Begin With the End in Mind:

Tips for a Successful Merger, Acquisition or Joint Venture

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Combining businesses through mergers, acquisitions, and joint ventures has been an important strategy for corporate growth over the past two decades. In 1997 alone, the investment associated with mergers and acquisitions surpassed the $1 trillion mark in North America. Unfortunately, the popularity of the strategy doesn’t necessarily correlate with its record of success. In fact, recent studies indicate that many such transactions just don’t deliver and have a negative impact on shareholders, as well as company leadership and employees. (See Table 1.)

### Table 1 – Merger and Acquisition Studies

This article outlines critical success factors - particularly such factors as leadership and cultural compatibility, factors which we believe are most commonly overlooked or minimized and are often the major determinants of success or failure in a merger, acquisition or joint venture.

**Begin with the end in mind**

At the end of the day, what companies are after in an M&A or JV, is a more competitive, appropriately integrated and well-managed organization that has increased its value by more than the sum of its parts. The process typically includes: finding possible acquisition candidates, selecting the preferred one, conducting preliminary discussions, signing a letter of intent, conducting due diligence, finalizing financial negotiations, making the announcement, getting shareholder and regulatory approval and closing the deal.

While these are all important steps, there is a critical step that companies often step over. Before embarking on such a journey, companies should articulate the specific purpose of the M&A or JV. Companies make acquisitions, or merge with other companies, for different reasons:

1) Overcapacity – the acquiring company wants to eliminate excess industry capacity, gain market share and increase operational efficiency (Daimler-Benz/Chrysler)
2) Geographic expansion – a successful company wants to expand geographically (Banc One/scores of local banks in the 1980’s)
3) Product or market extension – the acquisition increases a company’s product line (Quaker Oats/Snapple)
4) R&D – acquisitions are used in lieu of in-house R&D to build market position quickly (Cisco Systems/over 60 companies)
5) Industry convergence – a company believes that a new industry is emerging and wants to establish a position by culling resources from existing industries whose boundaries are eroding (Viacom/Paramount and Blockbuster)


Each of these objectives will have different implications for post-acquisition integration. Some will dictate a very rapid, nearly total integration. Others allow a slower “easing in” approach, and some may be more successful if permitted to operate “at arm’s length.” Obviously, the purpose will determine the selection of candidates, and it should strongly influence the extent of “due diligence.”

**Don’t Short-Change Due Diligence**

The due-diligence process is designed to reduce the purchaser’s risk by assessing the problems, liabilities, key challenges, trends and other factors that will affect the purchaser’s ability to implement and surpass its business plans. This is a time of intensive searching for facts, thorough analysis and constant reevaluation. A number of questions need to be repeatedly asked and answered. “Does the candidate really fit?” “Is the candidate really as attractive as it appeared to be?” “Can the purchaser manage the candidate successfully and achieve the expected performance results?”

The due-diligence process needs to consist of legal, financial and cultural components. Legal due diligence is the careful investigation of all legal aspects of the candidate (such as its organization and capitalization) and the identification of potential risks arising from statutes and regulations (e.g., environmental), contracts and pending or threatened litigation. An analysis of the tax implications associated with the planned acquisition is also an essential part of the legal due-diligence process.

Financial due diligence assesses the value of the candidate through careful analysis of the equity, assets, liabilities, revenues, expenses and cash flow of the candidate. Critical in this process is looking behind the numbers in the financial reporting and identifying potential problems and weaknesses (which in some cases may have been disguised by aggregation or definition).

A candidate may make perfect sense from a financial, legal and operational perspective, but end up being the wrong fit because of cultural or “value discipline” disconnects. Issues of culture and value discipline should be uncovered during due diligence, so that thorough integration planning can be done. Often, the kind of cultural due diligence done is insufficient to be the basis of an adequate integration plan.

A company’s culture is born with its leaders. As a company grows, however, its culture is woven into the fabric of decisions, conversations, processes and systems, and it lives in the interactions of all employees.
When cultures collide, integration can be seriously impeded, causing the loss of key personnel and eroding value.

**Carefully choose your integration approach**

Most people would think that it makes sense to begin thinking about integration once the deal is signed. Why waste time planning something that may never come to fruition, after all? While logical, this is a crucial mistake. GE is known as a company that has become masterful at growing through acquisition. In a 1998 article in Harvard Business Review, “Making the Deal Real: How GE Capital Integrates Acquisitions,” the authors state “GE Capital found that being sensitive to integration issues during the due diligence phase began to foster better decisions about whether to proceed with an acquisition at all.”

One size does not fit all when it comes to integration planning. Depending upon the purpose of the business combination, and upon the intelligence uncovered in a thorough due diligence phase, the appropriate level of integration will change. Some alternatives include:

- **Consolidate** – apply one organization’s (usually the acquiring company’s) processes, systems, strategy and structure across both
- **Synthesize** – take the “best of both worlds” to combine disparate organization and technology parts into a new whole
- **Transform** – create a new operating model to take advantage of what is now possible as a result of the merger
- **Preserve** – retain individual companies’ unique capabilities and culture

Each of these approaches involves different activities, with different people from each company. There are trade-offs in speed of execution vs. employee ownership implied, with different types of employee involvement appropriate for each approach. The important thing is not which approach is “better”, rather that the approach correlates to the business purpose of the merger or acquisition.

