Practice papers

Making mergers and acquisitions work: What we know and don't know – Part I

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Abstract *This paper (published in two parts) summarises what is known and not known about making mergers and acquisitions (M&A) work, and identifies best practices where appropriate. The paper points to some of the best articles and books written on the subject. It also identifies areas where additional research is needed. The conclusion, which is supported with considerable evidence, is that much more of a systematic approach is needed to thinking about M&A if the success rate is going to improve. This paper outlines the critical elements of a systems approach to making M&A work. Professional change agents and managers responsible for making mergers or acquisitions work will find that this paper identifies key levers for them to focus on as they go about the real work of making it happen. The second part of this paper will be published in the* Journal of Change Management *Volume 3 Number 3.*

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WHY ARE THERE MORE AND MORE MERGERS AND ACQUISITIONS?

'Of the 150 recent deals valued at $500MM or more, half destroyed shareholder wealth judged by stock performance, and another third contributed only marginally to shareholder wealth.' Mercer/*Business Week* Study (Zweig, 1995)

According to investment bankers JP Morgan, companies spent $3.3 trillion on mergers and acquisitions (M&A) worldwide in 1999, up 32 per cent from 1998 (Ashkenas and Francis, 2000). From January 1990 to 1st June, 1997, worldwide deals involving over $5m totalled $3.9 trillion. The upward trend should continue to the end of the millennium, according to Richard J. Peterson of Securities Data Co. (LaJoux, 1998).

So why this significant growth? CEOs probably can express this best, particularly ones involved in significant M&A activity. Here are quotes and comments taken from a *Harvard Business Review* roundtable with eight CEOs (*Harvard Business Review*, 2000):

— Alex Mandl, Chairman and CEO of Teligent: 'The plain fact is that acquiring is much faster than building. And speed — speed to market, speed to positioning, speed to becoming a viable company — is absolutely essential in the new economy.'
— Mackey McDonald, Chairman of VF Corporation: 'An acquisition becomes attractive if it offers us a new consumer segment or geographic market to sell our products to or if it adds new products to one of our core categories.'
— Other comments by CEOs in the article focus on the creation of synergies in research and development that can be reinvested in new drugs, or cutting costs in the chemical business.

There is a feeling that, to compete in the new global economy, one needs to have scale and scope, though Ghemawat and Ghadar (2000) would disagree with that contention. Others are looking for new channels of distribution for existing products. In addition, many small hi-tech companies need capital to grow, and more established companies need start-ups to grow the top line. Cisco Systems and GE Capital are two excellent examples of established companies that have successfully used acquisitions to grow the top line. These two examples will be examined in more detail later in this paper.

Even with the drop-off in M&A activity accompanying the current economic downturn, M&A activity in 2001 was four to five times what it was ten years ago. There is no reason why, once the economy turns around, the amount of new M&A activity will not continue to increase rapidly. Also some very significant M&A activity has occurred and continues to occur. The HP-Compaq merger will be an interesting case study. Stockholders will wish them luck.

THE CASE FOR CHANGE — WHY A SYSTEMS APPROACH IS REQUIRED

Given the growth in M&A activity and the impact on the investing community, will the same approaches used in the past be adequate in providing investor value, or is there a need for change?

In their excellent book, *Joining Forces*, Marks and Mirvis (1998) state the case thus:

> 'more than three-quarters of corporate combinations fail to attain projected business results. In fact most produce higher-than-expected costs and lower-than-acceptable returns. Meanwhile, executive time and operating capital are diverted from internal growth; morale, productivity, and quality often plummet; talented crew members jump ship; and customers go elsewhere. In a great majority of combinations, one plus one yields less than two.'

How valid is this opinion, and what is it based on? In fact, there is quite a bit of research on the topic. LaJoux cites 15 major studies of the success or failure of acquisitions. For the studies reporting failure rates, the rate ranged from 40 per cent to 80 per cent, with the exception of one study done in 1965, which reported a 16 per cent failure rate (LaJoux, 1998).

A few of these studies will now be

examined in more depth. One of the best known studies was reported by Porter (1987). Key findings were:

— 'I studied the diversification records of 33 large, prestigious U.S. companies over the 1950–1986 period and found that most of them had divested many more acquisitions than they had kept. The corporate strategies of most companies have dissipated instead of created shareholder value.'
— He found that companies divested more than half of their acquisitions in new industries, more than 60 per cent in new fields, and 74 per cent when they invested in unrelated businesses.

