Rotten TOMs

For many businesses, embarking on a lengthy, messy and often toxic takeover or merger may not be the right way to move forward, says David Parmenter

The pursuit of growth through takeover or merger (TOM) has made a small, select group of executives, investment banks and consultants very wealthy while diminishing the wealth of a vast number of shareholders. Why do so many TOMs fail to deliver the perceived synergies and cost savings?

* **Synergies** First of all, the synergy calculations are flawed. KPMG's research, published in 1999, found that '83% of mergers were unsuccessful in producing any business benefit as regards shareholder value'. The simplistic view that savings can easily be made by removing duplication (finance, HR and IT etc) is flawed logic. It can take up to four years to merge the information technology platforms together, and even when this is achieved, many of the future efficiency and effectiveness IT initiatives have been put on the back burner.
* **Customer focus** There is no better way to lose sight of the goal than a merger. Merging the operations will distract management and staff from the basic task of making money. While meeting after meeting occurs and sales staff focus on their futures, customers are left vulnerable to your competitors' approaches.
* **Culture clash** Managing the aftermath of a TOM is like herding wild cats. Where have you seen cultures merged successfully? In reality, one culture tends to take over another. This is fine when one is fundamentally flawed. However, in many mergers, both entities have cultures that work. Now you have a problem. Many competent staff members may choose not to stay in a culture that does not suit their working style.
* **Heartless** How long does it take for a company to develop a heart? This is more than just the culture; it includes the living and pumping lifeblood of the organisation. In my opinion it takes years. The merged organisation can be kept on life support but, just like a critical patient, it is effectively bedridden and will be in intensive care for some time.
* **Survival of the unfittest** I have a theory that the main beneficiaries of a merger are the piranhas – those managers who like to stick the knife in. Some could say they are addicted to this behaviour. The result is quite interesting; the merged company very soon becomes dysfunctional as more and more of these caustic managers rise to the top. These managers do not live and breathe the organisation; the ones who did have long since left.
* **Salary costs** There are many financial time bombs that impact shareholder value. Severance packages can create further waste, as staff members – especially the talented staffers – leave before generous severance terms disappear. So to retain such people, further salary incentives need to be made that create further pressure on the bottom line.
* **Lack of time** A merger is like an auction where the buyer rarely has more than a cursory look at the goods before bidding. It is important not to limit due diligence in the haste to close the deal, as you tend to know less about each other than you think. The dirty laundry often takes years to discover and clean. ■

Next steps

1. Read KPMG's *Mergers and Acquisitions: Global Research Report 1999*
2. Email me (**parmenter@waymark.co.nz**) and I will send you a 'takeover or merger scorecard'
3. If pressured to undertake a TOM, investigate the investment bank's success rate and critique their dubious cost saving calculations; they may well be wrong.

David Parmenter is a writer and presenter on measuring, monitoring and managing performance

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