforming it into an asset. Similarly, there are times when the M&A pursued to deprive a competitor of a critical asset.

Finally, M&As are sometimes driven by a company's quest for "synergy", that is that the company seeks to acquire or merge with the companies that enable or enhance its core offerings. Therefore manufacturers sometimes seek to acquire distributors so they can better control their logistics, or large technology companies will seek to own content companies so they can match their capabilities at broadcasting with the content they've acquired.

While all of the reasons for M&A are sound and logical, not all of them are practical. The success of the M&A lies in its preparation and implementation.

The elements for a successful M&A are:

1. Conducting Due Diligence – it is critically important that all the necessary due diligence be conducted on the micro level, meaning that every detail be sought and uncovered and that no absence of crucial information be either explained away or minimized as no reason to hold up the process. All information – legal structure, financial data, customer base, operational history, current status, and so on – need to be thoroughly investigated so that there are no hidden liabilities or exaggerated understandings. The purpose of the due diligence is first to seek to uncover any reasons the deal should not go through, and second to make certain that the reasons the deal is going through are based on fact and not merely representations.

2. **Identifying Risk Factors** - another key cautionary step is the in-depth identification of all risk factors. The risk factors should be divided up into segments, such as technology risks, market risks, human resource risks, social risks, political risks and operational risks. The need here is to test the underlying rationale for the merger or acquisition against the potential risks to make certain that, when all the risks have been considered, the logic of the move still prevails.

3. **Integrating Organizational Cultures** – one of the most demanding tasks for implementing a successful merger is the integration of the organizational structures of the two uniting companies. The inability for the two groups to find a way to adjust to each other's ways of doing business can negate the reasons for the merger and leave the united companies actually functioning as two separate entities. This can serve to doom the merger. Therefore, one of the most important aspects of the negotiations needs to be a review of current operational processes and organizational cultures and an agreement on the predominant way things will work moving forward (after the merger).

4. **The Importance of Human Reources** – another danger zone for the M&A is human resources. Often there is a dominant party to the merger and this party may seek to retain its core team after the merger, even if its people aren't the most qualified. It is typical after a merger for the two sides to cut some employees as they eliminate redundancy and combine operations. The key to success is avoiding the politics of the merger and selecting, in every instance, the best person for the job, regardless of which of the two merger companies he/she previously worked with. Now, the individual works for the combined, merged entity.

5. **The Management of Change** – the inevitable result of a merger is the introduction of change into the organization. The manner with which this change is managed can make the difference between a successful merger and one that either never really takes effect or ultimately disintegrates. There is a need to approach the change carefully and make certain that the stakeholders and the critical people are in agreement with the plan and dedicate themselves to its implementation.

6. **Creating Integration Teams** – the pressures from the management of change, the preservation of critical human resources, and the integration of the two cultures can be eased through the creation of joint integration forces with representatives from both companies. The mandate of the teams would be to reach consensus on the issues each are assigned to resolve, which should focus on operations, culture, human resources, marketing, sales, management, and the processes and procedures that will regulate the merged entity's sustainable operation.

7. **The M&A Structure** – the very structure of the merger or acquisition can also lend to a lessening of potential points of conflict. If the agreement clearly defines a lead player, or allows for the definition of rules in the post merger environment, the structure will serve to ease integration.

8. **Using Measurement Mechanisms** – as with every implementation of a results oriented task there is the need to make certain that outcomes are in line with the expectations. The use of mechanisms to measure the progress of the merging entities is critical so that any breakdown in the system that is causing a delay or presenting an overall danger can be swiftly identified and addressed. Without the ability to measure

progress the delays could go unnoticed or improperly explained (or justified), leaving the overall health of the merger in danger.

M&As are an excellent instrument for the growth of an enterprise and offers, in many cases, an accelerated path to a longer tem business objective. The pitfall to the M&A is the risk of it being poorly executed, leaving the desired results (and driving motivations) unfulfilled (while often leaving the initial entities weaker than they were prior to the merger). The M&A should be initiated only when both sides are clear with regard to what they hope to achieve and are in agreement that the merger or acquisition delivers to them the prospect of meeting their goals. With that initial consensus in place, and the use of the 8 cautionary steps discussed in this article, the M&A can be a beautiful thing.