Porter feels the data probably understate the rate of failure. While there is a lot of fanfare about an acquisition, there is very little mention of selling or closing down operations in the press, so sales or close-downs were much more likely to have been missed in their data collection.

Porter examined four strategies to diversify. They are portfolio management, restructuring, transferring skills and sharing activities. He concluded that acquisitions that rely on transferring skills, and sharing activities offer the best avenues for value creation. Successful diversifiers in his study made a disproportionately low percentage of unrelated acquisitions, minimising situations where there were no clear opportunities for transferring skills or sharing activities. Even successful acquirers have poor records when acquiring unrelated acquisitions. With success coming from transferring skills or sharing activities in acquisitions, effective implementation is that much more important.

Porter makes some very telling comments relative to the thesis of this paper in his conclusions:

— 'Only the lawyers, investment bankers, and original sellers have prospered in most of these acquisitions, not the shareholders.'
— 'My data also illustrate that none of the concepts of corporate strategy works when industry structure is poor or implementation is bad, no matter how related the industries are.' (Porter, 1987)

The 1995 *Business Week*/Mercer Consulting analysis mentioned at the start of this paper indicates that, while the 1990s deals were performing better than the deals in the 1980s, most of the 1990s deals have not worked. The analysis method used the S&P industry indexes three months before the deal and up to 36 months after. They used techniques to filter out impacts of other events. While not a perfect methodology, it is one used by many to determine the impact of M&A performance. The study claims that the major reasons M&As do not work is because of:

— inadequate due diligence by the acquirer or merger partner
— lack of compelling strategic rationale
— unrealistic expectations of possible synergies
— paying too much
— conflicting corporate cultures
— failure to quickly meld the two companies. (Zweig, 1995)

Towers Perrin and the SHRM (Society for Human Resource Management) Foundation did more current research regarding the key issues that trip up mergers. They interviewed 600 top HR executives and CEOs. They reported the following as key reasons for problems in the performance of the combined organisation (Rubis, 2001):

— inability to sustain financial performance (65 per cent)

— loss of productivity (60 per cent)
— incompatible cultures (55 per cent)
— clash of managerial styles or egos (53 per cent)
— slow decision making (51 per cent)
— wrong people selected for key jobs (50 per cent).

The results of the study were published in Schmidt (2002).

From another perspective, the comment by Ed Liddy, CEO of Allstate's, in the above-mentioned *Harvard Business Review* (2000) article is probably held by many CEOs: 'one more thing about the bad rap on M&A. I think one of the reasons for it is that acquisitions are so visible. When they fail, they draw intense notice. But a lot of things in business fail; we've all started projects that did not work out. The internal failures simply don't get as much attention.'

These findings fall into natural categories having to do with selecting and negotiating the right deal and effectively implementing the merger or acquisition. All experts would tend to agree that, if the right deal is not struck, effective implementation is not going to matter. They would also agree that ineffective implementation has spoiled a number of promising deals.

What these studies and results tell us, and this is the paper's thesis, is that corporations are not taking a systems approach to the process of acquiring and integrating acquisitions. What is publicly known about the success both Cisco Systems and GE Capital has had in acquisitions indicates they have taken a systems approach to this process. The rest of this paper will lay out the key elements in a systems approach, and discuss some of the best practices associated with executing such an approach. The description will hopefully provoke debate and discussion about the elements in such a system.

TWO THAT DO IT RIGHT — CISCO SYSTEMS AND GE CAPITAL

The Cisco Systems case

Cisco Systems has successfully employed a growth strategy that involves acquisitions. Since going public in 1990, Cisco has seen its revenues grow by more than 40 per cent every year except 1998, when they grew a meagre 31 per cent. Since acquiring its first company in 1993, it has acquired over 70 companies (*Fortune Magazine*, 2001). Its success rate in acquiring these companies is well documented. In fact, Goldbatt (1999) said that, to find a business that has handled acquisitions as well as Cisco, one would have to go back to the turn of the century when AT&T assembled hundreds of tiny phone companies into MA Bell. Even in the current economic downturn, Cisco has faired much better than its competitors.

Below are highlights of this story, some parts of the story will be used later to illustrate points about the systems approach to M&A.

