



**Cass Business School**  
CITY UNIVERSITY LONDON

# Deal closure is the starting point not the end point

M&A Research Centre – MARC

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## **MARC – Mergers & Acquisitions Research Centre**

MARC is the Mergers and Acquisitions Research Centre at Cass Business School, City University London – the first research centre at a major business school to pursue focussed leading-edge research into the global mergers and acquisitions industry.

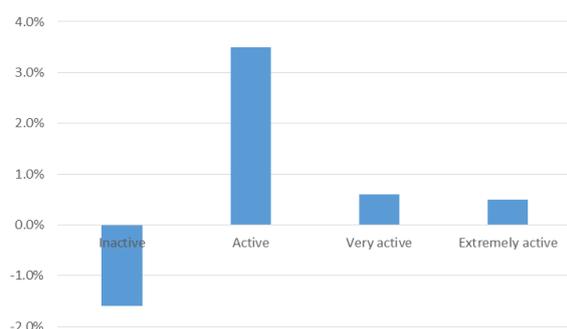
MARC blends the expertise of M&A accountants, bankers, lawyers, consultants and other key market participants with the academic excellence of Cass to provide fresh insights into the world of deal-making.

Corporations, regulators, professional services firms, exchanges and universities use MARC for swift access to research and practical ideas. From deal origination to closing, from financing to integration, from the hottest emerging markets to the board rooms of the biggest corporations, MARC researches the wide spectrum of mergers, acquisitions and corporate restructurings.

# Overview

Mergers and Acquisitions (M&A) as a growth strategy has been intensely debated, but recent studies suggest that companies that are 'inactive' in terms of M&A are underperforming their more active peers, meaning executives need to consider these opportunities.

Figure 1: Relative share price performance by activity level<sup>1</sup>.



As executives turn to M&A to deliver the expected growth, companies need to develop their own repeatable methodologies for dealing with the different phases of a transaction to reduce business risk and costs and maintain consistency with how M&A projects are executed. In addition a company well regarded in M&A execution will be rewarded by the market with a greater capacity to finance further M&A.

This report by Mergers and Acquisitions Research Centre (MARC) at Cass Business School with the collaboration of Willis Towers Watson seeks to uncover how a group of serial acquirers has overcome challenges posed by multiple acquisitions and what challenges they still face.

## Key findings:

**Conduct critical formal post-deal reviews.** The primary recommendation is that serial acquirers should take more advantage of the learning potential that multiple acquisitions

bring. This is the positive side to serial acquisitions that can more than offset the negatives of seemingly constant change. When the lessons learnt are collected, serial acquirers need to use these to build or update existing M&A frameworks and toolkits on a regular basis, and these documents need to be revisited before every transaction. A virtuous circle is then created.

**Apply the same rigour post completion as in target identification and due diligence.** Understandably deal completion itself leads to an almost tangible feeling of relief. The key metrics of the deal identified in the due diligence need to be built into integration plans so that the serial acquirers do not lose sight of their investment objectives once the deal is done. Ideally the integration team should be the deal team so that they take responsibility for what was promised.

**Involve HR early and often.** While sometimes viewed as 'soft' HR issues will have 'hard' costs that need to be included in the determination of deal value creation. Once the deal has completed, uncertainty is the biggest problem for the members of the merging organisations and if you can't communicate outcomes you need to be able to utilise HR at least to communicate timelines and process.

**Specialise and standardise.** Serial acquirers, in general, have small-dedicated M&A teams who apply rigorous and standardised approaches to discover and value M&A targets. Academic literature suggests that it is generally the bolt-on deals rather than the mega-mergers that create value. If you are going to do such multiple deals then without a dedicated M&A team the strain placed on the rest of the business will be too great. And standardised approaches save time and make it easier to benchmark deals.

<sup>1</sup> Cass Business School: Working paper Corporate Actions –A Holistic (CEO) Perspective. Active: 1/2 deals in 3 yr period. Very active: 3-5

# The Findings

M&A capabilities are becoming an essential part of companies' strategic tool-kit to deliver growth and returns. At a time of abundant and cheap global liquidity (for quality companies), allied to limited organic growth opportunities, the competition for targets is high. In addition cheap funding is making almost all deals EPS accretive, making it more important than ever to utilise longer-term return based measures to determine value creation. This makes deep due diligence even more critical. All these factors require insights into processes and procedures enabling firms to face the challenges of multiple acquisitions.

