Delos

Looking at your business
another way

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A prime mover in getting a division of Rolls Royce to Class “A” in the 1980’s, he has huge experience as an inspirational educator to many companies across many continents in how to bring change through implementing Integrated Business Leadership. Recently he has spent 18 years in Oliver Wight.

Acquisitions – Why Do They Fail?

Many companies make acquisitions of other organisations in the pursuit of increasing shareholder value. The model is clear. 2+2=5. One company looks at another company, and by putting two companies together the ‘synergies’ of cost reduction, market sharing, increased oligopolistic power means that prices will go up, costs will go down, overheads will be shed, and profits will increase.

However, you only have to look at the literature to see that between 50 and 85% of all acquisitions fail to achieve the original objectives.

According to a survey in 2013 by Marsh, Mercer, and Kroll survey conducted in collaboration with the Economist Intelligence Unit, "organizational cultural differences and human capital integration issues (are) the two most significant transaction issues faced" today.

We see companies successfully bring about change by following the principles behind ‘Integrated Business Leadership’. Basically that is about creating a vision and a strategy and seeing that executed through having one plan, one system, and one team.

We believe that if companies applied the same approach to acquisitions, then they would get a far higher success rate. At the end of the day we see success happens through an effective education programme – which is designed to overcome the resistance to change created through cultural and human issues.

Contents

Acquisition Challenge

Acquisitions are not a new phenomenon, but it does appear that high profile acquisitions are becoming more common. In the 80s/90s who would have thought that the star of British industry, ICI, would have been bought by Akzo Nobel as a way of regaining market share by replacing their Crown Berger brand with Dulux?

Similarly who would have anticipated that one major FMCG family company, Mars, would buy another family company, Wrigley?

Many other industries have consolidated such as the car industry, where in my opinion we will end up with no more than 6 global car companies before too long. Companies such as BAT continue to gobble up smaller regional companies such as the Scandinavian Tobacco Company (STK).

The challenge behind all of these acquisitions is to make sure that the maximum value is extracted by ensuring that costs are reduced, through stronger purchasing power (bigger volumes for suppliers means they will accept lower prices), reduction in overheads (how many accountants, supervisors, managers, quality people etc. do you need to run two businesses instead of one).

Harvard Business Review article 2011: “Companies spend more than $2 trillion on acquisitions every year. Yet study after study puts the failure rate of mergers and acquisitions somewhere between 70% and 90%.”

CBS News Article 2012: “Depending on whose research you choose to rely on, mergers have a failure rate of anywhere between 50 and 85 percent. One KPMG study found that 83 percent of these deals hadn't boosted shareholder returns, while a separate study by A.T. Kearney concluded that total returns on M&A were negative.

British Journal of Management article 2006 by Schoenberger and Cartwright: “Internally managers of acquiring firms report that only 56% of their acquisitions can be considered successful against the original objectives set for them”.

It is clear that while many millions – even trillions of dollars – are spent on acquisitions, the failure rate is extraordinarily high – and always has been.

Following such acquisitions or mergers, integration has always been an objective. This has frequently resulted in an integration project. We are aware of two such companies - Henkel and National Starch (ICI). Integration projects are alright, but they often focus purely upon synergies, rationalisation and imposing the processes of the acquirer on the acquired.

In many cases they miss the key focus of real cultural, business and behavioural integration.

This is not surprising because very few companies have a clearly defined and well executed ‘Integrated Business Leadership’ (IBL) process established and so when the new acquisition arrives there is little or no framework for the desired integration. Our thesis is that if you do not have an Integrated Business Leadership process, then you are in no position to seek synergies through integrating two companies. You need to create an 'Integrated Business Leadership' project to integrate the two organisations.