As Porter (1987) suggests, good acquisitions start with a good strategy. John Chambers, CEO of Cisco, says that they combined key strategies from HP, that is to break up markets into segments, with GE's philosophy of being 1 or 2 in every market you compete. Cisco developed a matrix with the market segments they were going after, identifying where they had products and were they needed them. Cisco tries to build 70 per cent of its products internally, but, if the company does not have the resources to become a market leader in a targeted segment within six months, it looks to buy its way in. Time to market is critical in their fast-evolving market. When Chambers came into the job at Cisco, he thought IBM would be their biggest competitor, but it has not turned out that way because IBM has been too slow at making decisions (Rifkin, 1997).

Another significant part of the strategic approach employs Porter's concept that successful acquisitions rely on sharing activities. Mike Volpi, who runs acquisitions for Cisco, has a knack for identifying start-ups at a time when they are old enough to have finished and tested a product, yet are privately held, flexible and need a lot of the leverage and advantages a big company like Cisco can bring. These companies can leverage Cisco's manufacturing, distribution, its IT systems, its accounting systems, HR, to name a few, and are able to get more quickly into the marketplace and reach a larger volume of customers than they could as a start-up (Goldblatt, 1999).

There are two keys to the approach Cisco uses: (a) doing their homework to select the right companies, and (b) applying an effective reliable integration process once the deal is struck.

Cisco is very disciplined in looking at an acquisition, and has turned down more companies than it has acquired. It asks these basic questions when considering an acquisition:

— Are our visions basically the same?
— Can we produce quick wins for shareholders?
— Can we produce long-term wins for all four constituencies — shareholders, customers, employees and partners?
— Is the chemistry right?
— For large M&A, is there geographic proximity? (Rifkin, 1997)

According to Charles Giancarlo, VP Business Development, every acquisition is driven by time to market. Early if not elegant, is Cisco's mantra. 'If we are not making mistakes, we are not moving fast enough', says Giancarlo. Cisco wants to be able to ship the acquired company's products under the Cisco label within 3–6 months from the closing of the deal. Cisco's history is filled with success at making this happen (Rifkin, 1997).

Another measure of integration success is the retention of the high-priced talent acquired in the new company. Cisco makes a no-lay-off pledge and, in 2000, had lost a scant 2.1 per cent of the employees it had acquired vs an industry average of 20 per cent. Mimi Gigoux heads up a staff of 11 dedicated to integration. Her teams stay at the target company from the start of the acquisition through closing to the deal. They tailored their integration process to each acquisition. They map where each employee will best fit in Cisco. In general, product engineering and marketing stay independent, but sales and manufacturing are folded into Cisco's existing functions. Her team gets each employee on the Cisco IT systems, payroll and stock options. The day after the deal closes, a tailor-made orientation begins, it can take up to a month (Goldblatt, 1999).

Chambers feels Cisco has created a positive reinforcing cycle — when target companies realise how good Cisco is at acquiring companies and retaining people, it makes it easier to acquire the next organisation. Companies come to Cisco, asking to be acquired. In fact, these companies are willing to be acquired at a lower price because of Cisco's track record. That record includes the long-term benefits from the rise of their stock as well as the success in retaining people and launching the products that the acquired people have put their blood, sweat and tears into developing (Rifkin, 1997).

The GE Capital case

GE is a company that has had huge financial success for over 100 years. It is featured with good reason as a great company in *Built to Last* (Collins and Porras, 1994), a must read for anyone serious about what makes a great company over time. In fact, GE is very proud of the fact it has met its financial targets for over 100 straight quarters. GE Capital has become one of the most sustaining engines of GE's profitability, contributing approximately 40 per cent of their profits in 2000. GE capital has acquired well over 1,000 firms in its short history, about 100 last year (Presentation by GE Capital at professional seminar). This is a company that knows something about effectively acquiring firms.

What is known from public literature and presentations by GE Capital people at conferences is that GE Capital has a very systematic approach to the integration of the target companies it selects. Many of GE Capital's ideas on effective integration can be found in Ashkenas *et al.* (1998). A key concept at GE Capital is that of the integration manager. In fact, Jack Welch is quoted as having said that, 'Getting the right integration leader constitutes 95 per cent of the success of an integration'.

If the selection of an integration manager is so important, what are the roles and responsibilities associated with this job? GE Capital has publicly shared thoughts on the role of an integration manager. The role includes:

— developing shared vision between acquired CEO and the GE parent
— partnering with the acquired the CEO on integration
— escalating problems and resistance issues
— building a quality integration team with cross-functional leaders from GE and the acquired company
— leading development of integration project plans and deploying resources
— making sure practices are consistent with GE capital's standards
— creating strategies to communicate key information to employees quickly
— educating new managers about GE'S business cycle, reviews, etc.
— introducing GE's business practices to the new company (Ashkenas *et al.*, 1998).

