Key Success Factors in Mergers and Acquisitions

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Introduction

Companies seeking growth need to do so by generating the volume of its business. There are many ways for companies to achieve this growth. Companies may decide to grow incrementally by introducing not only new products but also gain entry into new markets by investing in research and development. However through this mode a long lead-time may be required before actual growth may be realized. In an era of increasing globalisation and competitiveness, companies may have to take giant leaps forward through M&As to increase its presence in the marketplace in the quickest way.

Data abound of successes and failures of mergers and acquisitions especially those M&As which transcends borders and cultures. Various studies have also been conducted on the causes of these failures.

This article is intended to provide companies who wish to undertake a M&A exercise with some tips on the common key success factors in such exercises which have been drawn from the experience of the lawyers in Azmi & Associates and also from various materials. This article comes at such an opportune time when we are witnessing one of the biggest merger exercises in Malaysia’s corporate history with the merger of Sime Darby Bhd., Golden Hope Plantations Bhd. and Kumpulan Guthrie Bhd. and their respective subsidiaries to create the biggest listed palm oil producer in the world in terms of output and market value. We are proud that our Senior Partner, Encik Azmi Mohd. Ali has been appointed as a member of the Merger Integration Committee formed by Synergy Drive Sdn. Bhd., the merger vehicle which will acquire the business assets of the respective target companies.

The Success Factors

1. Strategic Planning

It goes without saying that the first step is to develop a cogent business strategy to engage in a merger or acquisition of another entity with a clear value-creating plan aligned to the company’s business objectives as opposed to launching a merger or business takeover when an opportunity arises without having a clear strategy. There must be a purpose behind the business strategy with clear and achievable deliverables. M&A exercises that are undertaken merely to fulfill management’s self-serving desire to build an empire or on herd instincts are doomed to fail. Even if a M&A strategy exists, the underlying business objectives and the interests of the shareholders must prevail. It is also imperative that having laid down the business strategy the key criteria for the selection of the target be determined. The selection of a suitable target is a critical issue when we consider the integration process.
2. Due Diligence

Having identified a target, intending acquirers should conduct a thorough due diligence exercise of the target covering its financial statements, strategies, business plans, resources and operations of the entity to ensure the compatibility of the target company and an assessment of any risks associated with the deal. It is suggested that intended acquirers should also assess the business connections of the principals and any political risks in making the acquisition especially in cross-border acquisitions in less developed economies.

While the traditional focus of the due diligence exercise will be the financial dimensions of the merger, the human capital should not be neglected. Human sentiments and the “me” issues are invariably the most difficult issues that need to be dealt with in the integration phase if they are not sufficiently addressed. Thus it is important that the due diligence exercise should also cover target company culture, leadership models, organisation structure, compensation plans, performance management systems and career development approaches for the proper strategic planning to be made to deal with these issues and to assess the real integration costs.

3. Integration Planning

Having done the deal the integration process needs to run smoothly for the merger to take place and to reap the benefits from the synergy. Thus prior planning should be made even before the completion of the merger with clear timelines and milestones to ensure the successful implementation of the deal. This should take place at the senior management level with the representatives from both entities sitting together to thrash out the strategic issues which may include:

- Finalizing a common strategy for the new organization.
- Consolidating duplicative services, such as human resources, finance, legal, etc.
- Consolidating compensation plans, corporate policies, and other operating procedures.
- Deciding on what level of integration should take place.
- Deciding on who will govern the new organization, what authority people will have, etc.
- Preventing the flight of key personnel;
- Retention of customers and to ensure there is no disruption in services;
- Adopting the best practices from the merged entities and developing or adopting a common work culture for the resultant entity.

4. Implementing the Merger

This phase would involve the implementation of the plan developed in the previous phase. Decisions have to be made fast to speed the integration process and for the momentum to be maintained to prevent any distraction within the workforce in implementing the integration. A special “project management” team would need to be formed to monitor the progress of the implementation plan with sufficient authority to make decisions to address arising problems. Task forces may need to be formed in key functional areas to speed communication and for any problems to be addressed immediately.

Without doubt one of the areas which deserve special mention in M&A exercises is dealing with the “people” issues and aligning the employees and the leadership with the new culture. A communication strategy needs to be developed to address the rumors and questions that arise within the post-merger integration. The proper message needs to be communicated to those who will be most affected by the exercise which includes the shareholders, the staff, customers and competitors. Resistance needs to be lowered and detractors persuaded to buy-in to the merger and this may only be achieved with open, consistent and constant communication. The best mode of communication is to adopt a face-to-face strategy with feedback encouraged.
5. Evaluation of the Merger

The final phase requires reviewing the performance of the new entity to ensure that a successful integration has been completed and that the objectives of the merger or acquisition have been achieved. The performance of the new entity is assessed against the original objectives determined in Strategic Planning Stage.

Thus the success of the merger may be assessed according to the following targets:

- Growth in market share;
- Enhanced brand strength/reputation;
- Reduced operating/overhead costs;
- Entry into new industry or product expansion;
- Entry into new market or gain in market share;
- Access to new technologies or know-how;
- Access to manufacturing capacity/know-how.

But even before the success of these objectives are measured the day to day operations will need to be monitored for sudden changes in customer complaints, return merchandise, cancelled orders, production stoppages, etc. If these are not addressed beforehand the problem may become exacerbated.

Conclusion

From the above we can surmise that the key to a successful M&A exercise is to have a clear business objective and measurable targets when making a strategic plan to merge or acquire another entity. It is also important that the plan be accompanied by a clear and open communication strategy to address the fears of the stakeholders who would be most directly affected by the exercise namely the shareholders, workforce and customers. The plan must be executed with speed to ensure that the momentum is maintained and that the business and operations of the new entity is not disrupted and attention not distracted by rumours and uncertainties.