

EVERYTHING YOU ALWAYS WANTED TO KNOW ABOUT M&A but were afraid to ask

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Avutann is a firm specialized in company and organization consulting during the M&A phase. At a time when everyone self-awards labels, it is important to point out that our specialization comes from our practice, from our past as business executives who have experienced M&As and from our experience as consultants, as well as our sensitivity to the subject. No healer, lifeguard or magician certificate, just a sensitivity, a practice, a reflection.

THE LONGEVITY OF M&As

The first concept to introduce for those interested in M&As is the mortality and longevity of such operations. For the corporate banker, mortality does not exceed three months (as soon as the case is out of his viewfinder and the check has been cashed); for the investor the mortality ultimately occurs at all times, as long as he remains a shareholder and involved financially.

For all others, this ends in the middle moments when, for them, the M&A loses its interest.

For example: the view that Renault's shareholder has taken on the takeover of Nissan has necessarily changed since the outset (especially recently) and will probably change again in the future. In other words, the concern for a successful M&A is constant as well for the investor as for the consultant who accompanies it. At three months, the success rate is 80%; at 3 years, it is rather 50% and at 5 years, 25%. And again, the sources are disparate and not always reliable, taking very different points of observation.

Accompanying companies as long as they are involved, our point of view is therefore also beyond 5 years; we seek to provide advice allowing the business to be as sustainable as possible. *It does not matter if you die young or old, whenever it happens, it is always the wrong time.*

Now, the further we get from the deal, the more we insert the human factor into the equation; the more present it is, the more space we leave for the unexpected and the less rational.

ALPHA AND BETA ELEMENTS

In our discipline (the psychosociology inspired by the Tavistock Institute), some elements can be directly grasped by the subject and resolved: all the rational elements of thought, called “alpha-elements”. In general, during an M&A, this is the only thing we take care of.

But there are also “beta elements” that are not apprehensible through reason, that remain in the emotional and interpersonal sphere and **that continue to work and create negative feelings, as long as they are not rationally elaborated.** This is a part of our work.

In this text, for an immediate understanding, the beta-elements will systematically be *in italics*.

We rely on lawyers, investment bankers, shareholders and investors to understand the technical aspects of an M&A. Of course we know that we cannot trust them when it comes to taking the human factor into account: it is not part of their know-how and sometimes even their repression in the matter is immense, although the source of the problem inevitably comes from there.

You do not tell a father who has married his daughter to the best suitor of the country - and on top of that negotiated a fine dowry- that the marriage may break up, otherwise you will not be invited to the banquet. You do not tell two lovers that one day they could divorce, because you will be excluded from the wedding. You do not tell a mother who has just given birth that her child may end up under a bridge, because you will not be invited to the baptism. However, we let the buyers of an M&A know all this and punctually we are not invited to the mission; but often we are told “you were right» afterwards. We are neither omnipotent, nor omniscient, nor even proselytes: we wish to awaken the spirits of some to avoid being called too late, which will be quite enough.

THE BUYER'S NOTEBOOK. THE THINGS TO REMEMBER

We have identified 4 phases. We hereby approach them as they occur in normal times. At each phase, we have identified a necessary intervention axis; of course, when our intervention takes place on the four phases, the chances of success increase.

1- The preparation phase is not only a legal and financial phase, it is the best time to prepare for the acquired company's takeover: preparing the strategies to be put in place, defining the objectives of the merger, identifying the talents that will be the recovery's spearheads -preferably a team- and when the time comes *motivating, preparing and accompanying them.*

They will have to learn *to listen, understand, diagnose and go out of usual reflexes acquired in the group that sends them.* **Containing the omnipotence feeling of the buyer and its managers' team is fundamental.**

To quote Sun-Tzu¹, we need generals, not courtiers.

Then planning, following *and not dramatizing* the post-acquisition diagnosis. **This is the first axis of intervention.**

1 Sun-Tzu identifies two typologies of opposite characters: courtiers, who have no independent thought and whose frame of reference is the one of the court -in our example the mentality of the “buyer” court; generals, endowed with independent thought and thus able to arbitrate beyond the good will of the Prince and the court.

2- The diagnosis and control phase: *reflecting like generals, not like courtiers; being vigilant, cautious and especially **avoiding the creation of resentments, through unnecessary manifestations of power.***

Our experience, our work and our practice of the latter have taught us that in the deepest part of an organization are the identity elements, created by all the people who compose it and by the context. Then, starting from this initial identity, the organization's life will create its culture; finally the identity and the culture will make it possible to identify its fundamental principles and its values.

A successful M&A means starting, as quickly as possible, **to create a common identity** -an identity of the whole- knowing how to keep the different elements' peculiarities. **This is the second axis of intervention.**

3- The waiting phase. After the first two phases, a stabilization and discovery phase begins. There are no rules, each group acts according to its culture and capacity; nevertheless, most often, the phases of waiting, studying and creating the first synergies (useful or fictitious) take between 18 and 48 months. Mainly 3 years. **After “the momentum of the early days”, the waiting phase is the cause of the internal climate's decay:** this is when we decline the elements of the common identity in the organization and accompany the managers; **it is the third axis of intervention.**

4- The integration phase. Three years is most often the time when the dominant group decides to tighten bolts (this is called “promoting integration”...).

During this period, on the buyer's side, we look at the acquired as a deviant, sectarian, costly, and undisciplined object. On the acquired side, the buyer is viewed as absent, unnecessarily rigid and procedural, incompetent to judge the acquired and not having brought the added value hoped for. There, negative feelings settle down. And kaboom...

Often this is the moment when the quality experts begin to present “the 12 values of the company”, whereas it is necessary to come back to basics: identity, culture, **a cold reflection to get out of the depression due to the perception of failure:** finding a new impetus and starting again **is the fourth line of intervention.**

In any case, what is quite often observed after three years is the exhaustion of the acquired; also very often the buyer's first emissary has officially succeeded and steps down. Strange distortion of reality: a mission that was almost always a rout preparing a disaster is considered a success. The successor(s) will have to *readjust the former leader's “wrongs”* and he(they) will have to deal with all the beta-elements, on both sides: *fatigue, lassitude, resentment, anger, depression -which is also seen in work stoppages, increased absenteeism in the intermediate ranks, departures, chronic diseases, serious illnesses, deaths (of which, we know, suicides).* Almost always, he(they) arrive(s) too late.

At that time -if we have not been called before- the M&A is in serious danger and we start talking about selling, disposing in fragments, restructuring, filing for bankruptcy, etc. And we call back the experts in charge of legal and financial aspects; and we come around for another run.