Mergers & Acquisitions – Optimising the board team transition

Description

A CEO once commented to me that one of the saddest days of his professional career happened when he attended the first board meeting of a large company that had just acquired his company. After many difficult months negotiating the deal, the CEO and one other industry non-exec board member joined the larger company board. Towards the end of the first board meeting post acquisition, the penny dropped on the CEO that although he was now a fully-fledged board member of this large company, he realized that he would never genuinely be welcomed into the board team, be properly empowered to contribute on an overall basis and that his effective board role would solely be on reporting and being responsible for the progress of the integration of his company. While he fully understood that his core executive responsibility was absolutely on ensuring a strong integration, he was genuinely excited about becoming part of the larger company board and making a strong contribution in his own right. A number of board meetings passed with a similar pattern and it eventually got to the stage where the CEO and his former non-exec board member stepped down from the board. This is not an un-common scenario and highlights an often-neglected area of how the board team transition should be handled when an acquisition involves a number of the acquired company's executives and non-exec board members joining the larger company board.

According to collated research and reports from Harvard Business Review & McKinsey, the failure rate for mergers and acquisitions (M&A) is in the region of 70%. There are many complex factors which influence both the rationale & deal parameters for an acquisition, how well the acquired company is integrated and ultimately the delivery of performance on achieving the objectives of the acquisition deal. In my experience of being on both sides of the M&A equation over the years, *the people equation of an acquisition, from the most senior executives and board members to the most junior employee, has a fundamental impact on the success or failure of an acquisition*. When you look in the various industry sectors of where a larger company has developed a highly successful track record of acquisitions, particularly in the case of a company acquiring a substantial business not too dissimilar in scale to itself, *I believe that in many cases there is a very smart progressive board that is very thoughtful in not only enabling the foundation for a strong integration and successful acquisition but also using the acquisition as a genuine opportunity to strengthen the board team.*

The following represent key best practices for an acquiring board which can significantly enhance the potential for a successful integration and ultimately a highly successful acquisition process ;

Preparation for a strong start – the acquisition of any business of scale represents a significant challenge for even the strongest of companies with excellent track records of acquiring companies. Depending on the nature of the acquisition, it takes significant focused effort by the enlarged leadership team to drive a successful integration, not overly impact the existing business and optimally handle the people dynamics of retaining key resources and associated rationalization. In preparing to finalise the acquisition deal, it is critical for the acquiring board to agree a comprehensive plan to ensure an outstanding integration and delivery of the acquisition deal objectives that will be monitored very effectively at board level.

Embracing the opportunity to strengthen the board team – in looking at any potential deal, a key aspect for the acquiring board is to assess the current executive team and non-exec board members in terms of calibre, industry expertise, track record etc. to identify any potential candidates to add to the board. While for certain deals, it may be a core deal parameter that the CEO and certain executives may be joining the board, *progressive boards take a very proactive view to look at every single executive and non-exec board member to assess if they could be a strong contributor on the larger company board over and above supporting the integration & bringing company-specific knowledge.* The board also assesses if they could bring new skills, expertise and thinking styles *as part of a continual focus on diversity and strengthening the board*. Many larger boards have missed a trick here and let high-quality non-execs with deep industry expertise & strategic skills walk off into the sunset who could not only have a genuine interest in joining the larger company board but also could bring serious value to this board in both the sectors of the acquired company as well as the overall larger company business.

Empowering new board members to be *full board members* – once an executive or non-executive board member joins the larger company board, *it is critical that they are treated from the outset as full proper board members as if they had joined the larger board through an executive search process for example*. The new board members will clearly have a special role for some time in ensuring a very successful integration and delivery of the deal objectives. *However, it is crucial that they are empowered to contribute just like the other board members to the larger company's business areas.* The chairman and CEO of the acquiring company have a key role in ensuring that there is a proper board induction programme for the new board members to enable them come up to speed rapidly and effectively to enable them contribute in the area of the larger company business. Like any team welcoming new members, this will be a time of transition for all the board members to get to know each other, understand each other's styles and the board team dynamics settle down again.

Board level monitoring of the integration & performance progress – many boards have struggled to balance the monitoring of the progress of an acquisition in terms of integration, sales performance etc. with the existing company business. A high quality board puts in the significant effort required from the outset to put in the required oversight structures from the start and work with the enlarged executive team to understand progress and make changes if needed. Experienced boards understand the turmoil that the acquired company's teams often find themselves in as they struggle to adjust to a different environment, maintain quarterly sales performance and handle in many cases losing close colleagues. With this in mind, a high-quality board ups the gears particularly in the early phases of the integration to ensure a very thoughtful, respective and strategic approach is being taken.

Setting the example to all the staff of the acquired company – there have been many examples where the integration of the executive team & non-exec board members in certain cases has been badly mishandled *and has cast a very long shadow over the overall integration of all the teams of the acquired company*. In the case where executives and non-exec board members, highly thought of and respected by their staff, are badly treated, cast aside or poorly integrated into the larger company, this can genuinely impact the overall performance of staff, their willingness to genuinely integrate into the new organization and ultimately their decision to not starting posting their CV & leaving.

Crisis management – there are times when particularly in the case of larger acquisitions, that a crisis can develop which can threaten the overall success of the acquisition. This could relate to a significant under-estimation of the cost of the integration, clashes between sales and pricing teams, higher than expected loss of critical technical staff, conflicts around product direction, investment etc. *This is where a strong board shines through in terms of having the objectivity to avoid a potential bias towards the existing organization and work through all of the parameters to end up with the smart decision for all shareholders and stakeholders*. This could be a doubling down of addressing the crisis affecting the acquisition business area with for example additional investment or in some extreme cases can be an acceptance that the acquisition will not ultimately succeed as planned and taking appropriate steps to handle this.

In summary, an acquisition is a critical time for the board of an acquiring company. *High-quality progressive boards embrace the acquisition as an opportunity to strengthen the board team as well as put in a genuine foundation to ensure the very best chance of success for the acquired team*. While there are many complex factors which ultimately result in a highly successful acquisition, *I believe the handling of the board team transition and the approach of the board to a high-quality integration of the new teams are key success factors.*

Kieran Moynihan *is the managing partner of* ***Board Excellence (https://boardexcellence.com)*** *– supporting boards & directors in Ireland, UK and internationally excel in effectiveness, performance and corporate governance.*

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