It is the integration leader that systematically employs a set of internally developed best practices to integrate the acquired company. Those best practices are developed and honed by a core staff team that consults with and trains the integration leaders and their teams on the integration process. GE carefully selects the integration leaders and teams using its well-documented best practices in succession planning called 'Session C'.[2] The opportunity to be an integration leader is seen as a significant developmental opportunity, one sought after by those moving up in GE's managerial ranks.

What are some of the systematic practices used by integration leaders in GE Capital:

— Building an effective team of GE Capital and people from the target company with the right mix of skills and knowledge to lead the integration full time.
— Well-planned launch meetings for the integration teams that develop detailed plans, including 100-day plans critical to getting off to a quick start.
— Use of a Web-Based Knowledge Management System that enables any one of the integration teams to access the collective wisdom and knowledge of GE on making integrations work.
— Clearly establishing what is non-negotiable in the integration process; things such as GE's values, Session C, etc.
— Much thought goes into developing

measures to monitor the progress of each integration. GE calls them Dashboards to measure progress. They are very similar to balanced scorecards, but tailored to the individual integration effort. Like scorecards, Dashboards are a mixture of lead and lag indicators.

— Work Out,[3] characterised as a problem-solving meeting on steroids, is used early in the process to generate quick wins, important to generating a climate for success in any change effort.

It is very clear from the examples given that GE Capital's acquisition strategy is based on Porter's concepts of transferring skills and sharing activities, much like Cisco's strategy. GE Capital, however, is acquiring assets, customers and other tangible things. They are not dependent on a few talented people to sustain a new innovation in the marketplace, as is Cisco. This distinction is very important in the amount of effort each puts into the importance of culture fit and chemistry in the selection process. GE Capital apparently turns down very few deals based on these criteria, while Cisco turns down a good many. The hypothesis is that this has much to do with the nature of their business. Losing a small number of key people in a hi-tech business can be the kiss of death, not so in GE Capital's business. GE is well known for its storehouse of managerial talent, losing a few key managers in a newly acquired GE Capital business is not as difficult a challenge to overcome as the same problem for one of Cisco's acquisition.

Returning to a key concept in GE's success, integration managers at GE Capital are held responsible for developing a good integration plan and executing it, not for the P&L — that is left to line managers. The integration manager's role is to create 'connective tissue' between the acquired company and GE, connective tissue that is 'self-generating' (Ashkenas and Francis, 2000).

These two companies illustrate key points regarding a systems approach to acquisitions. The rest of this paper will describe a systems approach in more detail.

SYSTEMS THINKING

There are a lot of similarities between making M&A work and improving the Capital Project Process at a major oil company. The author's experience in improving that process over a seven-year period will shed some light on what needs to be done with M&As.

First, every major company has a few macro-processes, the successes of which are significantly related to the organisation's bottom line. This oil company spent over $5bn a year on capital projects, a 10 per cent improvement a year would drive $500m to the bottom line. Clearly in the case of Cisco Systems and GE Capital, acquisition of companies is a strategic macro-process critical to the bottom line. Often, companies are not aware of these macro-processes, nor do they systematically go about trying to understand and optimise them. In the case of the oil company, they were not aware of this system, which cut across many functional areas and business units. It took many attempts and years to get commitments at the CEO level and across all the impacted organisational entities really to improve capital projects effectively. The same is true for the M&A process in any company that is engaged in M&A activities with similar strategic intentions to Cisco or GE Capital or is engaged in a merger with a company of significant size. That is, there is a significant macro-process involved, and the organisation is not aware of and is not trying to optimise the effectiveness of that process. Cisco and GE Capital are the exceptions not the rule.

Secondly, benchmarking, with real hard numbers gathered by an unbiased and unimpeachable source is critical to opening the eyes of line management to the possibilities of improvement. To my knowledge, there is no good benchmarking available on M&A activity, and it is an issue crying out for such independent measurement. Even GE Capital has only just reached the stage where it is measuring internally how it is doing across acquisitions.

