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Acquisitions: The state of the art and the seven red flags

(NB Edited extract from a thirty-four page report, as included on the McNulty Management Consultants' website)

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EXECUTIVE SUMMARY AND CONCLUSIONS (EDITED EXTRACT)

In preparation for some forthcoming bids, an international client asked McNulty Management Consultants to carry out a benchmarking assignment on its behalf. The aim of the research, which included a series of in-depth interviews with a number of practitioners, was to: pinpoint best acquisition practices with regard to people, structure and organisation; and uncover any pitfalls in these or any other areas.

In all, thirty-seven interviews were conducted in some twenty organisations (see Appendix I). Our interview programme involved discussions with both line and staff executives within acquiring organisations, and we also conducted interviews within some acquired firms. We also met representatives of some consulting firms together with some legal, financial and other advisers working in international acquisitions. Interviews were carried out in North America, and Western and Eastern Europe. Interview outlines were circulated in advance of each meeting.

With the exception of one US firm, there was a unanimous willingness to take part in this survey. Such keenness is unusual for a benchmarking assignment and perhaps reflects a "hot topic", with no organisation fully confident that they have all of the answers at hand. A number of the participants did request anonymity. We have therefore not alluded to any firms by name in this report, and in the body of the text, certain details have been disguised in order to protect firms' identities.

This report summarises our findings. It is organised into two main sections: Section one focuses on current practices and Section two highlights some red flags.

Section one starts by setting out seven reasons cited by interviewees for firms to seek acquisitions. Whilst there were few surprises, within some organisations we did, however, sense a divergence of view as to the rationale underpinning particular investments.

We then present and discuss the five main factors which the interviewees believed accounted for their organisations' successes in winning bids. The factors were: (1) where possible, manoeuvring so as to negotiate rather than enter a competitive bid; (2) getting the offer right; (3) getting the relationships and the politics right; (4) being prepared to meet the financial requirements of the entrepreneur and/or the management team being acquired; and (5) addressing the non-financial concerns of staff (e.g. job security, training and development opportunities for existing staff, and stated plans for the acquired company). Within this section, we explore the important distinction between acquiring a business for its *people*, as opposed to acquiring primarily for plant, facilities or location.

With a view to saving time and helping to inform people decisions in the case of a successful bid, under the heading of, "assessing the people and the culture of the target organisation", we set out seven main ways employed by firms for assessing the quality and capabilities of a target's staff.

The final two parts of this section are concerned with firms' practices in the area of exit packages and downsizing, and their approaches to the structure and staffing of companies they acquire. The latter topic is covered in some detail, with the practices of eleven organisations set out in a tabular form (Appendix II). The table indicates, among other aspects: the reporting structure after acquisition; and the particular roles in the new organisation which acquirers tended to seek. We highlight some of the overall patterns in the data and suggest some inferences which can be drawn.

Section two of the report sets out and discusses seven 'red flags' – potentially problematic issues – which we have distilled from our interview data and researches. The red flags are: (1) Protecting a firm's interests (i.e. what steps should be taken to control risk?); (2) Post-acquisition surprises (we found at least six potential sources of difficulty); (3) Developing a post-acquisition plan (an area in which some firms felt they were seriously underperforming); (4) Subsequent monitoring of acquisitions (an aspect which sometimes appears to be tackled with less rigour than necessary); (5) Working with joint venture partners (who can sometimes wrest more value from the venture than an inattentive partner); (6) Learning and applying lessons (a process which requires constant work); and (7) Getting the internal organisation right (a hot topic for many of our interviewees).

Twenty pointers for action

Our findings in this report reflect issues of particular interest to our client. As a result, many important matters relating to acquisitions are not especially highlighted. For instance, little is said about: managing regulatory relations; working with staff unions; and dealing with local communities and governments. This is not to underestimate the importance of these matters; it is merely to state that they do not feature extensively here.

In reviewing the overall data and findings, survey participants will need to focus on those issues and lessons which are most important for them, given their circumstances and constraints. For some of the interviewees, much of this report will be confirmatory. Notwithstanding this, firms may wish to review the following twenty pointers for action. These pointers are not our prescriptions, developed in isolation. Each one is derived from empirical evidence gleaned as part of this study. The pointers could act as a catalyst or checklist and help to pinpoint areas for possible attention within firms.

1. Ensure that the acquisition activity is organised so as to draw on the capabilities and strengths of staff, and achieve an appropriate balance between individual entrepreneurial flair and protecting the company's overall interests.
2. In setting out incentives for project developers and others, be mindful of the dangers of perverse individual incentives which could encourage inadequate testing and review of deals.

(NB Eighteen other pointers were presented for consideration)

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