We can divide our findings, and the M&A process itself, into four parts, as shown Figure 2.

Figure 2: Observation and process summary

	Observed process rigour	Observed HR involvement
Target identification	✓✓	✓
Due diligence	✓✓✓	✓✓
Post-merger integration	✓✓	✓✓✓
Knowledge management and post-deal review	✓	✓

## Target identification

The results from interviews with serial acquirers show that they have developed a standardised approach to target identification. This makes sense for a serial acquirer as they will often have multiple opportunities to benchmark deals. The deal teams have strong investments theses with specific investment criteria and they are proactively screening the market for potential targets by using multiple origination channels. It is important to stick to any investment criteria that may have been communicated to the market. A deal done outside of those criteria may lack market support and damage the credibility of management for future deals, deals on which a

serial acquirer will be basing its long term plan. Usually the M&A teams within serial acquirers consist of a small team with finance and legal backgrounds who know their company's business and products or services well, as well as having a clear understanding of how the pipeline of potential targets look. The serial acquirers have implemented playbooks and tick-lists to ensure consistency of approach, speed of decision-making, reduction of risk and improved strategic fit. An interviewee described that they had a clear idea of the potential targets based on having:

*"...a pipeline where we identify targets broadly through the size of the company, we look at the services they offer and the margins between the different products and we look at our strategy as a business and we weigh them up and rank them"*

## Due diligence

The majority of the interviewed participants had structured financial due diligence processes, with standardised playbooks and frameworks. As discovered in the medical profession, standardisation and checklists efficiently limit the chance of significant mistakes. Typically, the deal teams would pull in internal and external resources, as required throughout the process, in a collaborative fashion from the different business functions. However, several interviewees felt that the due diligence phase could be improved, particularly from an HR perspective.

Serial acquirers in this study involve their HR department early in the due diligence process, but some companies still underplay the importance of human issues in the deal process. For HR, the most important aspect of due diligence is to make sure that all costs related to the acquisition from an HR perspective are incorporated into the valuation. These are 'hard' costs that although often 'one-off' in nature can make a real difference in the financing and value creation of the acquisition.

*“At that point [early due diligence], it is really about any costs that we think are going to impact the valuation.”*

The other issue for HR to address at this due diligence stage is the challenge of quantifying the impact of traditionally ‘non-quantifiable’ items such as culture. This meant that the cultural issues in many cases were either overlooked or left as a question mark until the deal closed. HR needs to be involved in the early due diligence and need tools to assess culture effectively. Companies that did involve HR early and thoroughly assessed culture uncovered potential integration issues early, identified the ideal culture of the combined organisation and pulled the right levers to reach that desired culture when the deal finally closed. The importance of these issues has never been greater as value creation moves from industry to services. Intellectual and human capital is often now the key reason for M&A.

*“I think what HR needs to press home to the business are the complexities of doing acquisitions from a people perspective and I don't think that everyone necessarily gets that; if you don't do it right it can cost a lot of money.”*

*“Actually, if you [the HR department] do a good due-diligence upfront, a detailed due-diligence, the integration is actually not so difficult.”*

*“Culture, interestingly enough, for all that it is, is one of the things that long term determines the success or otherwise of big deals, [and] can be quite difficult to break down into KPI's; it is a lot easier to write down synergy targets and value capture metrics.”*

At the other end of the spectrum from HR due diligence, M&A in certain industries involves the assumption of post deal risks, for which the company may have very specific requirements. This was the case for a financial services firm which would only take on firms which had:

- A qualified advisor base
- Back office systems that could be easily integrated
- A clean compliance record
- No structured products

## *Post-merger integration*

In general, there is a sharp contrast between the approach that the serial acquirers interviewed had applied to target identification and financial due diligence as opposed to post-deal integration. The target identification and financial due diligence, as discussed, was in many cases highly standardised, mainly driven and conducted by dedicated teams, using playbooks and toolkits to assist the selection and due diligence processes. However, for the integration phase this kind of standardised approach is far from universal. The key challenges with cultural integration and retention of key employees were in many cases explained by the lack of standardisation of integration processes and by the lack of a dedicated integration structure.