Thirdly, real accountability at the top is a key to changing such a macro-process successfully. An anecdote from this capital project work is telling. The CEO of a consulting firm with the hard benchmark data about capital project success said this about accountability at the company ranked one on capital project performance. The company in point decided the outcomes of the projects developed, that is, the rate of return on those projects would follow the General Manager proposing the investment for five years after the project was completed. The impact on bonus would be very significant. What happened? All capital project proposals were pulled back for more review, and none came forward for six months. Why? Because the way most organisations measure performance and grant bonuses does not account for decisions made even two to three years ago, much less strategic decisions that often dictate the long-term success of the company. General Managers are often rewarded for initiating action, not for whether the action proved to be effective. And in a number of situations this author was privy to, the General Manager was grabbing for scarce corporate resources, hoping to optimise his domain, even though some of the arguments and data in the analysis were less than wonderful. In a few cases, the General Manager was on a power trip when it came to getting those resources. Criticisms have been similar in M&A. If law firms, investment bankers, etc. only get incentives for putting deals together they will push more and more deals, who cares whether they work. Especially when measure systems are so weak. How can we get these people to have skin in the game? That is, make more or less money depending on the success or failure of the merger as measured by some standard. This may sound laughable, but some of the most innovative oil projects done in the North Sea by BP used a very similar model. Seven or eight stakeholders to the project, owners, construction firms, engineering firms, major suppliers, etc. all were part of an agreement that tied project outcomes to final payments, where all stood to gain or lose base on the ultimate success. Would not financial types pay more attention to chemistry and culture fit if this were true?

While there are many more parallels that could be drawn between fixing these two macro-processes, these are three of the most important. Before describing the elements of M&A macro-process, a few thoughts are reviewed from systems thinking that are very appropriate to improving M&A. They are:

— Structure influences behaviour — when placed in the same system, people, however different, produce the same results. This accounts for such generally poor M&A results in most companies and significant

