People Experiences Make or Break Deals

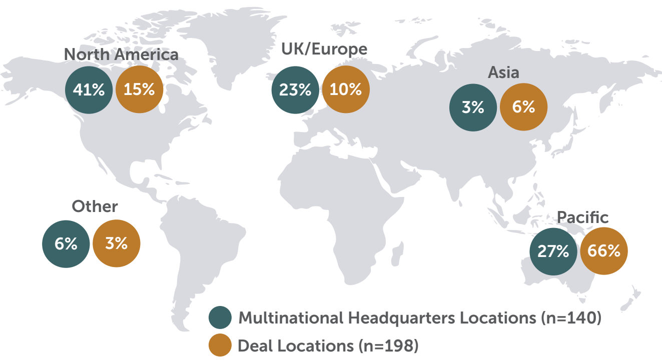
Global research reveals that meeting deal objectives is up to 23 times more likely when people have a positive experience than when their experience is negative.

Many M&A deals still fall short of meeting established success criteria, in spite of frequent acquirers improving how they go about it. Debate continues about the right things to measure, and over what time period, to determine whether or not a deal is successful. Putting these debates aside, the typical things that go wrong in unsuccessful deals are:

- Deal terms that have made a merger's economics unachievable from the start
- Poorly quantified synergies [and revenue targets]
- Lack of specific accountability for synergy [and revenue] realization
- Under resourcing of [deal and] integration teams
- Lack of attention from business leaders.[1]

All of these can be traced back to human factors. Acquirers continue to underestimate the time, complexity, and cost of getting human beings to do what needs to be done, and generally leave it too late to address these issues effectively. Failure to articulate and effectively communicate deal rationale/strategy and what this means for the future, along with underinvestment in leadership capability and culture management, impact heavily on M&A execution.

In this research, completed in 2019, we explored the relationship between deal outcomes and the personal experiences of business leaders and employees working and living through mergers, acquisitions, divestitures and other scenarios where businesses are joined together or taken apart. **We tested the hypothesis that when people have a positive deal experience, deal objectives are more likely to be met than when the people experience is negative.**



We examined 198 deals (more than 60% of these cross-border) across deal type, organization type, industry and geography. Input has been provided by business leaders, deal and integration, as well as people function team members, employees, board members and advisors.

We found that:

- People experience predicts deal outcome
- Leadership and Clarity predict people experience
- Clarity also predicts deal outcome
- Culture is seen to pose the greatest challenge
- M&A Fundamentals – Clarity, Capability and Execution – have significant relationships to both people experience and deal outcome.

"In this transaction the organizational objectives were not met, but could have been with more energy and involvement from the key players in the acquisition. More engagement by the CEOs and senior executives would have provided inspiration and better guidance to those implementing the transition.

— Integration Lead, Hostile Takeover

Request Copy of Full Research Report Here

1 David Fubini, Colin Price and Maurizio Zollo. Mergers: Leadership Performance and Corporate Health. (New York, NY: Palgrave MacMillan 2007). [Bracketed text added by author.]

M&A Fundamentals

We have discovered that three M&A Fundamentals – Clarity, Capability and Execution – are significantly associated with both achieving expected deal outcomes and creating a deal culture that fosters positive people experiences.

Clarity

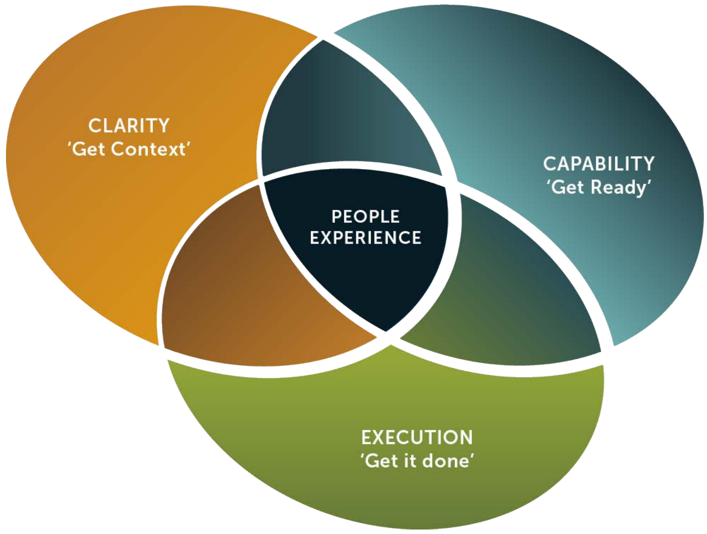
When we say Clarity, we mean that context and deal rationale are clear, documented and easily communicated as a natural extension of business purpose, strategy and operations.