*“I think we are more standardised in our due diligence now, and breathe a sigh of relief when the deal is done, but actually that is when the hard work starts.”*

Within a serial acquirer the almost constant change within the organisation is itself an issue and employees can feel like they have two jobs, the ‘organic’ day job and the integration job.

*“Sometimes I feel people get acquisition fatigue”*

*“Since we do a number of acquisitions I feel we should have a specialist integration team.”*

The transition from pre-closure to post-closure can also be eased if those responsible for initiating the deal are also responsible for the delivery of the post-deal business. Otherwise there is little accountability and unrealistic goals may be set to justify an otherwise value-destructive deal.

*“We essentially want the deal team to be the integration team.”*

Measuring the success of a deal is difficult. The achievement of synergy targets is unverifiable from the outside and are almost always upgraded as it becomes impossible to identify which gains are due to integration and which are due to industry development. However, on

the inside, the metrics can be harder to deliver...and measure.

*"I think that [making sure metrics were delivered] is what we are rubbish at and we have had some issues where we have lost people probably because we didn't do our due diligence properly in cultural fit and actually I think that is an area we need to get better at, measuring our success."*

Several participants explained that their HR department currently had a very 'well-oiled machinery' for system integration. The organisations had implemented HR acquisition playbooks, trained key HR people and given them the expertise they needed, and they had become very experienced at handling the administrative part of integration.

But they also highlighted a need to improve the integration of people, here explained by one participant:

*"We are really good at the integration of terms and conditions; we can do that beautifully, but getting people's hearts and minds and getting people's employee engagement right, getting the right people in the right roles, getting the correct organisational design, we have been very very poor at."*

In this respect, communication is key.

*"The Golden Rule is that if you can't give people outcomes, which is what they want, then frequent communication of process and timeline is absolutely critical."*

The companies who were structured in their deal audit incorporated both qualitative and quantitative measures, monitored progress and held integration teams and business units accountable for those metrics. These companies also made sure that deal performance was monitored not only in the short-term but also over a longer time-horizon depending on the size of the acquisition. However the KPIs to capture the drivers of long term success can be hard even to set.

*"Culture, interestingly enough, for all that it is, is one of the things that long term determines the success or otherwise of big deals, [and] can*

*be quite difficult to break down into KPI's; it is a lot easier to write down synergy targets and value capture metrics. But we are doing our global survey that we do once every two years, so we get some sense of it."*

### *Knowledge management and post-deal review*

In general, serial acquirers do not take full advantage of the unique opportunity they have to develop organisational knowledge and M&A capabilities that can be hard to replicate and costly to develop for competitors. This is a potential competitive advantage for a serial acquirer over companies that rarely carry out such transactions.

*"I don't think we are very good at going back several years and look at whether the finances of it work; we never go back and say "Was that valuation right? And did we get the numbers right?"*

For serial acquirers to capture the lessons learned from a deal they need to conduct formal auditing which investigates the learning on functional, business and organisational levels. These lessons need to be codified and implemented into playbooks and workbooks. This can prevent that knowledge being completely lost because of key personnel turnover. The best serial acquirers ensure knowledge sharing through training across the organisation, further mitigating the risk of losing key M&A knowledge.

However, only half of the serial acquirers had thorough after-action review measures in place. Most companies had after action reviews on a functional level, but only half had such reviews involving the whole deal team or at the board level. In many cases, the lessons learned were not documented or transferred to other members of the organisation, making the company reliant on keeping consistency in the people involved in deals, and vulnerable to losing valuable M&A knowledge as people involved in transactions transfer to new positions or leave the organisation.

*“Is there always a review? I think that’s part of the plan, but the one I did recently that fell through, there was no review of.”*

The organisations that had thorough knowledge management practices would have after-action reviews at every level involved in the M&A process. In some cases, the review would be performed by the different functions that would make sure to update M&A frameworks, tick-lists and playbooks to ensure the learning was well documented. These documents would then be frequently revisited as soon as new deals came up to be certain that the learning from previous deals was incorporated into the new process.

One interviewee described their deal review processes:

*“We did conduct after-action review, and we did that both at the individual integration team level, at the business unit level and at a global level; so we got an awful a lot of capture of what we think we did really well and could be done again and what could be improved next time.”*

Equally it is worth considering reviewing those deals that weren’t done. Looking at the subsequent performance of those targets, whether they remained independent or were acquired by others, can offer insight into flaws, or strengths of the target selection and due diligence processes.

