# Maximising M&A Success: The Human Dynamic is Critical

Robin Murray Brown of executive search firm Tyzack

Few will argue that the economic crash that started in 2007 is the worst global recession since World War II. The causes have been well documented and need little additional comment. What does deserve scrutiny, however, is what lessons have been learned – and whether they are the right ones to prevent another, even similarly severe, global crash. If historical considerations are anything to go by, the answers are not encouraging.



According to International Monetary Fund data, global economic activity strengthened during the second half of 2013, and is expected to improve further in 2014–15, largely on account of recovery in the advanced economies. Despite some fragility and downside risks, the general mood is optimistic.

Markets appear buoyant and with stock markets riding an upward curve, senior executives and boards will need to demonstrate sustained growth to support their trading multiples and meet investor expectations. If this cannot be achieved organically, then the pressure to pursue inorganic growth starts to mount. Data released in January 2014 by Dealogic show global M&A volume in 2013 reached $US2.91tr, up 9 percent on 2012 ($2.68tr) and the highest annual total since 2008.

Does this suggest that the animal spirits of the past are returning to the corporate world? Economic stability and low interest rates are certainly encouraging management and boards to start planning transformative deals, although there doesn't yet appear to be a "bull-at-the-gate" approach as Dealogic's data demonstrates: despite an increase in M&A volume in 2013, actual deal activity for the same period was down 15 percent (37,212 deals), the lowest level since 2005.

There are many reasons for the drop in the number of deals being executed, but what is certain is that with market conditions changing rapidly, competition on a national and global level intensifying, increasingly shorter product life cycles and technological innovation, companies are having to re-examine the traditional methods and strategies for expanding their businesses through M&A.

Empirical evidence suggests that between 50 to 70 percent of M&A deals fail to enhance shareholder value. To avoid this trend continuing in a post-recession world, looking at the reasons for failure may provide valuable information that, if acted on, can go some way to producing a successful outcome.

There are many reasons for failure, not the least of which are target company management attitudes, ineffective communication, inability of the acquiring company effectively to address cultural differences (particularly in cross-border transactions), and a lack of post-acquisition integration planning. In essence, too little attention is paid to the non-financial ways in which M&A deals are planned and implemented.

In his paper titled Value Creation Chain in Mergers and Acquisitions, Andrej Bertoncelj discusses a new, integrated approach to M&A whereby focusing on companies' core competences and values can enhance success rates through the balanced management of key success factors (KSF). These KSF include both hard and soft issues (Table 1).

| KEY SUCCESS FACTORS | |
|---|---|
| HARD KSF | SOFT KSF |
| M&A Search | Management Team |
| Due Diligence | Intellectual Capital |
| Financial Resources | Organisational Culture |
| Integration Plan | Communication |

*Table 1: KSF in M&A (Bertoncelj et al)*

Other commentators have also claimed that if these key success factors are properly identified and controlled, the chances of success can be greatly increased. It is worth taking a closer look at these KSF because a different weighting is applied to hard and soft issues during the M&A process. More often than not, a greater concentration is placed on the hard KSF because they are deemed to be more important than soft KSF. As Bertoncelj suggests, however, the differences in mean values of compared KSF are not statistically significant, and only a weak correlation between hard and soft KSF can be observed.

Yet although the human dynamic is critical to a successful M&A outcome, it is rarely addressed and this is where things usually go wrong. Companies undertake collaborative activity for a number of reasons, but in any event, one company acquiring or merging with another is always about "buying" people.

In their paper "Organizational marriage: "hard" versus "soft" issues?" (Personnel Review, Vol. 24, No. 3), Sue Cartwright and Cary Cooper reported that of 40 UK companies they studied, all conducted a detailed financial and legal audit of the company they intended to acquire, but not one of them carried out an audit of the company's human resources

and culture to assess the challenges concerning integration of the target organisation.

Likewise, according to a report by global accountancy firm KPMG (Unlocking shareholder value: the keys to success), companies that gave top priority to the selection of the management team at the pre-deal planning stage, thereby reducing the organisational issues created by uncertainty, were 26% more likely than average to have a successful deal.

Successful Dealmaking, a report based on two studies produced by the M&A Research Centre (MARC) at Cass Business School, provides valuable insights on what distinguishes successful deals from failures, covering all stages of the M&A process. The authors concur with others that HR issues are possibly the most important factor in determining the success or otherwise of the deal. Their research found that companies with a greater focus on HR, as measured by the existence and use of a human resources committee at board level, were more successful. In the success group there was twice the number of HRspecific committees than in the failure group.

Additionally, the Cass report claims that those companies that quickly align the management teams – particularly at the operational level – and complete the majority of redundancies within the first twelve months post-acquisition, are also more successful.

For an M&A deal to have a chance of long-term success, key activities such as evaluating the deal□s commercial rationale, due diligence and integration project planning in the predeal phase are clearly essential priorities. However, the softer issues that are most often overlooked - the human capital in value creation, cultural aspects and communication – are of at least equal importance.

For all the commercial attractions of any particular deal, boards and advisors would do well to consider whether the bringing together of the people in the two businesses will work. There is clear evidence that close attention to human factors is likely to improve the successful outcome of M&A. However, based on past performances it seems inevitable that, for many, a gap between expectation and reality will continue to exist.

**About Robin Murray Brown**
A board advisor and executive search consultant for nearly 20 years, Robin Murray Brown is a Partner with Tyzack Partners, an internationally focused executive search firm based in London. He specialises in the recruitment of executive and non-executive directors in the commercial and not-for-profit sectors.

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