Capability

Capability is all about getting ready by developing both organization and individual capability to support and deliver business as usual results, as well as deal objectives.

Execution

When we say Execution, we mean getting things done at all deal stages, including delivery related to customers and sales force; resourcing and support function engagement; program establishment, management, governance and tracking; mindset, communication and culture management.



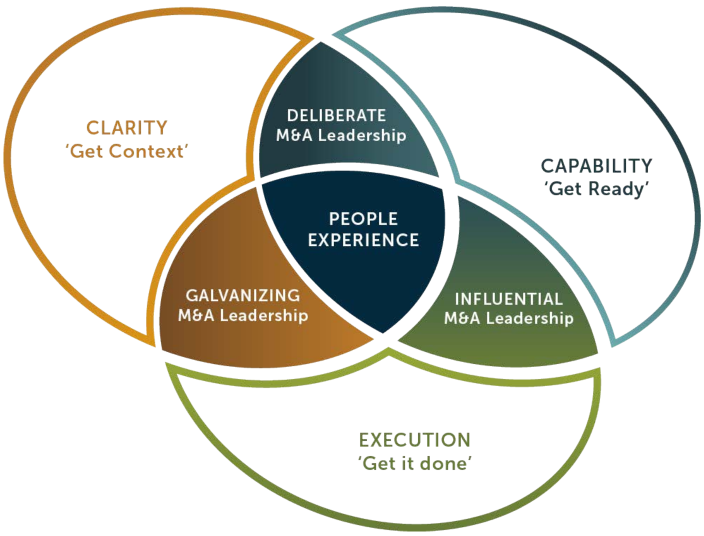
M&A Leadership

Leadership capability links these M&A Fundamentals. Three attributes of effective M&A Leaders – Deliberate, Influential, and Galvanizing – emerge at the intersections of the M&A Fundamentals Clarity, Capability, and Execution.

Where Clarity meets Capability, effective M&A leaders are Deliberate in anticipation. They intentionally take charge and work out what they have, what they need, and what they must do to prepare their organization and teams.

Where Capability meets Execution, effective M&A leaders Influence. They do this by paying close attention to how they are showing up at work, and fully understand their own impact. They act consciously, knowing that people are looking to them to see how to react and behave.

Where Execution meets Clarity, effective M&A leaders Galvanize. They pull everything and everyone together to keep things moving in the right direction, at pace.



"We should have given more focus to identifying and supporting the right Leadership talent, including CEO and top team.

— Board Member, Buyer in Complex Acquisition

Research Highlights

Impact on Deal Outcome

The data shows that People Experiences make or break deals. Successfully meeting deal objectives is **4.5 times more likely** in deals where people have a positive experience than in deals where people have a negative experience. When we exclude deals where objectives are "partially met", basing our analysis only on full successes or complete failures, these odds shift to **23 times more likely**. There is only a one in 10,000 possibility that either of these results happened by chance.

Deal outcome was measured by asking survey respondents whether objectives were met in the deal described in their survey response. We used a five-point scale ranging from "Yes. Exceeded expectations." to "No. Value was destroyed." In addition, we allowed for participants to answer "Too early to tell" and "Unable to say" to ensure data was not compromised by forcing a choice.

People experience was measured first by asking survey respondents about how they personally experienced the deal described in their survey response. We used a 6-point scale ranging from "one of the worst experiences of career" to "one of the best experiences of career". We then asked participants to estimate the experience of the majority impacted, using the same scale. In both questions, we allowed for participants to answer "Unable to say".

