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Strategic Consulting, Coaching and
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ACHIEVING STRATEGIC SUCCESS IN YOUR MERGERS AND ACQUISITIONS

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WHITE PAPER

Abstract

This white paper discusses (a) why the majority of mergers and acquisitions (M&A) result in significant disappointments for management, investors, and shareholders and (b) how powerful methodologies can go a long way to increase the likelihood of M&A business success. The author observes that the emphasis on financial and legal considerations of M&A often obscure the need for the strategic integration of management teams and the systems and processes of the companies involved. This paper introduces a proven methodology for producing strategies that help companies select the right M&A partners for the right reasons and combine management, systems and processes effectively.

The majority of M&A are resulting in failure due to the problems encountered in the selection and integration of the partners involved. Lack of motivation and massive losses of talent can be very damaging to your M&A.

Challenges for Successful Mergers and Acquisitions

Environmental Changes and Increase in M&A: Globalization and changes in technology have reshaped the competitive landscape. Business organizations are facing critical challenges for improving their strategic competitiveness in order to survive and succeed. One strategy for becoming more competitive has been based on M&A. There have been many M&A in the last ten years. The value of global mergers and acquisitions, or M&A, totaled US$2.4 trillion during the full-year 2010, up 22.9% from the comparable 2009 levels (RTT news, 1/10/2011).

Poor Results and Common Problems: The recent track record for M&A is far from stellar. Cartwright, S. (QFinance) reported that US sources place merger failure rates as high as 80%. The poor performance rate is due in part to strategic errors made in the pre-and post-periods of the transaction. In the Pre-M&A stage, a major mistake may occur in the selection of the partnering organization. This could be due to inadequate buying and selling prices, a lack of potential synergy between the partners involved, and /or a weak match between the selected partner and the overall strategy of the organization. In the Post-M&A stage, the most common misstep is failure to achieve the potential synergy of the M&A due to the inability to integrate the strategies, management teams, and the processes and systems of the organizations involved.

Problems in the Pre-M&A Stage: In this stage, serious problems occur when a company selects a partner without having themselves developed a strong strategic mindset and a roadmap for the future. To be successful organization must work on developing a management team that shares a powerful vision. The management team also needs to acquire a deep, comprehensive understanding of current and future complexities and the driving forces within their industry. Managers must be totally committed to a shared vision and to a future roadmap for the organization. It is also critical for the company to have a clear idea about the role that its future partners will play in their company's strategic success.

Problems in the Post-M&A Stage: In post-M&A, common strategic errors are the inability to either successfully make a new acquisition fit into the management styles and processes of the acquiring company or in the failure to achieve a smooth integration of the organizations involved in a merger. Most of the effort is placed on M&A seems to focus on the financial and legal aspects of the transaction without a profound analysis of the methodologies, strategies and plans needed to ensure a smooth and productive integration of organizational and managerial processes of the partnering companies. Once the merger processes have started, the unintended consequences of a not-very well planned merged create a dynamics that will seriously interfere with the possibility of achieving a smooth and effective integration.

Powerful strategic planning and change processes can significantly improve the chances of making your M&A a success.

Losing Your Most Valuable People: People are a critical factor in determining the success of business organizations. Employees get anxious during periods of transition. M&A generate a significant amount of uncertainty among the workforce at both partnering organizations. Personnel fear lay-offs and anticipate other changes that might affect them adversely. As a result, there can be a significant number of staff who decides to pursue employment elsewhere. The most capable and talented managers are usually the first to exit. Even those who choose to wait and see, may grow frustrated with the inevitable conflict, turmoil and uncertainty that a poorly executed integration process creates. Many of them end up leaving the company as well. Such transition can prove very damaging for a new merger or acquisition. The unintended loss of personnel and their institutional knowledge can impede the viability of the new company.

Achieving the Most Out of Your M&A

Using Powerful Methodologies: An effective way to achieve the most out of your M&A is to use a proven and powerful strategic planning and change process. The right process can help in the identification of the types of organizations that your company wants to sell, acquire or merge. It also facilitates the analysis of possible targets and the identification of how they support your roadmap for the future. Finally, the process can be helpful in the integration of the two companies once the M&A has occurred.

Expectations of Fierce Competition: In the early 1990's the financial services industry was facing possible deregulation because of the potential repealing of the Glass–Steagall Act. Financial services companies would eventually need to compete across state lines and across different types of financial institutions. Anticipating a high level of competition, one of the largest financial services companies in Chicago hired senior executives from one of the largest and most successful global financial services company to help them compete in the new business landscape. A top priority was to establish a powerful strategic planning and change process to dramatically increase and enhance the decision-making capabilities of the entire management team.

Don't Tell Me What To Do, Teach Me How To Do It: The new executives were experienced in strategic change having participated in numerous organizational interventions. They were familiar with a variety of strategic planning and change processes and had worked with top-tier consulting companies. They knew that they could hire outside professionals to advise and guide them. However, the team opted for a new approach. The idea was to develop a methodology that would help them collectively learn how to make better strategic decisions and deal with change themselves.

Developing a Strategic Planning and Change Process: The executive team invited Dr. Flores, a professor from Northern Illinois University, to lead the development of a transformative strategic planning and change process (TSP) that would strengthen their strategic decision-making process. Several hundred managers from around the world participated with dramatic results. The process has also been utilized and refined in other major financial services and engineering companies including divisions of Fortune 500 companies.

How Can This Process Help You With Your M&A?

The Flores TSP strategic planning and change process leads management teams involved in an M&A to develop a shared mindset that moves the new company into the future.

