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**Beyond the Numbers:
Seven Stakeholders to Consider in Improving Acquisition Outcomes**

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Acquisitions are generally assumed to be objective, or focused on the numbers. Consistent with this perspective, synergy is the most common justification for acquisition activity. Achieving synergy involves integrating firms to produce a combined performance greater than what they achieved independently. An implicit challenge then is to coordinate the efforts of groups with different interests to realize expected gains. This means that acquisitions quickly go from numbers to considering the impacts on people, as achieving synergy requires clear communication of the implications of an acquisition to impacted groups. As a result, considering and enlisting stakeholders becomes important to achieve success for any acquisition.

Accomplishing a stakeholder analysis during acquisition planning can identify and address issues by helping to communicate information to influential groups. Still, gaps between different stakeholder groups are often not addressed in acquisitions, or they are considered too late.¹ The starting point for any stakeholder analysis is identifying different groups and their interests. The perspective of seven stakeholder groups is briefly reviewed as a guide to improving acquisition outcomes.

1. **Employees.** The first group to consider relates to the impacted employees, as even the best strategy will fail if it does not consider the people needed to execute it. When employees learn of a merger, they expect and are prepared for dramatic changes. Employees will be hungry for information to cope with the uncertainty created by an acquisition. Employees will look to see that a plan for creating a better organization exists and for signals that people matter, as well as answers to what the acquisition means for them.² This means employees will have little tolerance for delays that fail to set a clear direction that communicates their place in a merged firm. An example of something that can help reduce employee anxiety in large companies is an e-mail from the CEO to employees about a merger, so they learn about it from work and not the press.³ In smaller firms, a face to face meeting would be a better option to share news and implications of an acquisition. Without these steps, a lack of information to employees will only lead to speculation and resulting anxiety that will complicate integration efforts.

Employee commitment to a merged firm is lowest following an acquisition announcement and increased employee turnover is a primary suspect in poor acquisition performance. An obvious reason for this is that the first employees to leave are generally the best and brightest. In other words, if an acquirer does not take steps to address the concerns of their employees they will likely find what they bought walked out the door when they were not looking. For example, many employees will get job offers from competitors within five days of an acquisition announcement.⁴ Successful acquirers focus on retaining employees, if for no other reason than to avoid the need to recruit old employees back at a higher salary. However, if the employees are not “on board” with the business and communication plan, competitors have a greater ability to frame the discussion with the market.

2. **Competitors.** While obvious in hindsight, it is easy to overlook this group. Failing to consider the actions of groups that want to see you fail can hurt your success, and competitive pressures driving the use of an acquisition to meet firm goals do not end once an acquisition is announced. Acquisition announcements are public and clarify what competitors can expect. Often competitors treat the inevitable distraction of combining firms as an opportunity. Not bound by restrictions of regulatory review competitors can immediately plant doubts with customers and employees. For example, quality

disruptions frequently occur during acquisitions from downsizing manufacturing capacity and transferring work to facilities with people unfamiliar with the products and processes used to produce them. Meanwhile, employees will also have lower commitment to a new organization.⁵ As a result, competitors also actively recruit from the employees and customers of firms involved in a merger when those firms are most vulnerable.

3. **Customers.** Merging firms often focus on internal issues during integration at the expense of external market issues, and customers of both acquirer and target firms are sometimes overlooked.⁶ For example, service disruptions during an acquisition results in two-thirds of merged businesses losing market share.⁷ Again, failing to address customer impacts in a communication plan will provide competitors an opportunity to frame customer perceptions on the impact of a merger.

A strong emphasis on communicating with customers can reduce uncertainty and lower customer defection, as retaining customers may be more important to acquisition performance than reducing costs. In one example, while a combination of two high-technology companies was meant to better serve IBM, uncertainty about implications of the merger led IBM to cut its orders for the firms in half because no one communicated what the acquisition meant to this important customer.⁸ Firms that communicate a continued commitment to their customers by considering their perspective during a merger can expect improved success.

4. **Advisors.** Completing an acquisition depends on advisors and incorporating an external perspective can enable better acquisition decisions. Additionally, more prestigious advisors can provide important reputation advantages. However, increasing the number of advisors increases the amount of time and money to complete a deal.⁹ This becomes an important consideration as the primary advantage of acquisitions involves speed or faster access to needed resources than internal development. Another consideration for public firms and sellers is that advisors may be required to help ensure managers fulfill their fiduciary obligations to shareholders. For example, as part of due diligence following an announcement to purchase Titan Corp for \$2.4 billion, Lockheed Martin uncovered improper overseas payments that led to a Justice Department investigation and cancellation of the deal.¹⁰ It is unlikely irregularities, such as this one, could be found without the help of external auditors. Having a team of seasoned advisors can help find and account for negative information that can effect a deal's value.

5. **Lenders.** Most acquirers include debt as part of their payment for a target, making lenders an important advisor. While lenders are interested in available collateral and the use of provided funds, they will also be interested in the projections of the merged firm and its ability to pay off the increased debt load. Selection of lenders is an important consideration, as more prestigious underwriters are associated with positive outcomes, such as completing deals faster.¹¹ Banks may also be interested in marketing other services—a circumstance that can complicate their interests. For example, Barclays Capital recently agreed to pay Del Monte shareholders almost \$90 million following conflict of interest surrounding allegations it steered the sale of Del Monte to bidders using it for financing.¹² The desire for advisory fees may bias bank lending decisions, so prudence may drive keeping deal advisors and lenders separate.