What did we find to be directly associated with deal outcome?

Meeting deal objectives:

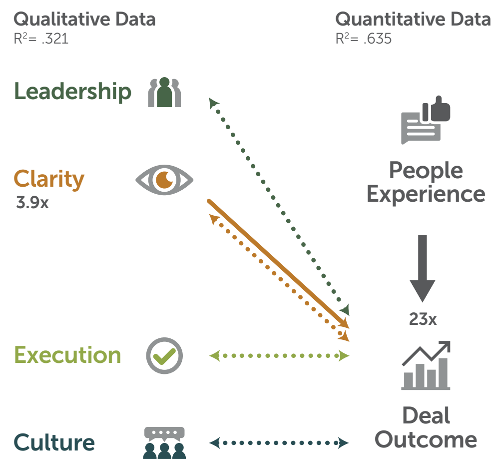
... is **23 times** more likely when people have a **positive experience**

... is **3.9 times** more likely when **Clarity** is *not* mentioned as a **challenge**

... has significant associations with **Leadership**, **Clarity**, **Execution** and **Culture**

Statistically Significant Relationships

Predictive ⟶ Association ◂····▸



This is a summary of all variables we found to predict or have a statistically significant association with Deal Outcome directly. People Experience and Clarity are predictive. There are no demographic variables that have a significant association with Deal Outcome.

What did we find to be indirectly associated with deal outcome (i.e. through people experience)?

Positive people experience:

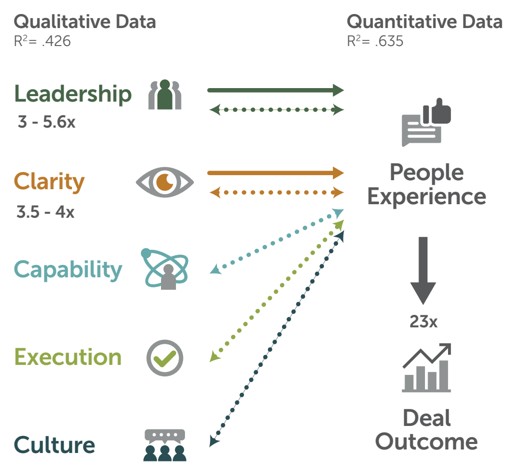
... is **3 times** more likely when **Leadership** is *not* a **challenge** and **5.6 times** more likely when *not* something that **went wrong**

... is **4 times** more likely when **Clarity** is *not* a **challenge** and **3.5 times** more likely when *not* something that **went wrong**

... has significant associations with **Leadership**, **Clarity**, **Capability**, **Execution** and **Culture**

Statistically Significant Relationships

Predictive ⟶ Association ◂····▸



This is a summary of all variables we found to predict or have a statistically significant association with Deal Outcome *indirectly* by way of impact on People Experience. Leadership and Clarity are predictive. Deal perspective is the only demographic variable that has a positive association with People Experience.

Culture Poses Biggest Challenge

In 44% of deals, Culture is mentioned as a top challenge, and Culture is the word used most frequently in response to the question "What were the two (or three) biggest challenges faced?".

"This was a classic case of a deal that created shareholder value as promised, but underachieved due to lack of executive attention on culture integration. The need for speed trumped the need for nurturing.

— Advisor, Buyer in Local Acquisition

Culture is mentioned as a challenge 16% more frequently in deals where people have a negative experience than in deals where the experience is positive. Although not directly predictive, Culture is one of the top mentions in all significant findings that relate to three M&A Fundamentals – Clarity, Capability and Execution.

Team and Development Experiences

This research has uncovered a great deal of commentary about the benefits participants receive as a result of working on a deal. Behind the combined total of employees/people, team is the top word used when participants answer the question "What went particularly well?".

When we look behind the data there are many comments that describe a positive experience of negative circumstances, given the learning opportunities that arise and the camaraderie that is built in challenging circumstances.

