

Post-acquisition pressure

Avoid it by thinking ahead and thoroughly understanding your acquisition targets

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Corporate acquisitions are frequently undertaken with an emphasis on getting the deal done. The integration issues that might arise afterwards are often ignored or misunderstood. Yet they are crucial to making the acquisition worthwhile. Creating shareholder value through corporate acquisitions means negotiating a deal that includes a favourable price and favourable terms, but it also requires a successful integration program. Poor integration is repeatedly cited as one of the primary reasons that corporate acquisitions fail to meet the purchaser's expectations.

Post-acquisition issues generally involve one of the following:

- Employees of the acquired business;
- Post-acquisition operating results;
- Business systems integration; and
- Unanticipated liabilities.

These issues are interrelated. For example, dissatisfaction among the employees of the acquired company may lead to difficulties in systems integration and sub-par operating performance.

Culture clash

Employee-related issues following an acquisition principally stem from cultural differences between the two companies and the expectations of the acquired business's employees. Corporate culture is often deeply rooted within a company and evolves over time. Changing that culture can be difficult and time consuming, and can result in additional costs or union action among the acquired employees.

The assessment of an acquisition must involve understanding the culture of the targeted firm. Be aware of the issues that might arise from differences between your culture and theirs. In most successful acquisitions, the corporate cultures of the purchaser and vendor are compatible. This doesn't mean that the cultures are exactly the same, but rather that they don't conflict in certain fundamental respects, such as management style and corporate governance practices. A purchaser should have a detailed plan to deal with cultural differences following an acquisition. Ideally, the company should both communicate and demonstrate in a meaningful way that key aspects of the acquired company's culture will be preserved.

The expectations of the new employees are also important to consider. Corporate takeovers normally involve changing the acquired business, which may include employee terminations, new policies and procedures, reallocation of responsibilities, and changes to the reporting hierarchy. Change means uncertainty, which often creates discomfort

among those who are subjected to it. As a result, resistance to change is common, if not inevitable, and it may mean losing important employees from the acquired company. Employees may leave because they see fewer opportunities for themselves following the acquisition.

Synergies

The purchaser has to manage change carefully to ensure it's handled properly and to detect signs of unrest arising from change policies. A good communication strategy is an essential component of this. In addition, the purchaser should appoint an employee to champion the change and integration process. Ideally, this should be an employee who occupies an upper-managerial role, and who has the authority to modify the integration plan where warranted. No integration plan can anticipate all of the issues that might arise, so having a competent employee with the responsibility and authority to properly deal with unanticipated issues is important.

When a purchaser undertakes an acquisition, it does so anticipating certain operating results from the acquired business. In many cases, a purchaser anticipates post-acquisition synergies. Measuring the post-acquisition results of the acquired company, including the extent to which these anticipated synergies are realized, is an important part of effective transaction management. An effective post-acquisition measurement system helps detect areas where results fall short of expectations and corrective action is required.

Post-acquisition performance measurement also helps management continuously educate itself. By benchmarking results, corporate decision makers become better versed in what represents realistic expectations in prospective transactions. Overpaying for anticipated synergies is often cited as one of the principal reasons that corporate acquisitions fail to meet the expectations of the purchaser.

Integral integration

Systems integration encompasses a wide spectrum of activities ranging from business policies and procedures to information technology and financial reporting. The challenge involved in effectively integrating business systems between the purchaser and the acquired company is often underestimated. This is frequently the result of an inadequate understanding of the intricacies of the vendor's systems by the purchaser prior to the acquisition. As part of its due diligence investigation, the purchaser should have information technology and financial reporting systems experts identify the issues that might arise. Such issues, and the associated costs, should be considered by the purchaser when valuing and pricing the acquisition target, and a detailed plan should be drawn up to address business systems integration, including specifying timelines, responsibilities, performance criteria and budgets.

In many cases, a purchaser discovers that the acquired company has material liabilities that were not disclosed prior to the transaction but that are now the purchaser's

responsibility. When the buyer doesn't consider the possibility of such liabilities in its valuation and pricing, it effectively overpays for the acquisition.

In some cases the purchaser may have recourse against the vendor for undisclosed liabilities. Ideally, the purchaser addresses the possibility of such liabilities before finalizing the transaction, and this is reflected in the agreement's terms. For example, when the purchaser demands a holdback for a portion of the purchase price for some period following the acquisition, that holdback amount can sometimes be applied to recover all or part of the liability. Alternatively, the purchaser may successfully negotiate vendor representations and warranties that afford it some degree of protection against undisclosed liabilities.

Though no due diligence effort can identify all possible liabilities, purchasers shouldn't rely on holdbacks and vendor representations and warranties as a substitute for thorough due diligence.

All of the above are important issues in an acquisition. Post-acquisition issues can affect the value and price of an acquisition, and should be considered before finalizing a transaction. If post-acquisition integration threatens to pose significant challenges, that risk should be reflected in the price and terms of purchase and sale. If the negative impact is potentially too great, it may be wise to forego the acquisition in favour of other less risky alternatives.

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