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INTRODUCTION TO MERGERS AND ACQUISITIONS

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Quick Summary: Pre-merger communications often averts poor post-merger performance.

Abstract:

Most mergers and acquisitions deliver results well below the pre-merger expectations of both parties and outsiders. The failure die is cast long before the merger is complete, and the root cause often revolves around poor communication with all of the individuals involved.

This chapter focuses on the pre-M/A considerations for private companies that will hopefully minimize the missed expectations that commonly occur with a merger or acquisition. The recommendations apply to the combination of publicly traded or private companies. However, when publicly traded companies are involved in whole or in part of the consolidation, a host of Securities and Exchange Commission Rules and Regulations need to be considered, which are well beyond the scope of this chapter.

The seeds of failure or missed expectations of an M/A are most often inadvertently planted well before the transaction is completed. There is one overwhelming major root cause: poor communications by management. The assumed need for secrecy or the reluctance to communicate before all issues are resolved are the common reasons given for the lack of communication. Unfortunately, if more than two people are involved, which is always the case, rumors will fly. Individuals not involved in the transaction are likely to quickly fill the information void with their own speculation. Rarely will that speculation be positive or accurate. Often, negative expectations seem always to be fulfilled.

The Internet is full of stories of failed mergers and acquisitions with a detailed analysis of what and why the failure occurred. Most often, failure is defined as the new organization meeting less-than-expected performance. As usual, “hindsight is 20-20” with clear history while the same mistakes seem to be made repeatedly. Often, entrepreneurs and smaller private companies, the primary audience for the articles in this collection, will have no previous M/A experience to call upon. Also, by and large, the individuals in these organizations are optimistic by nature and focus on a bright future and vision, not on potential difficulties.

After setting the stage, the latter articles in this chapter provide a list of questions and considerations that should be carefully reviewed at the earliest possible planning stage of an M/A transaction. Eight different constituent groups have a vested interest in the transaction, different issues need to be considered for each one. The eight groups are:

- Owners (those with controlling interest)

- Investors
- Managers
- Employees
- Customers
- Prospects
- Business Partners
- Competitors

Without a doubt, the impact on employees of both organizations is the largest and most critical in determining the success or failure of the transaction. Keeping them properly informed should be given the highest priority, even above the structure and economics of the deal. Perhaps, the best advice for the senior executives considering a merger is to communicate early and often following the axiom that “There is never a good time to do anything, so do it now.” If executives do not fill the information void, others certainly will!