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Breaking the M&A Failure Cycle

By Tom Fritsch, President Allen Austin

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Insanity is often defined as doing the same thing over and over again, and expecting different results.......

Sound familiar? Depending on what you read or who you listen to, somewhere between 50% and 90% of all mergers and acquisitions fail – that is they never recoup their costs, often ending in divestiture or being closed down altogether. This is not a new phenomenon – it's been going on for over 30 years! There are literally hundreds of articles, papers and studies published about M&A failures and how to avoid them. Post mortems on failed deals highlight a pattern of recurring mistakes that are common to most M&A failures. They include:

- A flawed business case
- Not understanding the organizations' culture
- Insufficient, myopic due diligence
- Lacking a good integration strategy & process
- Not understanding key stakeholders & their relative importance to success
- Lacking a vision for what success will look like
- Lacking a sense of urgency
- Poor execution

Nothing new here - it's not rocket science. Why then, does this "cycle of insanity" persist? With the problems so clearly identified and the solutions so obvious, how is it that businesses continue to engage in this senseless value destruction? We believe the culprit is the same missing link that is behind another alarming statistic – that 90% of the world's workforce is disengaged and unfulfilled. Like disengaged and unsatisfied employees, the root cause of failed mergers and acquisitions can be traced to *failed leadership*.

Leaders are responsible for defining what is important to their organizations. Unfortunately, far too many leaders tend to focus most of their time and energy on measurable things such as financial performance and operational results. They pay far less attention to the "fuzzier" stuff like culture and organizational health. Bestselling author Patrick Lencioni, calls this tendency a quantitative bias. With so much emphasis on strategy, tactical metrics and financial performance, it's no surprise then that financial and operational matters trump almost everything else in the typical M&A exercise. For instance, how often have you heard executives refer to culture and organizational health as "that soft stuff?"

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The late business management guru Peter Drucker famously asserted that *"culture eats strategy for breakfast."* And former IBM CEO Lou Gerstner said this about culture: *"Until I came to IBM, I probably would have told you that culture was just one among several important elements in any organization's makeup and success - along with vision, strategy, marketing, financials, and the like... I came to see, in my time at IBM, that culture isn't just one aspect of the game, it is the game. In the end, an organization is nothing more than the collective capacity of its people to create value."*

There are epitaphs for myriad organizations that had really smart people, really good ideas, and seemingly brilliant M&A strategies that made perfect sense on paper, and yet somehow they failed. Quantitative myopia handicaps the M&A process, and when things critical to success such as culture, leadership style, values, bench strength, and employee engagement are missed or not given sufficient consideration, the results are predictable. And tragically, the consequences extend far beyond destroyed enterprise value. Too often we seem to forget that organizations consist of real people. When a merger or an acquisition fails *the collateral damage includes a tremendous human cost, and real people's lives are damaged and sometimes destroyed.*

Culture is the common denominator in almost every organizational success story, including successful M&A deals. In addition to things like cost recovery and value creation, I believe a true measure of a successful M&A deal is when all stakeholders – real people – on both sides of the M&A equation are better off <u>because</u> of the deal.

The keys to success boil down to three things:

1. Comprehensive due diligence;
2. Effective communication and stakeholder engagement; and
3. Deliberate, well managed integration.

Allen Austin's Total Performance Leadership approach and Insight™ Strategic Transformation process helps clients do this by:

- Expanding due diligence to assess things like organizational strengths, weaknesses and synergies; the mood and mindset of employees and key stakeholders; cultural fit and potential conflicts; the strength and effectiveness of senior leadership, and process overlap and synergies.

- Developing a core leadership message and communication plan that addresses the concerns of key stakeholders. It is important that stakeholders understand the case for action and urgency; the future state and what success will look like; how and why the organizations must change; how the integration process will work; and what the hardball issues and challenges are and how they must be confronted.
- Using the information gathered during due diligence to inform integration planning.
- Engaging and mobilizing stakeholders to execute, and
- Identifying and managing breakdowns.

Like everything we do at Allen Austin, our approach to the M&A process is one of the many things we employ to help us fulfill our primary purpose, which is to *enhance the lives and effectiveness of our associates, our clients and the leaders of the world.*