

Executive Summary
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Highlight Report

*An issue overview
to aid strategic thinking*

Mergers and Acquisitions

by David Wentworth

Scenarios in this issue:

- Domestic and Dysfunctional
- Cautious Isolationism
- Around the World
- Digital Due Diligence



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Each of our Knowledge Centers has a corresponding Highlight Report that provides an external view of that issue, incorporating global perspectives on the current climate as well as future thinking. Highlight Reports are designed to help managers think strategically about particular trends or issues. Each one contains an executive summary, a global perspective, an overview of the current trends and countertrends, insights into what is driving the trend or issue, and four scenarios. Our members use Highlight Reports to provide their staff and colleagues with an up-to-date overview as well as strategic ideas about how to deal with issues that face their organizations.

For complete information on this topic, including a full bibliography, please visit our Web site at www.i4cp.com and follow the Knowledge Center link.

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Executive Summary

Uncertain times make M&A integration even more daunting

Worldwide economic turmoil has caused the record pace of Global M&A activity to drop significantly since topping \$4 trillion in deals in 2007. The total value for the 39,597 announced deals worldwide in 2008 was \$2.9 trillion, and the U.S. was responsible for \$986 million of that – far below 2007's \$1.5 trillion. Activity is continuing to slow down as worldwide deals announced in the first half of 2009 were already about 3,000 deals short of the previous year's mark during the same period, and overall deal value was down more than \$600 million (Thomson Reuters, 2009). Tight credit markets may have caused the massive tidal wave of activity that swept over the early 2000s to ebb, but a new pattern of M&A is emerging.

M&A has always been a prominent part of the growth strategy for many companies, but in the current climate, it is quickly becoming the only growth strategy for firms all over the world. Some see a merger with a competitor as the only way to survive and fend off attacks from even larger competitors. And firms that are financially healthy have been presented with a veritable bargain bin of struggling companies looking for a buyer. Whatever the reasons, as the pace and financial scope of domestic M&A have diminished, the intensity of M&A activity is increasing.

Companies that find themselves in the position of undergoing a merger of necessity are very likely to be unhappy with the results. M&A success is historically elusive, especially for companies that don't do it on a regular basis. The organizations that have the most success are the serial acquirers, firms that have an established M&A architecture that improves with each successive deal. These firms have dedicated M&A teams and use integration teams with key players from both companies to see the deal through.

One of the biggest causes of M&A failure is mismatched corporate cultures. A report from i4cp and the American Management Association (AMA) found that less than one-quarter of companies said their most recent merger had successfully created a new culture (i4cp/AMA, 2008). A separate i4cp survey found that high-performing companies were more likely to perform cultural assessments on target firms as part of their due diligence process than low-performing companies (i4cp, 2009).

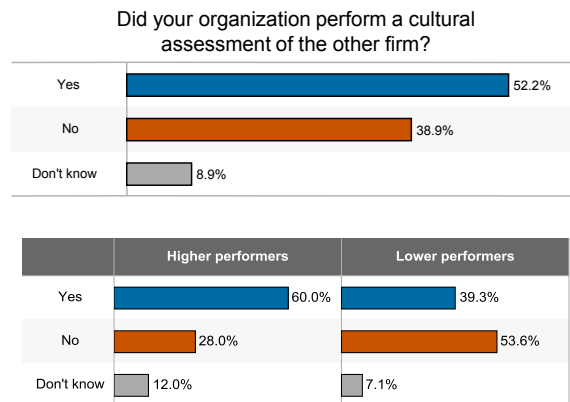


What successful M&A boils down to is preparedness. Organizations that spend as much time on the people issues that come with M&A as they do on the financial and IT issues tend to have more success, especially in the long term. In the heat of the deal, soft issues often get overlooked, or when they are thought of, they are deferred until a later date. By the time that date arrives – if ever – it is usually too late. A deal that looks perfect on paper can be completely derailed by mismatched cultures. Effective integration can be nearly impossible if hampered by poor communication and weak leadership.

These soft issues are unavoidable, and they affect every level of the organization. The executives who masterminded the deal are not safe from the jockeying that comes as a new power structure is developed. Managers face the very real proposition of being singled out for redundancy. Rank-and-file workers worry that their entire way of working will be fundamentally changed. Often, in the rush to find synergies and absorb a target company in the name of integration, an acquiring firm may terminate workers and dissolve the target’s culture, thereby losing the very thing that made the target attractive in the first place.

Many companies have recognized these risks and prepare for them by involving HR much earlier in the M&A process. The merging of complex compensation and benefit structures alone is reason enough to have HR at the table. Waiting until the deal closes to present HR with the challenge of integrating new employees is a recipe for disaster.

Higher-Performing Companies Are Significantly More Likely to Perform Cross-Cultural Assessments



The Institute for Corporate Productivity (i4cp) conducted the *Mergers and Acquisitions Pulse Survey* in May 2009. A total of 191 respondents participated.

Source: i4cp, 2009

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