



Marriages and Mergers – For Love or Money?

There are many benefits to gain from mergers and acquisitions (M&A) featuring in a firm's growth strategy. Opportunities often include access to new markets, greater capability to meet client needs, enhanced leverage through economies of scale, a broader demographic footprint, improved market perceptions of the brand, or an expanded suite of services. However, when it is all said and done the key driver for M&As is usually centred on delivering financial gains to the shareholders.

The grandiose plan to acquire a rival firm has been known to turn well respected and savvy business executives into hopeless romantics akin to a teenager under Cupid's spell. Given this phenomenon, maybe it holds true that similar lessons apply to achieving a successful merger or acquisition as those that apply to courtship and marriage.

Our scenario begins in our late teens or early twenties (*the firm is now a well established entity*), when we look for a soul mate whom we one day plan to marry and ideally produce offspring (*we source a target firm we plan to acquire in order to generate more wealth*). We sketch out in our mind a list of the characteristics that appeal to us (*an inventory of selection criteria is established*) before eventually finding someone whom we feel meets our romantic ideals (*an acquisition target emerges*). If both parties oblige, a courtship begins (*discussions of a potential merger leads to the commencement of due diligence*).

During the courtship we are invariably on our best behaviour as we seek to impress our new beau (*the financial statements are favourably presented and forecasts are acutely optimistic*). Further, as we are completely besotted with our new love (*we can only see pots of gold at the end of the rainbow*) we become incapable of recognising the very character traits that infuriate us (*we fail to acknowledge that both firms espouse contrasting values and organisational cultures*). However, in a state of euphoria we tend to forego our instincts (*our conservative appetite for unnecessary risk is ignored in favour of the lure of great wealth*). Before long we pop the question of marriage prior to celebrating our engagement with family and friends. This includes authenticating the union with a diamond ring and a formal engagement notice (*we enter into a pre-merger agreement and announce our intentions to staff, clients and the media*).

Even though fundamental problems have begun to emerge, with our pride at stake and an extreme level of optimism, we decide to press on and agree that everything will be fine once we are blissfully married (*we have a reputation within the industry to uphold and agree to address market perceptions now and work out the details of the consolidated firm once the M&A is completed*).

Sound familiar? What is uncanny is that the results of marriages and M&As lead to similar rates of success with published statistics indicating that approximately 50% of marriages in Australia end in divorce. M&As fair somewhat worse with almost 70% reported to fail at achieving the financial objectives that initiated the merger or acquisition in the first place. Interestingly, unlike in western societies, the divorce rate in India is a mere 1% where marriages are typically arranged. Such unions begin with careful planning by arguably wiser and less emotionally implicated parents who consider the social standings, class status, educational levels, financial compatibilities and religious beliefs of the couple in question. Indeed, if romance blossoms, this often occurs many months or even years after the wedding.

With this in mind we are not necessarily advocating arranged marriages. However, maybe the odds of a successful merger or acquisition can be significantly improved when romance gives way to commercially minded strategies that are executed in a structured and professionally managed style. Achieving such outcomes often requires trusted advice from a range of industry professionals, who have no emotional stake in the long-term success of the union, and therefore are far less susceptible to Cupid's spell.

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Robert Wagner,
Partner
Harriss Wagner
Management
Consultants