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M&A: Buyers With Cash, Eyes Wide Open Set to Profit From Upturn
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Mergers and acquisitions are showing signs of life. In a recent global survey by Hewitt Associates, a human resources consulting firm, 72% of companies that responded expect to increase their deal activity over the next two years. Bill Baker, managing director of Dallas-based Kaye/Bassman International, an executive recruiting firm, confirms that M&A activity is picking up. One reason? An eventual increase in the capital gains tax under the Obama Administration could motivate sellers to make deals sooner rather than later to avoid paying more to Uncle Sam. "With tax issues such as a raising of capital gains rates, the M&A activity stream could strengthen," Baker says.

Along with tax changes, the companies that pared their debt and built cash during the downturn may now be poised to take advantage of bargains.

"Those who built their balance sheets for a rainy day might come out of last year's storm to find the rainbow, and at the end of it, nicely valued acquisition targets that provide opportunities for revenue growth and enhanced productivity," says Bob Filek, partner, PricewaterhouseCooopers Transaction Services. "As a result, M&A activity this year will be driven by strategic buyers who have access to capital and the strategic vision to capitalize on some of the best values we have seen in recent times."

While companies are hankering to jump back into the M&A game, will they get it right this time? Almost half, 47%, of those surveyed said their past transactions didn't achieve their intended financial and strategic objectives. Further, while almost two-thirds (65%) of companies say that leadership and key talent retention are critical to the success of a

deal, 49% of these organizations report they have lost critical employees at the same rate, or at an even higher rate, than non-critical workers.

Among the keys to a successful merger is getting the right fit between companies -- and that means not just balance sheet assets and liabilities, but also intangibles, such as corporate culture and management vision, a cadre of experts told DailyFinance.

There are plenty of reasons why mergers and acquisitions fail, starting with poor strategic vision. Getting the deal done won't make up for lack of a clear purpose. "If the articulated reason for the deal pre-closing seems vague and squishy before the merger, it will not get any better after the merger," says Chris Carson, director and attorney with Cohen & Grigsby, a Pittsburgh-based law firm.

Stop the World While We Merge

Often, the world changes while the deal is being struck and the gamble doesn't pay off, a pitfall of fast-moving industries such as technology and biotech. "You believe a new mousetrap will come from the combination, and before you get the combined entity going, someone develops a new mouse-prevention strategy," Carson says.

Or maybe you flunked your homework, and your not-so-due diligence left you with gaping holes in vital intelligence. Not only don't you really know what you bought, but there's a good chance you overpaid for it and could be taking on unknown risks. The sexier the deal, the more likely that someone won't thoroughly vet the details before jumping in.

"Ego and simply wanting to get the deal done often become a proxy for executive management and the board to validate themselves," says David Grinberg, partner and chair of the M&A practice at the law firm of Manatt, Phelps & Phillips. "They're so wrapped up in transaction fever that when red flags pop up during the due diligence, they ignore them."

The People Puzzle

While reasons for failure are plentiful, without question people are at the top of the list. Figuring out the people puzzle is vital to getting an M&A deal past the honeymoon and into a long-term, successful marriage. Otherwise, the clash of personalities and cultures can doom the deal. Everything from dress codes to communication styles -- phone vs. email -- is a potential landmine.

"Performance expectations, pressures and strategies may change as well, which can completely throw one company culture off-kilter," explains Hennie Kriek, president of SHL, which offers workforce-related talent assessments and other HR services. "In a merger, even deciding which company's name comes first can present an issue."

Many mergers are staged as win-lose situations, which hardly brings out the best in people on either side.

"It goes kind of like this: 'We won. We now own you. It's our name on the door, not yours, and what we say goes'," says Rita Gunther McGrath, an associate professor of management at Columbia Business School. "Faced with that kind of situation, executives from the 'losing' team can hardly be blamed if they don't want to sit tight and put up with this kind of psychological put-down."

Each side remaining attached to their views and ways of doing things leads to polarization. People can become resentful of being asked to change. This can be experienced as a real loss of identity and familiar reference points, as well as a loss of relationships, says Dennis Reina, co-founder of the Reina Trust Building Institute, an HR consulting and training company focused on engendering trust in the workplace.

"The smaller group, or the group that has been acquired, can start to feel that they are second-class citizens," Reina adds. "In some cases they feel unseen, unacknowledged and under appreciated."

How to Keep Talent On Board?

Add to the equation a lack of clarity in terms of the future strategy and direction of the organization, it's enough to send top talent packing -- let alone if there is a change or reduction in responsibilities.

"The personality issues can be the hardest to anticipate and deal with," says Mike Fixler, managing director of Detroit-based CM&D Capital Advisors, which provides investment banking services.

Time spent together by the management of both companies during due diligence can help in retention. A constructive way to do that could be, for example, drafting a business plan together for the combined company, Fixler suggests.

Align leaders early, says David King, partner and global leader of Culture Integration with the M&A consulting practice of Mercer, a human resources firm. Alignment has to be more than just talk. Management should identify early the desired culture of the combined company -- well before the close -- to guide them through the inevitable changes a merger will bring, King says. "Ensure adequate time is provided for leaders from both organizations to debate, confirm and clearly articulate the behavioral patterns require to achieve the promise of the deal," he says.

Launch With Clarity

Management should take an early, clear stand on what the organization is going to become, says King. "A 'wait and see' strategy invites ambiguity, slows momentum and ultimately derails the integration effort," he says.

Insist that the chief operating officer and chief people officer are included in the due diligence phase and have a role in understanding where the potential talent management risks will be in the new organization, suggests Chris Zlocki, senior managing director of Global Corporate Services for Newmark Knight Frank, a real estate advisory firm. If possible, he adds, don't require leaders to perform significantly different roles than they did prior to the merger. Provide enough training and development to ensure a successful transition.

What's key is clear, concise communication throughout the process; otherwise, rumors can take over and influence morale.

"Don't let the rumor mill fester around tough topics such as workforce reduction or process integration issues," Zlocki says. "Identify high risk potential leaders and develop stretch incentive plans and retention bonuses."

Bonuses can be effective, but there are those who think they are a bad idea.

"I don't believe in transitional bonuses," says Larry Nusbaum, chief operating officer and managing director of Vertex Capital Management, an Israel-based venture capital firm. "If they were 'out the door,' then they shouldn't be part of the go- forward team anyway."

Why Stick Around?

It's also critical to define exactly, "what's in it" for leaders, says Mercer's King. Establish a shared set of desired outcomes and success metrics on the front end of the integration effort. Sustain momentum and aid retention by aligning and delivering rewards with the completion of key integration milestones.

"When leaders contribute to -- and are rewarded for -- building the new organization, they are far more likely to stick around," says King.

Bonnie Hagemann, CEO of Executive Development Associates, says management must craft the right recipe for a successful merger "cake."

"You can't make a cake by throwing all the ingredients in a bowl. You have to have the right amount of each ingredient. You have to make sure that the ingredients will taste good together and then you have to create the right environment (temperature) for the cake to bake," says Hagemann.

"Organizations must do the same if they intend to come out with something edible and attractive to employers and customers."