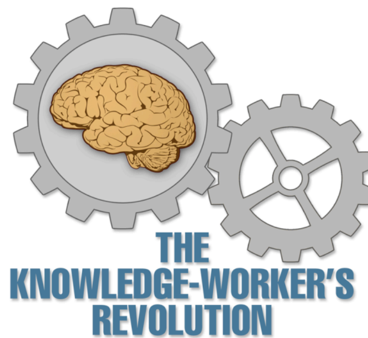

Genius File #10: The Problem with Mergers and Acquisitions

By

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The Problem with M&A

Mergers and acquisitions are one place where you can find some of the most horrific statistics on success, yet people just keep jumping in every single day. According to KPMG and Wharton studies, 83% of mergers and acquisitions failed to produce any benefits - and over half actually ended up reducing the value instead of increasing it. Multiple other studies would agree, finding that the failure rate of most mergers and acquisitions ranges somewhere between 60-80%.

It would seem obvious that something is wrong with this industry. Even the average village idiot should be able to notice that something isn't working here – right?

So, the real question becomes, with success rates like these why are so many companies continuing to dive headfirst into murky water. Don't they see the lifeguard dragging the lifeless bodies of those who jumped before them up onto shore?

Imagine other industries - even historically dysfunctional ones - with this success rate. How many airlines only deliver one out of every three people to their final destination? Regardless of how it feels, even our bags gets there more reliably than that. And what about the health care industry? Can you imagine going to a hospital that fails to help 80% of their patients to improve (and actually makes half of those even sicker)?

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Why then are so many smart people acting so apparently dumb? There seems to be no shortage of new dummies lining up to join the fray either. Even with statistics like these there was still approximately $2.98 Trillion USD spent on M&As in 2008.

The Cause

Granted there are lots of inherently risky aspects to mergers or acquisitions, and there are certainly lots of things that complicate the process. One of the biggest problems faced by those managing the merger and acquisition process, though, is that they haven't kept up with reality. And the reality they haven't kept up with is that they don’t live in an industrial era anymore.

The world of business has changed from an industrial to an intellectual basis, and while those managing M&A's are still busy studying all the old parameters, they are missing all the new important ones.

In the industrial era the primary assets responsible for creating wealth in the organization were tangible (e.g., raw materials, machinery, capital, etc.). In the new intellectual era intangible assets are a new primary driver of wealth (e.g., knowledge, individuals, good will, brand, etc.). Unfortunately, intangibles are not what most M&A managers are looking at as they consider these deals. While they create extremely detailed analyses of the hard fact, they miss the soft fact that really drive the deal.

When they miss this fact:

- Key managers and scarce talent leave unexpectedly
- Valuable operating synergies evaporate because of cultural differences
- Cuts in pay or benefits programs create ill will which reduces productivity
- Management doesn't communicate its business rationale or its goals for the new company, and employees flounder in the ensuing confusion

It's not that the concept of M&A doesn't make sense. Overall, many of these deals make good business sense, its just that they are often (too often) simply poorly done because they fail to understand the true core driver of success in such situations…the people.

Often times senior management fails to give due consideration to just how little control they actually have over the success of the M&A. In the face of such shocking data, perhaps we need to remember that the finances, the shareholders or market share won’t implement the deal. Even senior management isn’t going to make the deal work. In the end, all of these things either “promote” or “allow” the deal to happen, but they don’t actually make it.

Now is a good time for a sports metaphor (when isn’t though). The owner and coaches on a team might promote the concept of winning, and put in place things that allow the players to achieve that goal, but in the end they are still just standing on the sidelines. It is the players who must go out

and *do* what the owners and coaches would like them to do.

Corporations are no less dependent on their human capital. Unfortunately, it seems most of these corporations fail to appreciate this crucial fact. One quite successful investment banker (above the norm for the industry actually) recently recounted his firm's process for deciding on the softer issues of the deal. Basically, after spending hours crawling over the most minute detail of financial spreadsheets and inventories and no shortage of other sufficiently tangible fact sheets and data – the team would then turn to the question of the ability of the management team who would lead this venture. One by one they would go around the table and in gladiatorial style, give a thumbs up or thumbs down to signify their approval of the team's ability.

The problem is that intangibles are called just that for a reason. They are hard to measure or quantify. Thus, many managers simply end up going with gut feelings and hunches when it comes to some of these things. At best they hold lengthy discussions that do increase focus, but don't create any solid understanding.

The Solution

The trick is to make the intangibles tangible, to quantify them somehow so they can be assessed and considered and cared for – just like the tangibles.

What can companies do to ensure they don't leave the human factor out of their M&A deal?

1. Before the merger takes place, the leaders of both organizations must plan equal amounts of attention and resources to the human capital as well as the financial capital.

2. Conduct a thorough SWOT (strengths, weaknesses, opportunities, and threats) analysis to discover what the cultural differences are and understand the affect of those differences.

3. Be truthful and more open with information than you ever have been before. When it comes to communicating in an M&A, the rule is KISS it (Keep It Streaming Stupid)

4. Make sure as much attention and weight is given to non-financial issues as is given to financial ones. Look very closely at intangible value like employee satisfaction, brand, knowledge, IP, etc. These are things that are not easily quantified, thus many times given only a "gut check" in the final evaluation.

5. Understand what might drive away key talent, what do they think, how can they be retained, motivated and performing.

6. There are no true mergers, only acquisitions so admit it now. In the end one side

will come out dominant in each function, even in the friendliest of "mergers." There can only be one CEO, one head of each department, etc.

7. Realize that control is an illusion. Unless you are going to do the work yourself, you are not actually in control. You only get to promote and allow that which your team needs to win.

In the end, will focusing on people ensure success for your M&A deal…nope. Will making sure you pay equal attention to all the important variables increase your chances of a successful M&A…absolutely.

Hey, what's the worst that could happen? You currently only have a 33% chance of succeeding anyway, so what do you have to lose?

The Genius Files is a series of educational articles crafted from lessons learned in the recently concluded Genius Project (a seven-year, 197,000, twenty-three country study of what drives individual excellence in the new knowledge worker economy).

The Genius Project is the foundational research behind the latest book from Innermetrix Inc Founder and CEO Jay Niblick titled, *What's Your Genius – How the Best Think for Success*.

To view the entire Genius series, or to learn more about how you can unleash your own genius, please visit **http://www.whatsyourgenius.com**.