Integrated Business Leadership

Development of 'Integrated Business Leadership' is founded on having a clear vision and strategy. The vision covers the reason for being as an entity, and the plan to be around in 20 or 50 years' time. The strategy is the how the vision will be achieved. That vision and strategy is achieved through having a clear foundation of integrated processes, a single system, consistent performance measures which ensures congruent behaviour, and a culture that encourages continuous improvement through a workforce dedicated to the service of the customer. Fine words, but the reality is so often missing in so many companies. This is summarised in the following diagram which is at the heart of what our clients seek to achieve:

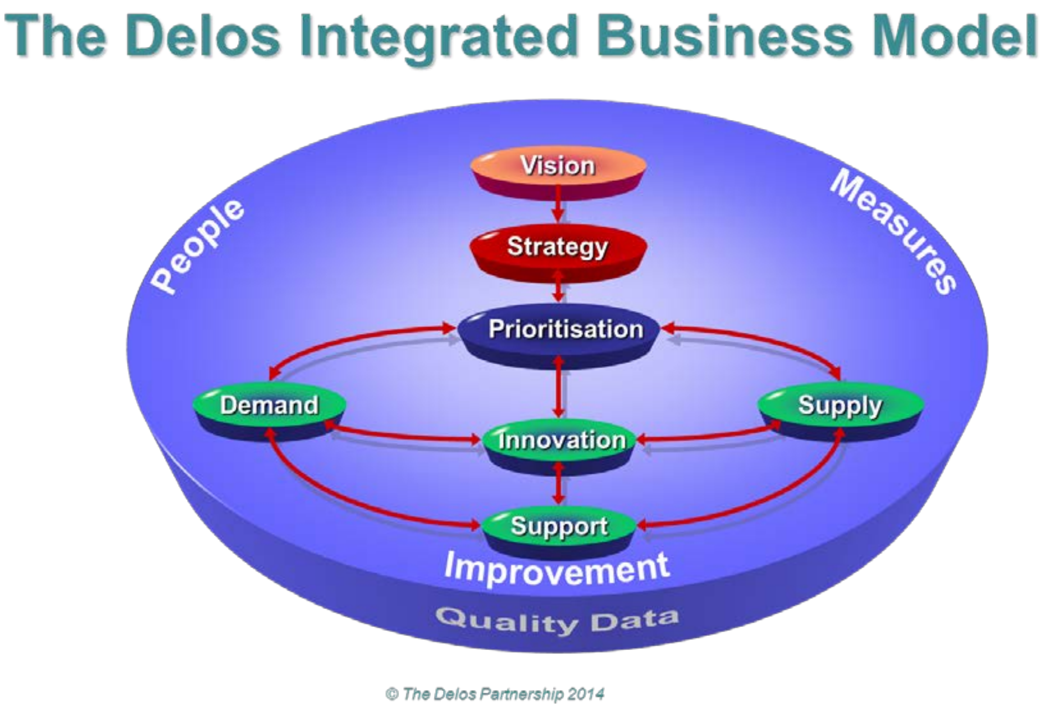

Figure 1 The Delos Model

Fundamentally the development of Integrated Business Leadership requires the development of integrated processes – like Sales Forecasting, Innovation, Supply Chain Management, Financial Planning and so on. Critically success is achieved through getting everyone in the company to 'buy-in' to the new ways of working, which requires a formal education or 'explanation' process.

Application of the Principles to Acquisitions

It is not, therefore, difficult to see how these principles could be made to apply to an acquisition. In fact our approach to making change happen in an organisation could very easily be applied to making an acquisition happen. Here are the principles that we apply to a company wanting to improve itself:

Figure 2 - Delos Implementation plan

Thus any company acquiring a company needs to be able to organise a project, create a vision of the way the company will operate (Company II), establish the way the company will operate, and then get acceptance to the new organisation and the new ways of working.

The ingredient that is often missing is the element of the 'Educational Programme'. For details, please do read our White Paper 'Cascade Education – changing minds when changing systems'. But in principle some organisational changes are done through email announcement, rather than through a series of formal meetings which explain how the new processes and systems will work.

More importantly, if the acquiring company has not been through the process of establishing an Integrated Business Leadership type organisation, it is unlikely to know how to apply the concepts when it acquires a new company.

But, of course, if a global/divisional IBL process has not been established then it's not too late.

In fact if a company has not developed a fully integrated IBL process then a major acquisition could be a catalyst to develop such a process while supporting the integration of the new business. We believe that will lead to a successful acquisition.

This will address the ‘organizational cultural differences and human capital integration issues’ that are apparent in the failure of so many acquisitions.

So if you are thinking of making an acquisition, and are worried about making it a success, why not follow a well tried and tested way of making profitable change? Energise the enthusiasm of the people to make the change through implementing an Integrated Business Leadership project and approach.