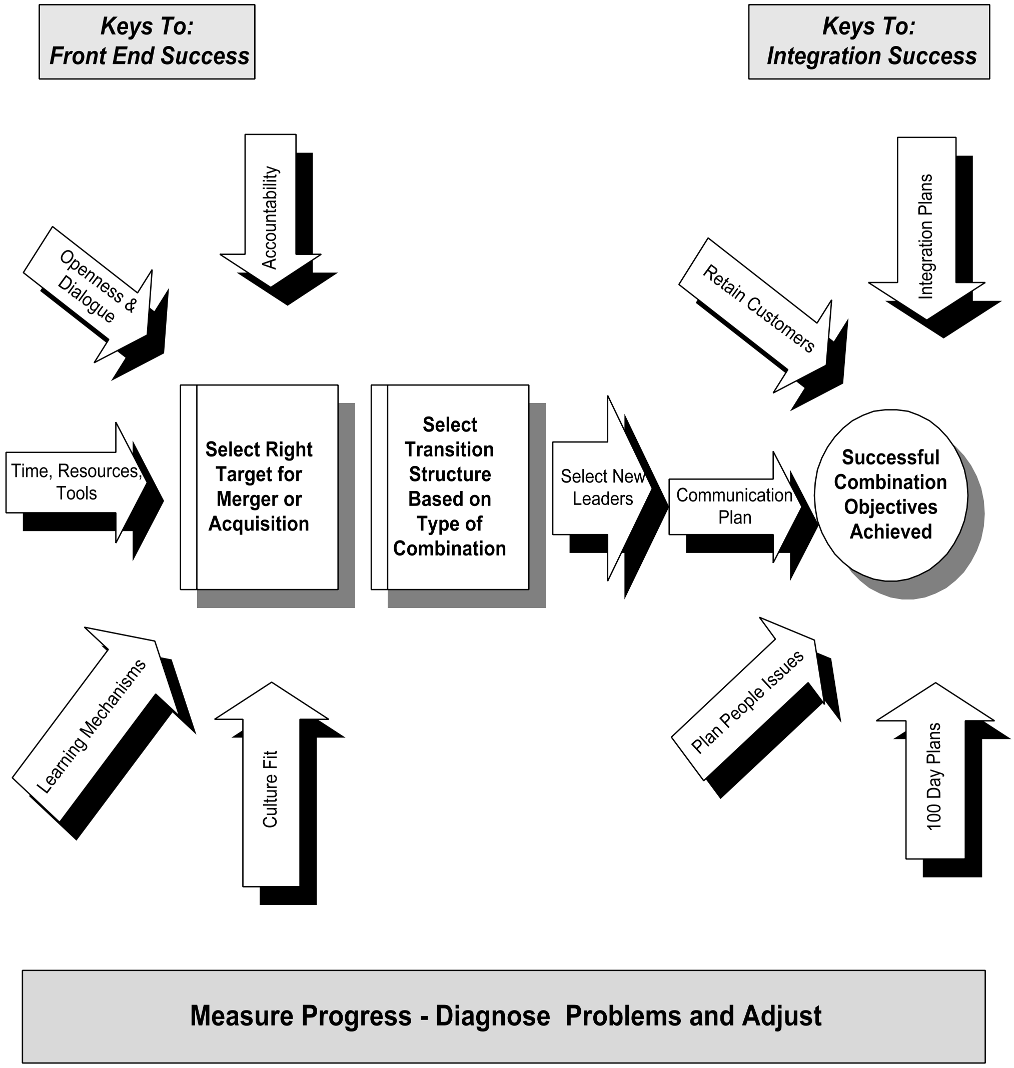


Figure 1 A systems approach to successful mergers & acquistions

improvements in companies such as GE Capital and Cisco using a systems approach.

— Problems involving a long delay between cause and effect are harder to fix. M&As invariably involve a long time between decisions and outcomes.

— Systems have natural boundaries: to improve the system, you must examine all aspects of the system regardless of artificial organisational boundaries. M&A activity cuts across a number of organisational boundaries, seldom do they all report to one person who owns the system.

— Reaction time in a system is a key to handling change; improving reaction time is a significant advantage to an organisation. This will become more obvious when communication processes are discussed.

— People learn best from experience, but are often prevented from experiencing the consequences of many of their most important decisions. This point clearly talks to the issues of measurement and accountability described above.

A model describing a systems approach to successful M&As appears in Figure 1. Issues associated with the different parts of this model are discussed in the rest of the paper. All models are simplifications of reality in the hopes of focusing those using it on the key variables. More research is needed to support this model, but it is included as useful, and a mechanism to engender discussion.

THE SYSTEMS APPROACH TO M&A

Key differentiators

There are four key differentiators that will impact the system we are about to talk about.

First, leadership is critical to success. This is no surprise, it is the number one factor that contributes to successful change. Any merger or acquisition of significance involves a lot of change. While GE Capital puts a lot of emphasis on the integration leader, in mergers or acquisitions that are much larger, whether they be BP & AMACO or Chrysler and Daimler Benz, experience shows that effective leadership is needed at many levels for the organisation to integrate effectively. This is consistent with some of the best thinking on leadership, and supported in research by Heskett and Kotter (1992). Heskett and Kotter wrote one of the best books on the relationship of corporate culture and performance, showing the relationship with hard data over a period of years. Kotter's *Leading Change* (1996) is one of the standards about leadership and change. In both books, they strongly argue that, for change to occur, there must be leadership at many levels in the organisation for the change effectively to take root and endure beyond the tenure of the top leaders.

The second differentiator is the importance of culture compatibility to the success of the acquisition or merger. It is well documented that culture problems are a significant reason for failure in M&A. In some situations, where a larger company is acquiring a small company, and the larger company has an adaptive and positive culture, it might be less important (GE Capital). In any acquisition of size involving two established large companies with deep-seated cultures rooted in years of success, or in any acquisition where retention of critical people is key to success, however, cultural fit is critical. Companies vary significantly on variables that the one or both of the companies feel are critical to business success; variables such as risk taking, speed of decision making, empowerment, results orientation, centralisation of control are the combinations most vulnerable to problems derived from culture fit. An excellent example of just such an acquisition is Hewlett-Packard's acquisition of Apollo Computer in mid-1989 documented by consultants Philip Mirvis and Mitchell Marks. It is a fascinating tale of a successful and respected corporation with a respected culture trying to bond with a maverick, with little to no success. It started with the number three company in market share for work stations buying the number one company Apollo, and ended with number two Sun Microsystems running right by the combined organisation. The story includes such fascinating titbits as the CEO of Apollo riding his Harley right into the second-storey conference room for a significant meeting with HP, emphasising the difference between us and them (Mirvis and Marks, 1992).