Increasing the Value of Your Organization: The TSP method can enhance the effectiveness of the M&A process in a variety of ways. One way is to increase the monetary value of a company or a unit that is seeking a buyer. This is achieved by helping the management team develop a shared mindset concerning a clear and solid roadmap for the future of the company. The process facilitates the development of consensus and genuine commitment. Such clarity of purpose and unity can go a long way in convincing a desired buyer or partner that the company merits a premium price.

Selecting Your Strategic Partner: A second way the TSP method can be of benefit in an M&A transaction is to help the company, searching for a partner, develop a clear strategic direction. As part of this direction, the company creates an M&A strategy that identifies the exact type of companies to pursue, the sequence of additional M&A over a the long term and how each M&A fits into the overall strategy of the company. This increases the probability that the acquisition/merger will add significant value to the original company and result in strengthening the new company's competitiveness.

Achieving a Smooth and Effective Integration: A third way in which the TSP method can add value in M&A is by providing a methodology to integrate the acquiring company with the target/partner company. The process facilitates the blending of management teams by helping them systematically explore, understand and commit to a clear and shared strategic direction. This clarity of direction enables the new company to capitalize on shared strengths and to leverage the physical and human assets of both organizations.

Managers discover what is expected of them and that allows them to develop actionable plans to achieve the new company's strategic objectives. Setting direction begins at the top and may be rolled out throughout the resulting organization.

Specific Benefit: Specific benefits of using the TSP Strategic Planning and Change Process are:

1. Business organizations for sale command a higher price.
2. Business organizations looking for a partner gain a clear acquisition strategy.
3. Business organizations produce a strategic road map for the future.
4. In M&A, there is a smooth integration of both partners into a new vibrant organization.
5. The merged company retains highly talented managers from both partners.
6. The process builds a unified, committed and a sharply focused management team.
7. The company avoids the expense and other pitfalls incurred through a faulty integration process.
8. The new company is ready to start the process as soon as the papers are signed.
9. There is fast and visible progress towards effective integration.
10. The new organization capitalizes effectively on each of the partners' strategic capabilities.

Taking the Challenges Head On: The TSP method empowers organizations to embrace new challenges and develop effective strategies to shape their future. The method is a learning process that involves coaching management teams on how to think strategically, focus on a common purpose, plan effectively, and carry out implementation. When properly applied, managers learn to work together as a strong, cohesive, focused team. The process provides the necessary critical information to enhance the quality of strategic decision making.

How the Method Works

Depending on the size of the partnering organizations, a two- to four-day strategic planning session or a series of integrated planning and follow- up strategy sessions can put the partners involved in an M&A on a common path to success.

Get everybody on the Same Page: The TSP method is a process that helps to integrate the strategic efforts of all managers in an organization in order to achieve greater market relevance and enhance the company's competitiveness. It can be used for M&A that involves an entire company or be limited to a single division of an organization. Depending on the needs of the M&A, the process can encompass a minimum of a three-day workshop or may require a series of workshops linked by follow-up and coaching. The method establishes a systematic approach that allows the management team to develop a shared vision and generate the strategies required to better compete in the marketplace. It is designed to enhance the strategic decision-making ability of all managers, encourage the questioning of old paradigms and discover new ways to identify and resolve critical issues in the organization.

Powerful Strategic Planning Meetings: A key component of the TSP method is professionally organized and managed strategy meetings. In these meetings, groups of key managers identify and grapple with critical issues related to environmental changes, business driving forces, competition and the appropriate strategic responses. This meetings can be organized for various areas of the company. They are linked and articulated to develop an integrated strategy that will drive the efforts of the entire organization. Through group dynamics, brainstorming, discussion and communication, management teams deal effectively with the priorities of their organizational units.

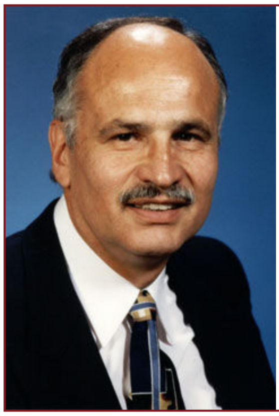
Achieving Effective Change: The process allows for the articulation of priorities to support the organization's strategy. Based on participation and the sharing of information, the process generates a strong commitment that drives the implementation of the desired changes and strategies. The process can be enhanced and refined year after year to provide greater focus and more rapid responses. It is a major driving force for cultural change and becomes more effective and sophisticated as the organization and its personnel gain familiarity with the methodology.

Strong Information and Communication: The process creates or improves the external and internal environmental knowledge necessary to foster strategic long-term thinking and effective implementation at every level in the organization. Outputs from this process include the shared vision and goals of the enterprise and the specific strategies to reach these goals at all levels of management, communication methodologies, and a planning and change framework. The process assures linkage between behavioral changes and plans in the organization.

Enhancing the Competitive Advantage: The TSP strategic planning and change process is a great asset to an organization. It quickens decision-making, identifies inadequacies which can be addressed by strategic initiatives and projects, creates a forum from which change strategies can be identified, and provides the framework from which operational plans are created and implemented to develop "Class 1" organizations.

Conclusion

Companies planning for M&A must understand that the processes for a successful merger or acquisition extend far beyond the financial and legal aspects of the transaction. The M&A process should begin by making certain that a company chooses the right partner for the right reasons. The process mal also include the enhancement of the new acquisition and/or its integration into the acquiring company. The correct methodology must be employed for the coordination or integration of the management teams and systems and processes of the organizations involved. The Flores' TSP method helps organizations formulate a sound, long-term M&A strategy that enables management to identify partners that generate synergy and provide support to achieve the acquiring company's vision. It provides an effective methodology to enhance an acquired company, facilitates the smooth integration and development of the combined management teams and the merging of the processes and systems that are necessary for the future success of the resulting company.



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