When deal outcomes are realized and even when things go horribly wrong, participants overwhelmingly describe their personal experiences as positive because of what they learned and the relationships they forged in the heat of the deal. In our experience, the value of making these opportunities available to future leaders and leveraging the Capability built during the course of transactions is priceless and should never be overlooked.

"I had a huge opportunity to learn! I doubt I will get this sort of opportunity again in my career – it was an amazing experience. It was also a HUGE challenge and forced me to step out of my comfort zone and re-think many things I had come to accept as a given. Many staff went through a similar process.

— People Function Head, Cross Border Merger

Time and Timing

Time references are another pattern in this research – mainly about the pitfalls of leaving things too late and underestimating how long things will take; or about the benefits of planning ahead and making it possible to work at pace. The number of deals where the use (or misuse) of time is specifically mentioned at least once, more likely than not, contributes to the significance of Execution Fundamentals.

"Timing. Timing. Timing.

— Buy-Side Advisor, Cross-Border Acquisition

Not unexpectedly, references to "earlier", "sooner", "before", "slow", "late" and "lagging" abound.

Time is money. Paradoxically, this does not mean that everything has to be done quickly. It is more important to start earlier than anyone ever imagines is required, and then proceed deliberately rather than rushing about haphazardly.

Why Does This Matter?

If an organization does not have these M&A Fundamentals covered it will be an uphill battle to create expected value from deals. And when objectives are met in spite of ineffective practices, this usually is at the expense of people in some form. Organizations that take preparation short cuts will leave value on the table, whether or not official milestones are met, missing opportunities to further improve on deal outcomes.

"Culture and Leadership are fundamental to creating the right context for value creation.

– Advisor to Buyer, Cross Border Acquisition

"Executive management immediately bought into the deal and led the organization from the front, so others quickly followed.

— Executive Team Member, Cross Border Merger of Equals

Mergers are pivotal career moments for senior executives. As such, they bring either kudos and professional advancement, or the harsh reality of failing, learning and having to reinvent. How executives and their teams fare depends on how well they prepare and take charge, whatever transpires.

Where to Start

Start from wherever you are. And if you don't know where you are, then start by finding out.

Think about your past deals. Take a good hard look at what you do well and where your biggest risks are. If an independent view would be of value, take a few minutes online to complete a 'Deal Ready' Snapshot™ assessment. Then set a confidential, no obligation debrief with Karen Isely, as offered with the 'Deal Ready' Profile™ report.

If you discover blind spots that cause concern, your next steps will depend on what else you might need to build a solid plan to become 'deal ready'. Book a call to explore some practical options.

> *Act early to generate a plan and get buy-in to implement.*
>
> *— Chief Executive for Buyer, Local Acquisition*

Take 'Deal Ready' Snapshot Assessment

Book A Call

> *We underestimated the work and timeline involved in the integration process and expected a higher return sooner than was possible.*
>
> *— HR Head, Cross-Border Merger of Equals*

In any event, you won't be far off the mark if you:

- Start by making sure that all business leaders and everyone who will work on your deal understands your business environment, purpose, business strategy and expected outcomes, business model and significant risks.
- Get clear about why and how M&A fits into this context and work out how you will communicate about this going forward
- Invest to build the capability and credibility of your leaders
- Understand your current culture and come to a view about whether the culture you have is aligned to the culture you need to take the business forward.

Whatever you do, don't delay. If you know you will be doing a deal in the future, it is never too early to begin preparation.

Isely ASSOCIATES INTERNATIONAL
Capturing M&A Value Through People

About Us

Isely Associates International, founded in 2009, is an Australian-based global consulting business providing M&A advisory services to organizations growing by merger, acquisition or other similar business transactions. The psychology of leadership and performance in mergers fascinates us – because there is so much at stake. Rarely is there a time that senior leaders have to put everything on the line in a complex environment, where they may not have done it before.

We have an unique way of working with business leaders and deal teams to provide them with the framework, knowledge, tools and support to deliver expected deal value, and at the same time create a positive work environment that extends well beyond the deal.

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