The third differentiator is the degree

Table 1 Integration options

	High	Combine quickly		Combine carefully
Importance to strategy savings synergy			Coordinate	
			Combine slowly	
	Low	Combine as needed		Separate
		Easy		Hard
			Ease of integration	

of integration needed to achieve success. Both Cisco and GE Capital are examples where there is a relatively high degree of integration. The higher the degree of integration, the more difficult success becomes, and the more important a systems approach is needed for success. Marks and Mirvis (1998) have put together a table (Table 1) that provides wisdom on how one should think about the issues involved in integration. The larger and more complicated the combination, the more one should think through the issues this table raises. The table cries out for a phased and intelligent approach to integration, focusing on the sequence of integration. In combinations of size, it is not uncommon for some integration efforts to be scheduled to occur two to three years or more after change and control. Pushing too quickly for integration, particularly on issues either very difficult to do or not that important to business results can have negative consequences. First, the amount of energy and stress key executives are under during a combination is enormous, therefore, ineffective sequencing can have significant negative impact on the motivation of leaders in the middle, key to integration success. Ineffective sequencing can also exacerbate culture conflicts.

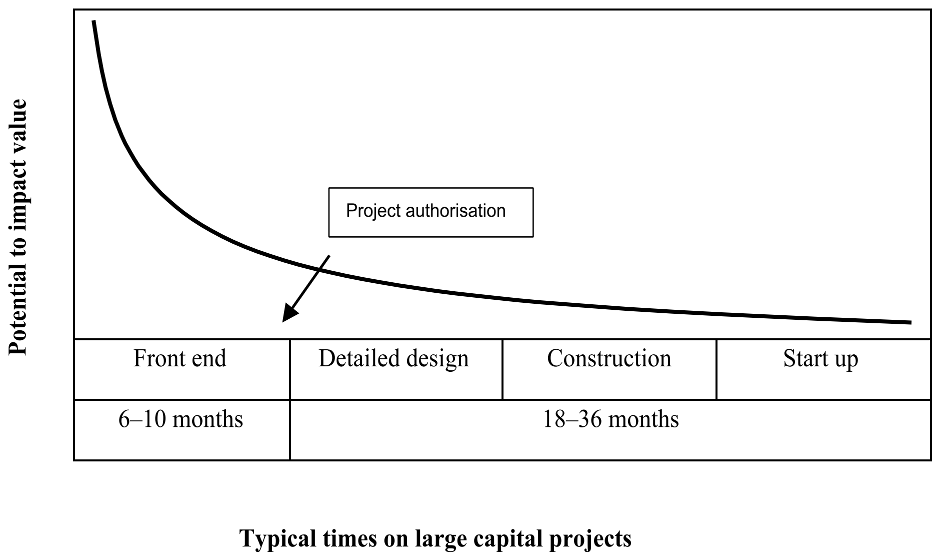
The last differentiator is size. The most obvious impact of size is that it makes integration much more complicated, and requires a different structure to succeed from just an integration leader and the integration team. Also combinations of size frequently mean that the organisation is focused on one combination for a few years, as opposed to Cisco or GE Capital, where there are many acquisitions going on at one time. This makes it harder to develop a systems approach to the combination. While a Cisco or GE Capital can and have refined their systems for years, two organisations engaged in a huge merger will struggle to put in place a systems approach. And they must get it pretty much right on the first try, there are no cycles to learn from. Hopefully, this paper will be helpful to those who must get it right the first time.

The front end

The front end of Figure 1 should result in selecting the right target. The front end is critical to success in M&A. The front end of almost any process is critical

Figure 2 Impact of front end quality on capital cost

Figure 3 Relationship of time and ability to impact value on a capital project



to success. Figure 2 shows strong evidence of this in research done on capital projects. Research is needed to show with hard evidence the correlation between doing the front end right in M&As, and the ultimate success of the combination. Another key concept from research on capital projects that applies to M&A is the diminishing degree of control that occurs in impacting ultimate outcomes as a factor of time. Figure 3 depicts this for capital projects. Experience indicates that this is also true for M&A, but research is needed to pinpoint how this curve plays out. How might this work? In the capital project process, much energy has gone into discovering what value-added best practices have meaningful impact in improving the front end. In M&A, these are yet to be defined; one talks very broadly about due diligence. There are a number of things that need to be done in due diligence, but which are value-adding practices that help significantly to improve the success of the combination? Current research is mute on this point.

Ed Liddy, CEO of Allstate would seem to agree with the importance of the front end. He said in *Harvard Business Review* (2000), 'I think integration needs to start when you are planning the acquisition.' Allstate integration teams work hand and glove with the strategic planning organisation to think through the acquisition from the start.

