Pre-deal activities consist mainly of strategy setting, valuation, due diligence and negotiation; the post-deal side focuses on corporate integration of systems, procedures and staff. Despite the critical need to co-exist, they have remained two distinct management functions.

With various studies finding that 60 to 70 percent of mergers fail to meet expectation, a better model of harmonizing the two functions may be needed — and because finance professionals traditionally work both sides of a transaction, this may be an opportunity for them to lead acquisitions from start to finish and, in the process, increase the odds of success.

Why deals fail

Failures on both sides are reasons why deals fall short of expectation.

On the pre-deal side, companies pay too much for their acquisition, which makes it difficult to earn a satisfactory return on investment. Companies get so caught up in the hunt to close a deal, they end up paying a premium that consumes the merger’s entire potential economic gain. Mark Sirower, author of “The Synergy Trap,” concluded as much and declared that overpaying is the number one cause of failure.

The second leading cause of failure is poor integration. Many companies learn the hard way that managing the chaotic change during integration is not the same as managing the day-to-day operations of a single company.

Mitchell Marks, president of JoiningForces.org and author of “Joining Forces, Making One Plus One Equal Three,” says most of his consulting work “comes from managers who messed up before and know how difficult it
is.” It takes a number of critical skills to make an integration succeed, among them, project management, people management and sensitivity to cultural issues. Few managers excel at all of these, especially when the authority to take action is not always clear.

**Institutional knowledge and the deal-closing party**

Before two companies agree to merge, a wealth of institutional knowledge is acquired by the pre-deal acquisition and due diligence groups. These groups gain insight about the inner workings of an acquisition target while completing their work — but that valuable knowledge gets lost when two separate and distinct pre- and post-deal teams work on the same acquisition.

When those pre-deal people leave the deal-closing party and roll off the project, the acquired knowledge goes with them; the post-deal team must then start over and learn what others in the company already know. The logical solution is to have some members of the pre-deal team continue on with the integration team to see the merger through to completion. By doing so, the integration process can be accelerated — which can make the key difference in capturing expected synergies and realizing full value.

As Mitchell Marks said: “Having some of the people on both teams would be a great idea.”

**Accountability**

No matter how the integration team is composed, post-merger planning should start well before the deal is finalized. Even if the integration team does get a jump-start, accountability for ensuring overall success can fall between the pre-deal and post-deal groups unless one person is in charge from start to finish.

Without an overall leader, each side can point fingers if things go wrong. Pre-deal staff can blame the integration team for not capturing the expected synergies within a reasonable time while the integration team can blame the pre-deal team for inflating expectations or paying too high a premium.

This unfortunately happened when Newbridge Networks tried to integrate its acquisition of UB Networks into one of its business units several years ago. The head office staff closed the deal, then handed off the integration tasks to the business unit management. Within a few months it became clear that the different technology products of the two companies could not easily be combined. The result was finger-pointing, a $150 million write-off and 400 people out of work.

The preferred method is to establish, from the start, clear ownership and accountability with one person for both acquisition and integration.

Closely integrated teams can lead to better understanding of what it takes to succeed. The record shows the more successful companies in the M&A game are the serial acquirers; those that do many deals and have internally developed expertise, such as Pfizer or GE Capital, usually do better in buying and integrating businesses. Although the key corporate players on the pre-deal side, such as business development professionals, are often more interested in moving on to the next challenge rather than making sure the current deal succeeds, they can inevitably learn what went right or wrong by being involved in the integration. Even though managing a major integration may not fully conform to their skill set, some degree of continued involvement is needed to increase coordination, transfer knowledge and help realize promised synergies.

Even a strong offense needs to play defense once in a while.

**No more hiding**

Treating M&A as two solitudes may also be changing because the cost of failure is now more difficult to hide. Recent rules from the Financial Accounting Standards Board, specifically SFAS 141 on business combinations and SFAS 142 on goodwill and intangible assets, mean that failures must now be fully recognized. Goodwill must undergo an annual impairment test and a charge made to income if the investment is found to be permanently impaired. Previously, goodwill was amortized over a period as long as 40 years. The recent $54 billion charge in the AOL/Time Warner merger is a painful reminder of how large the stakes can be in a failed merger.

Because finance professionals work on both sides of a deal, they can be key drivers in changing the two solitudes mindset. Finance professionals are involved in strategy formulation, valuation, negotiation and due diligence on the pre-deal side and often must manage integration after the deal is signed. With greater assimilation between the sides, the chances of success can be greatly improved.

One encouraging sign comes from Dr. Jay Bourgeois at the University of Virginia’s Darden School of Business, who teaches the only course in the country devoted exclusively to post-merger integration. Bourgeois says the two solitudes mindset is changing and he now sees “more integration people become part of due diligence teams.”

Indeed, if Canada’s French and English speakers have found a way to work together and build a respectable country, then perhaps pre-deal and post-deal professionals can find ways to work more closely to create successful mergers.

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