## *General recommendations*

Figure 3 identifies some practical recommendations for companies looking to be involved in multiple acquisitions. The recommendations are based on a review of the relevant academic literature on the topic and the processes and procedures serial acquirers in this study have put in place to overcome some of some of the challenges they have faced with acquisition activities.

Figure 3: General Recommendations to Acquirers

Recommendations	
<b>Target identification</b>	<ol style="list-style-type: none"> <li>1. Develop a strong investment thesis with specific investment criteria to ensure strategic fit and to ease deal screening</li> <li>2. Be strategic and opportunistic in deal selection while still meeting any investment criteria communicated to the market</li> <li>3. Use multiple channels of origination</li> <li>4. Apply standardised toolkits and use a dedicated M&amp;A team with prior M&amp;A experience for deal screening who understand the acquiring company's business and products/services</li> </ol>
<b>Due diligence</b>	<ol style="list-style-type: none"> <li>5. Ensure that the objective of the acquisition is well understood by everyone involved in the due diligence</li> <li>6. Involve HR early in the due diligence process and make sure all HR related issues are incorporated into the evaluation (both financial and non-financial costs)</li> <li>7. Carry out a thorough cultural due diligence to properly understand the cultural differences and to identify the ideal future culture</li> </ol>
<b>Integration planning</b>	<ol style="list-style-type: none"> <li>8. Start integration planning early and make sure to incorporate deal metrics into the integration plan, both financial and non-financial, so that progress can be measured against them</li> <li>9. Develop comprehensive integration plans detailing the level of integration needed within each business unit</li> <li>10. Do not underestimate the human integration challenges on productivity and key employee turnover</li> </ol>
<b>Communication</b>	<ol style="list-style-type: none"> <li>11. Communicate frequently and at regular intervals to reduce uncertainty around announcements</li> </ol>
<b>Post-merger integration</b>	<ol style="list-style-type: none"> <li>12. Develop high-level integration playbooks as guidelines for the post-merger integration process</li> <li>13. Ensure that there are touch points between the due diligence team and the integration team to avoid information loss in handover</li> <li>14. Establish a formal audit plan with continuous monitoring of deal development, progress and performance and make sure people are held accountable for the KPI's</li> </ol>
<b>Knowledge management</b>	<ol style="list-style-type: none"> <li>15. Identify lessons learned from previous acquisitions and codify the lessons in M&amp;A playbooks and toolkits to ensure organisational learning</li> <li>16. Conduct a thorough review of all acquisitions and make sure all parties that participated in the acquisition are involved in the review at some level</li> </ol>

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## Notes on Authors

**Dr Naagush Appadu**, Research Fellow at the M&A Research Centre. Both his research and teaching at Cass focus on M&A and related topics

**Mats Stenersen Kallum**, Seven years of experience from the Norwegian Armed Forces. He has recently completed an MBA programme at Cass Business School.

**Scott Moeller**, Director of MARC and Professor in the Practice of Finance. His research and teaching focuses on the full range of mergers and acquisitions activities.

### Data and Methodology:

The report breaks down the M&A process into four elements, discusses the key findings from each element, and concludes with a series of recommendations for companies involved in serial M&A. This paper is based on 10 in-depth semi-structured interviews with M&A and HR professionals from serial acquirers in seven different industries, across three different countries. These acquirers had each conducted more than three acquisitions from 2009 to 2015. The participants came under one of two categories i) involved in M&A activity as part of an M&A deal team, as Head of M&A, Head of Corporate/Business Development, CFO, or in a Business Strategist position or ii) working in a leading Human Resources function with particular responsibility for M&A activity. The interviews were constructed to last from 30 to 50 minutes and conducted either face-to-face or via the telephone. Face-to-face interviews were the preferred approach and were conducted at the participants' offices.

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#### **Cass Business School**

In 2002, City University's Business School was renamed Sir John Cass Business School following a generous donation towards the development of its new building in Bunhill Row. The School's name is usually abbreviated to Cass Business School.

#### **Sir John Cass's Foundation**

Sir John Cass's Foundation has supported education in London since the 18th century and takes its name from its founder, Sir John Cass, who established a school in Aldgate in 1710. Born in the City of London in 1661, Sir John served as an MP for the City and was knighted in 1713.