**Be aware of issues that lie beneath the surface**

Below the surface, there are unexamined factors which, at best, undermine momentum and the desired results of a merger or acquisition. If left untended, they can result in outright failure.
One very important factor is the issue of identity and survival. In an acquisition, people who work for the acquired company must confront a loss of identity. First, the outward signs of their former company’s identity – the brand, logos, colors, rituals, and many of the systems and processes – are done away with. Many people in merging companies, especially the more senior people, have invested heavily in developing and refining these symbols of what their former company stood for and valued. They worked hard to make that company something they could be proud of, only to find themselves “the new guy on the block” surrounded by a culture, systems and processes that are foreign to them. Even more difficult, there are issues of identity associated with job titles, responsibilities, rank in the hierarchy, and loss of the informal network of people through which things really were accomplished.

Suddenly, all that people from the acquired company have worked so hard to build is being threatened. The most common reaction is one based on survival. People become more focused on how to win – how to prove themselves, look competent, and succeed personally – than they are on what the new company needs. Even people who were willing to make some personal sacrifices in their old company, surrounded by people...
they trusted, are challenged in this environment. Leaders are caught in a more difficult conundrum – how to protect their people and win personally.

A second factor has to do with understanding the “rules of the game.” Before an acquisition, the rules of the game are usually clear to people from both companies. They know what the company stands for, and how their job connects to the future it is trying to build. They can bring their creativity to problems with confidence that they know where the boundaries are.

In an acquisition, very few people are the decision makers who choose this strategy. One could say that the acquisition is “done to” the rest of them. It changes the rules, to a greater or lesser extent, for both companies. The problem is that people are not sure how the rules have changed. “I understand that we want to capitalize on our size, but what does that mean about my vendors or customers?” “What does it mean that I was a director and now my title is manager? Do I have more authority or less?” “How rigorously do we have to follow this new process?” People find themselves looking around for the person with the answers, and uncertain about how to contribute fully.

In fact, nobody really knows what it will take to realize the full intentions of this strategic move. Each company has its own momentum – and the separate forces are not always perfectly aligned. If there ever is a time when discretionary energy, creative intellect and passion are required, it is during the integration of two companies – especially two successful companies. Sadly, that is the very time when people are driven to be more careful, looking for what they’re supposed to do, rather than taking ownership for their environment and the company’s success.

**Apply equal rigor to people issues and business design**

In the long run, the success of any business will rely on people. You can have all the right strategy, all the “right” systems, processes and structures in place, but if people aren’t investing their creativity and energy – or if you’ve lost the key people who make things hum – you will in all likelihood fail. Here are five things to remember:

1) Build a successful transition team by staffing it with the right people
   - Choose people based on influence not position power.
   - Represent a cross-section of the organizations
   - Choose people with credibility, ability to manage risk, good listeners and “diagnosticians”

2) Plan communications early and continuously in order to generate enthusiasm and support for the merger/acquisition/JV.
   - Communicate about what is known, about how each stakeholder group will be affected - it is a mistake to assume that you have “over-communicated”
   - Focus on customers, distributors, employees and investors
   - Use the modality of communication most appropriate for your purpose, for example:
     - Management communication blitzes
     - Town hall dialogues
iii. Written memos  
iv. Web-enabled communication  
v. Teleconferences  

While the salutary effect of maintaining an open channel of communication cannot be overemphasized, care must be taken to ensure that the communication does not violate the terms of any confidentiality agreement entered into in connection with the proposed acquisition. If either the purchaser’s or the candidate’s securities are publicly traded on a stock exchange, then the proposed transaction may be price-sensitive in relation to those securities. In such case, procedures should be implemented to review and perhaps restrict the types of communications publicly disseminated.

3) Address human resource issues  
   • Develop a layoff strategy and act quickly when that is necessary  
   • Ensure executive alignment with unfolding plans  
   • Focus on high-value employees  
   • Consider use of retention/stay-put bonuses  
   • Consider use of stock options and other non-cash forms of compensation to encourage key employees to develop allegiance to new employer  
   • Don’t underestimate the importance of job titles  

4) Focus on culture  
   • Determine the degree of cultural integration required  
   • Develop plans to shift culture, where necessary, through business-related initiatives, as well as large-group interventions  

5) Don’t forget about people after the deal closes  
   • Continue merger-related communications  
   • Hold task-related discussions  
   • Give units specific objectives  
   • Use the human resources department strategically  
   • Celebrate accomplishments – especially opportunities for quick wins  

Of course, the details of how these things are accomplished in any given merger or acquisition will vary.

Some words of advice for the acquiring company  

Company leaders often - and mistakenly - attempt to quell fear and uncertainty by assuring people that the acquisition probably won’t affect their job. In truth, mergers and acquisitions affect everyone in one way or another. Consider these best practices for the acquiring company:

   • Don’t promise that things will “remain the same” in either company  
   • Be humble  
   • Face the cultural and leadership differences head on and deal with them  
   • Develop common goals  
   • Make few promises & keep them  
   • Talk in specifics  
   • Be aware of the impact of your comments – even in casual conversation  
   • Overdo communication  
   • Coach your subordinates going into the new company  
   • Do not allow for divergent initiatives - stay focused on the integration plan  

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• Answer the “me” questions quickly
• Align financial incentives
• Demonstrate awareness of limitations of resources in regard to timelines and goals
• Realize that you can’t make everyone happy

In summary
A successful merger, acquisition or joint venture depends upon successful implementation after the deal. Preparation for integration should begin in the due diligence phase, not after the deal is done. One integration approach does not work with all types of acquisitions or mergers – rather, the integration approach must be tailored to fit the strategic purpose and take into account the broader information acquired during due diligence. In this regard, human issues, the “soft stuff”, can have as much or more impact on the eventual success or failure as the financial and legal fit, the processes, and the systems adopted during implementation. Make sure that you apply as much rigor to these issues as you do to the more obvious business issues.

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