Elements of the front end in M&A

Accountability

Leaders who either have a significant impact on the selection of target companies or are key to the success of the integration need be held accountable. They need to have a significant amount of their bonus tied to measurable success, the easiest of which to measure is the value of the company's stock, hence stock options are a great way to get people to feel accountable. Cisco is very wary of acquiring a company where the key people in the acquisition have golden parachutes. They flatly refuse to do deals where the target company has accelerated vesting for employees. If that happens, the minute you buy the company everyone is rich. Cisco wants some golden handcuffs. They want people to have to work to bring their products to market, build the company to earn their pot of gold, in the mean time building shareholder wealth for Cisco (Plotkin, 2001).

Anslinger and Copeland (1996) discuss accountability. They recommend offering big incentives to top-level executives. Companies they researched wanted executives to have considerable skin in the game, that is, have a considerably portion of their net worth on the line, so they would be willing to do the hard work necessary after the acquisition to get the pay out. This is referred to as pain equity; companies using this approach do not want executives in key roles to feel they can fail.

All of the above makes eminent sense. But accountability needs to be more than this. Those organisations influencing the decision to buy, investment bankers and the like must begin to have skin in the game too. This is a logical conclusion if one accepts the concepts behind the graphs in Figures 2 and 3. These people have a great deal to do with the front end, and the success of the outcomes. In big mergers where hundreds and even thousands of managers and professionals work at a burnout pace to capture synergies, incentives need to be tailored to both retain and motivate them to achieve the goals set. In essence, this happens in the high-tech industry because stock ownership is so broad.

Openness and dialogue

This item needs definition. What is meant by this term is the climate that exists among the stakeholder team deciding on both the strategic targets to acquire and whether a selected target is a good fit for the acquiring company. Table 2 stands as a hypothesis, needing further research to prove or disprove its assertions.

Time, resources and tools

This title speaks for itself, if these are not available, then the possibility for a good front-end analysis greatly diminishes. To speak more about these here goes beyond the scope of this paper.

Table 2 Climates existing within the stakeholder team: A hypothesis

Climate that leads to success	*Climate that leads to failure*
— Key decision makers are open to rationale and thoughtful discussion about the best opportunities.	— Key decision makers have preconceived notions of what are the best opportunities. These notions are scared cows.
— Key stakeholders, both to the decision to buy and to integration success, work the opportunity.	— Financial types dominate the analysis group, with limited perspective about integration.
— The incentives and long-term pay-offs for those involved in the analysis encourage a balanced perspective for all stakeholders.	— Self-interest on the part of key executives, investment bankers, etc. discourages full and open dialogue.
— Measurement systems and feedback loops exist so teams are able to learn from past decisions.	— Analysis and decision teams are isolated from impacts of their decisions.
— Leaders in the target organisation are treated as partners, trust is built, and good data are derived.	— Leaders in the target organisation are not treated well, poisoning the well, poor data are derived.

Learning mechanisms

If an organisation is going to take a systems approach to M&A, it has to invest in learning mechanisms that do the following:

— integrate the front end analysis with integration efforts
— capture lessons learned from past M&As
— make it easy for new teams involved in M&A to access the past learning of the corporation
— enable existing teams to talk to each other in real time about the issues they are encountering and best practices.

GE Capital has invested in a Web-Based Knowledge Management System entitled 'Acquisition Integration Tool'. It includes topics such as: (1) selecting the best integration manager; (2) deal economics; (3) integration roadmaps by functions such as manufacturing, sales and marketing, HR; and (4) culture and communications. Both GE and Cisco have staff groups that are clearly focused on helping the organisation do the four things above.

In addition, as alluded to above, benchmarking and learning groups cutting across companies and industries are needed if true best practices are going to be developed so that corporations can maximise stakeholder value in future M&A transactions.

CONCLUSION TO PART I

This two-part series on making M&As work has shown that the track record of making M&As successful is generally poor. Why that is the case has been explored, and the beginnings of a model of what leads to success have been laid out. Elements of the front-end success have been discussed — that is, what leads to selecting the right partner or target. More needs to be said about this in part II. It will pick up the discussion with an exploration of the importance of culture fit, and then continue on to explore the importance of leadership and conclude with a full discussion of key factors in integration success.

NOTES

1. See the educational website (www.change-management.net) for more information about Richard DiGeorgio, a summary of *Built to Last* and a copy of his comprehensive change model.
2. For those interested in GE's approach to leader development and who have access to the research done by the Corporate Leadership Council see their report, 'The Next Generation — Accelerating the Development of Rising Leaders' practice # 2'.
3. Those interested in the details of Work Out, a much cited GE process, should see Slater (1999).

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