Delivering on the Promise of M&A

- The deal announcement is just the start; finishing strong requires cultural assimilation, communication, and talent retention.
- The most valuable assets go home every night, so the deal must resonate more with employees than with external constituencies.
- Put the best people – not just the available people – in charge of M&A integration, and empower them to effect necessary changes.
- Always retain the “best athlete” in cases of duplication; target employees will quickly flee legacy company favoritism to join competitors.
- Back office integration is necessary, but far from sufficient, in determining the ultimate success of an M&A transaction.
- Notching early scores – opportunities neither company could pursue on their own – sets the tone for long-term M&A success.

Win the Cup, Not the Trophy

Much like our beloved Capitals – serial winners of the President’s Trophy (for the National Hockey League team with the best regular season record) – who are chasing their first Stanley Cup championship, most federal M&A transactions look good out of the gate, but fail to live up to expectations over time. Despite excellent strategic rationale, compelling financial potential, and even some positive headlines or industry awards, far more federal M&A transactions falter than dealmakers like to admit. Surprisingly, the leading causes are not small business transition, recompete losses, or due diligence oversights. As the graphic to the right illustrates, the largest drivers of post-closing value leakage in federal services transactions are talent loss and cultural challenges. These pitfalls are often avoidable with better upfront planning and integration approaches.

Throw Out the Stat Sheet

On paper, the Capitals, comprised of savvy veterans and captained by a perennial MVP, should have swept the young, 8-seed Toronto Maple Leafs. Unfortunately, neither hockey games nor M&A transactions are won on paper. Many transactions are doomed the night they are announced, principally because the initial focus is almost entirely on the paper “we” values in the press release and not the actual game that transpires at the kitchen table over “me” values. The majority of employees do not necessarily care about GAAP or cash accretion and cannot spend “synergies” on groceries or college tuition. Candid communication early and often, coupled with leadership walking the talk, helps bridge cultural gaps and lessen uncertainty, while an emphasis on transaction rationale over employee concerns will erode value faster than the Caps can blow a two-goal lead.

Put Your Best Players on the Ice

Monday night, the Capitals suffered an embarrassing Game 3 loss in Toronto. Their star player, Alexander Ovechkin, watched most of it from the bench, logging only 15 minutes on the ice while the third and fourth lines tried (unsuccessfully) to contain the Leafs. Sadly, the same is true of most federal M&A deals, where the real stars in the company leave integration to a supporting cast of G&A staff and whoever happens to be on indirect at the time. Successful acquirers put their best players in charge of these critical activities. They also empower an integration lead to make decisions and maintain precious momentum. Similarly, when choosing between duplicative candidates for a job post-closing, they always choose the best athlete. Showing favoritism toward legacy acquirer staff will send the best talent fleeing to competitors’ teams.

Don’t Forget to Score

Many acquirers forget that the goal of integration – and the rationale for doing a deal in the first place – is growth. As a result, they view the primary integration functions as a mechanical knitting of organizational charts, HR systems, IT, and financial reporting. They champion these over the critical role of accelerating revenue growth via new “3rd pipeline” wins – those opportunities that neither company could have pursued independently before the deal. Unfortunately, most outside consultants exacerbate this problem by touting generic, archetypal integration process adherence over practitioner-led growth orientation. This is the functional equivalent of hoping you can win a hockey game by showing up in sharpened skates and clean jerseys – necessary, but well short of sufficient. As the Capitals have shown this series, if you stop playing offense, you will lose, in hockey as well as in M&A.