6. **Vendors.** Acquisitions can also be disruptive to businesses a merged firm depends on. Suppliers of goods and services of merging companies will have a vested interest in their ability to continue to supply a business and in being paid on a timely basis. It is not uncommon for vendors to require updated credit data for merging firms. Still, an acquisition offers the opportunity to consolidate vendors and increase bargaining power. As a result, vendors will want information about continued business.

Communication with vendors, especially the key ones, is another critical piece of the overall acquisition communication plan. The last thing an acquiring company wants to learn is that a key vendor is skittish about the transaction and that they may not deliver scheduled product or service! In other words, without vendor support a merged firm can find it difficult to maintain normal operations.

7. **Government Regulators.** Firms planning an acquisition generally make filings with government agencies for regulatory approval that is followed by a waiting period that allows regulators to review information to consider labor or anticompetitive implications, and any conditions for completing a deal. For example, plant closings often require advance notice under state and federal law before it can be accomplished. Requirements for regulatory review go beyond the state and nation where firms are headquartered. For example, the European Union required concessions from Intel prior to providing regulatory approval of its McAfee acquisition.¹³ Only focusing on U.S. requirements likely hurt approval of the NYSE Euronext and Deutsche Borse merger, as Duncan Niederauer (CEO of NYSE Euronext) commented that he “misjudged the process” and that it was unlikely the merger would happen.

While the focus for regulators is satisfying requirements, a more proactive approach goes from anticipating regulatory review to influencing it. However, going beyond providing information to regulators is a higher risk strategy. For example, AT&T employed a team of 93 lobbyists in Washington D.C. and spent \$46 million in campaign contributions to both parties in a failed effort to get its bid for T-Mobile approved.¹⁴ This suggests that an obvious way to strengthen regulatory resistance is to announce a deal as a fait accompli before or during regulatory review. The risk of a deal failing regulatory approval has to be considered and dealt with along with at the start of in the negotiation process.

Summary

Strategic decisions need to go beyond the numbers to consider the stakeholders, or any group that is affected by a firm’s initiatives. Once identified, planning to balance the interests of different groups can begin. Going “beyond the numbers” to consider the perspectives of different groups can provide a better appreciation of acquisition challenges and enable improved outcomes. The groups outlined here represent important groups, or a place to start, for any firm considering an acquisition.

Notes:

- ¹ Feldman, M. Spratt, M. (1999). *Five Frogs on a Log: A CEO's Field Guide to Accelerating the Transition in Mergers, Acquisitions and Gut Wrenching Change*, New York: Harper Collins.
- ² DiGeorgio, R. (2003). Making mergers and acquisitions work: What we know and don't know – Part II, *Journal of Change Management*, 3: 259-274.
- ³ Schweiger, D., Denisi, A., (1991). Communications with employees following a merger: A longitudinal field experiment, *Academy of Management Journal*, 34: 110-135.
- ⁴ Brown, C., Clancy, G., Scholer, R. (2003). A post-merger IT integration success story: Sallie Mae, *MIS Quarterly Executive*, 2: 15-27.
- ⁵ Schweiger, D., Denisi, A. 1991. Communication with employees following a merger: A longitudinal field experiment, *Academy of Management Journal*, 34: 110-135
- ⁶ Cording, M., Christman, P., & King, D. (2008). Reducing causal ambiguity in acquisition integration: Intermediate goals as mediators of integration decisions and acquisition performance, *Academy of Management Journal*, 51(4): 744-767
- ⁷ Harding, D., Rouse, T. (2007). Human Due Diligence, *Harvard Business Review*, 85: 124-131.
- ⁸ Marks, M., Mirvis, P. (2010). *Joining Forces: Making One plus One Equal Three in Mergers, Acquisitions, and Alliances*, 2nd ed. San Francisco, CA: Jossey-Bass.
- ⁹ Hunter, W., Jagtiani, J. (2003). An analysis of advisor choice, fees, and effort in mergers and acquisitions, *Review of Financial Economics*, 12: 65-81.
- ¹⁰ Gomes, E., Weber, Y., Brown, C., Tarba, S. 2011. *Mergers, acquisitions and strategic alliances: Understanding the process*. Palgrave Macmillan: New York.
- ¹¹ *Ibid.*
- ¹² Chon, G., Das, A. (2011). Settlement chills use of M&A tactic, *Wall Street Journal*: October 7.
- ¹³ Fortelle, C. (2011). EU Close on Intel-MacAfee deal, *Wall Street Journal*: January 21, B4.
- ¹⁴ Schatz, A., Raice, S., Das, A. (2011). AT&T digs in for a fight, *Wall Street Journal*: March 22, p. B1.

David R. King earned his PhD in strategy and entrepreneurship from Indiana University's Kelley School of Business. After retiring from the U.S. Air Force, he joined Marquette University as an Associate Professor in the College of Business Administration where he teaches undergraduate and graduate business strategy. His research focuses on complementary resources, merger and acquisition (M&A) integration and performance, technology innovation, and defense procurement. An award winning researcher, Dave's research appears in *Strategic Management Journal*, *Academy of Management Journal*, *Journal of Management*, *Journal of Management Studies*, and *Organization Science*.

Richard W. Taylor first worked for Arthur Andersen & Co as a CPA. He then held many financial positions in public and private firms including Chief Financial Officer. He obtained his MBA through the University of Wisconsin-Milwaukee's Executive Curriculum program. He currently teaches at the University of Wisconsin-Milwaukee as an Adjunct Professor in Finance. He has been involved in numerous merger/acquisitions including those in the international arena, as a CFO, CEO, and subsequently as a business advisor. Recently he helped an acquisition of a small, privately-owned business by a small cap NASDAQ company headquartered in China.