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Authors: Harrison, Joan

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Abstract: The article discusses a study conducted by Doctor Tim Galpin, a senior fellow at Katzenbach Partners, on merger integration. Based on the study, corporate executives expressed their disappointment with how effectively their companies have integrated acquired firms. The study polled 124 executives from 21 industries, most of whom had completed multiple mergers since 2000. According to the study, 63% of respondents said that their firm's integration efforts were average or below average.

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Why Integration Success Eludes Many Buyers

Lack of communication, weak leadership, and indecisiveness are the usual culprits in sabotaging post-closing efforts

Executing a well-conceived plan for business integration, without disruptive culture clash, is the key element of a successful merger or acquisition, many dealmaking experts would assert. Yet many acquirers, not only first-timers but also those with a few deals under their belt, can't seem to get integration right.

In a recent survey on merger integration, corporate executives overwhelmingly expressed their disappointment with how effectively their companies have integrated acquired firms. Major trouble spots, according to survey respondents, are prolonged integration, poor communication, lack of active leadership, and fragmented decisionmaking.

The study, conducted by Dr. Tim Galpin, a Senior Fellow at Katzenbach Partners, a strategy and organizational performance management consulting firm, polled 124 executives from 21 industries, most of whom had completed multiple mergers since 2000. Galpin conducted his research while serving as Associate Professor at the University of Dallas Graduate School of Management.

Another major problem, Galpin noted, is that most buyers allow deal integration to drag on for up to five years, rather than "tackle the project within the first critical six to 12 months."

"It appears that management teams still aren't conducting M&A integration efforts well -- or quickly enough. Effective integration can -- and should -- happen within the first year after the close of a deal. Prolonging the effort only lengthens and deepens the inevitable post-close productivity drop," Galpin added.

According to his study, 63% of respondents said that their firm's integration efforts were "average or below average." A mere 33% said their companies completed integration during the first six to 12 months after deal closing while the remaining 67% said integration took from one to as long as five years.

A number of the managers surveyed noted that their companies had made up to five acquisitions during the study period. Why, then, do so many repeat 'the same integration mistakes?

Larraine Segil, Partner Emeritus and former owner and director of Vantage Partners and a thought leader in the areas of M&A and alliances, points to underestimation of the emotional upheaval and potential magnitude of culture issues and "corporate stasis" as integrators' main stumbling blocks. "Part of the problem is human nature. No one wants to do anything that could rock the boat, and decisionmaking, innovation, and risk-taking goes into hibernation until the dust settles. It takes significant momentum to restart those initiatives, and often a one-to-two-year hiatus occurs before positive upswings can take place," she says.

The divide between knowledge and action

Often, it's the human factors in deals that will provide the biggest obstacles to deal success.

Dealmakers are aware of culture clash, the topic is written about and discussed extensively, yet there appears to be a disconnect between having awareness of the problem and putting that knowledge to practical use. It's certainly much easier to talk about post-deal anxiety, anger, power struggles, uncertainty, and deteriorating morale than it is to actually ease or eliminate those emotions and problems while tacking other aspects of the integration.

M&A pros pretty much have mastered choosing appropriate deal partners, scrutinizing the financials and other aspects of targets, negotiating and structuring transactions, and setting appropriate prices. But experience would suggest that what happens after the transaction closes is even more important than what happens pre-closing, and people continue to falter on post-closing duties.

David Lonsdale, President of Allegiance Capital, agrees, adding that if buyers were to spend half as much time studying the target's culture and planning on how to resolve any perceived issues as they spend on scrutinizing the company's financials, it would "probably improve their chance of success dramatically."

MOST DEALS FAIL, SO WHY DO FIRMS KEEP BUYING?

We've all seen the statistics that anywhere from 50% to 80% of all mergers and acquisitions do not achieve the deal parties' objectives. A recent study on deal integration in which a majority of executives admitted dissatisfaction with their companies' post-deal efforts (see prior story) provides a telling clue as to where one of the weakest links in the deal process lies.

Yet, despite the sobering statistics, companies continue to vigorously pursue acquisitions. Why continue to do something that most likely will fail to live up to its initial promise?

As long as the stock market is robust, companies will rely on acquisitions for growth, profit increases, and market dominance, and use their stock as acquisition currency, despite the potential for poor deal results, notes Larraine Segil, Partner Emeritus and former owner and director of Vantage Partners and a thought leader in the areas of M&A and alliances. "Some folks will always point to the 20% to 50% of deals that do succeed and expect that they, against tough odds, will fall into that category."

Top motivations for doing deals generally include achieving revenue growth, gaining greater market share, broadening product offerings, and obtaining talent or skill sets--goals that would take considerably longer to achieve if pursued organically.

"There aren't many companies that grow revenue internally more than 6% to 8% a year, so companies may rely heavily on acquisitions or mergers to supplement that growth," notes Ray Bahz, a Partner in the Corporate Practice Group in King & Spalding's Atlanta office.

In the view of Max Crane, a Corporate Partner at Sills Cummis Epstein & Gross, there is "a real human nature aspect to this."

"Companies are finding it hard to grow enough organically. They feel as though they're failing anyway and decide that they may as well throw a Hail Mary Pass rather than stay the course," he says. Also at work, he adds, is the herd mentality, which pressures CEOs to do a deal because "everyone else is doing one."

"CEOs view an acquisition as something that at least shows initiative, creates a perception of action, and buys them time. They can make an acquisition and get a grace period of a couple years while they plead 'integration issues,'" Crane asserts.

Activist shareholders, including hedge funds, have made the headlines in recent months with their "shareholder democracy" campaigns. But despite their attempts to pressure American business to focus on short-term results instead of long-term values, many experts believe that activists' pressure on companies to make acquisitions is miniscule.

TAKEOVER DEFENSES Suit Targets Midwest Air's Pill

A Midwest Air Group shareholder filed suit to press the company to drop its poison pill, paving the way for thrice-spurned AirTran Holdings to complete its proposed takeover of the company, or for another suitor to take a stab at a deal.

The lawsuit, filed by Linda Garrett of Lufkin, Texas, in Milwaukee County Circuit Court, is seeking class-action status. Midwest's pill allows it to issue more shares if a stockholder acquires at least 15% of the company, making it very difficult to mount a hostile takeover.

Data management products provider Brocade Communications Systems willingly nixed its pill. Automatic test equipment maker Teradyne allowed its pill to expire early-- on Feb. 8. Drug wholesaler McKesson plans to declassify its board to allow for annual election of all directors -- a change that must be approved by its shareholders at the 2007 annual meeting scheduled for July.

Medical devices maker Possis Medical amended its shareholder rights plan, extending it to Dec. 23, 2016, increasing the threshold ownership level to 20% of outstanding shares, reducing the exercise price of the rights to $75 per share, and eliminating provisions that would have required only continuing directors to take actions after the rights are triggered.

On the flip side, diagnostic imaging systems maker Del Global Technologies adopted a pill, primarily designed to protect its net operating losses (NOLs) for tax purposes. Bonita Springs, Fla.-based community developer WCI Communities installed a limited-duration pill that will remain in effect until Jan. 30, 2009, unless earlier redeemed or terminated. Parker Hannifin adopted a new shareholder rights plan to replace its plan that expired on Feb. 17. And Apollo Gold, Jaguar Mining, and PYR Energy all put pills in place in recent weeks.

PHOTO (COLOR)

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By Joan Harrison

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