Failsafe Steps for Extraordinary M & A Growth

By

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When companies merge or acquire, stakeholders usually expect that the whole will be greater than the sum of its parts. Unfortunately, the facts tell a different story. Study after study puts the failure rate of mergers and acquisitions between 70% and 90%. One plus one does not equal three; too often it moves shareholder returns to the wrong side of zero. A once-exceptional organization can quickly take a turn toward mediocrity, or worse, demise if leaders don't plan meticulously, acquire intelligently, evaluate assiduously, and integrate attentively.

A successful deal starts with a strategic purpose for the transaction and a commitment to distinguish between deals that might improve current operations and those that could dramatically transform the company's growth prospects. Among all other influences, the desire to grow has one of the most dramatic, often hazardous effects on strategy. Limits and trade-offs take a back seat to the desire to escalate, increase, or expand. The low-hanging fruit of growth opportunity entices. Therefore, perceived opportunities for growth tempt leaders to go in new directions—paths that can blur uniqueness, trigger compromises, and undermine competitive advantage. Organic growth encourages its own kind of mischief, but acquisitive growth goes beyond—to an arena where true damage can occur. Caution should prevail.

Businesses make the decision to acquire for a number of reasons. On the one hand, companies will decide to acquire when they want to boost their current performance, to hold on to a premium position, or to cut costs. This kind of acquisition delivers bottom-line results but almost never changes the company's trajectory. The improvements stop the leaking of assets but don't truly put significant numbers of them in the coffers. For this kind of deal, CEOs often have unrealistic expectations about how much of a boost to assume; they pay too much; and they don't understand how to integrate after the fact. Many of these deals fail to delight, even when they don't truly fail.

When executives feel motivated to pursue a new strategy that includes an acquisition, almost always they want to acquire new resources and capabilities. Sometimes that means a true strategic direction change; at other times it involves changes to the tactics. In any strategic initiative, the company should not concede its strategic principle—the power that exists at the intersection of distinction, passion, and profitability. This strategic principle explains why customers choose your products or service, why you make money at what you do, and why people want to work for your organization. It forms the foundation of your competitive advantage, the area that exerts the greatest influence on your business. Therefore, any deal that threatens your strategic principle is one you want to walk away from. But which deals should you walk toward?

It all starts with a well-thought-out strategic objective for growth—a decision that is rational and data-driven. It should *not* start with a directive from the board or a mandate from the owner or CEO to "double in five years." The day-to-day decisions that drive that sort of growth objective often serve as the sniper's bullets that take the company down. Leaders start making window-dressing hiring decisions they never have made before; they negotiate short-term pricing deals that can't sustain them; and they opt for the quick fix instead of steadfastly positioning themselves for future rewards.

Instead, decision-makers should carefully craft the criteria for an acquisition—the "must haves" of the deal. They should also list and prioritize the "wants" of the deal but carefully and astutely distinguish these from the "must haves." These criteria should have specific measures attached to them—ways by which everyone will agree success will be measured. Finally, everyone should evaluate the value each decisive factor will have. Only then can decision-makers feel that they have created a failsafe environment for a merger or acquisition.