Invisible Rip Tides Sink Mergers and Marriages

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The business news is filled with stories of failed mergers or acquisitions. Buffets Restaurant Corporation buys Ryan's for 1 billion dollars and is in bankruptcy in less than 18 months. Estimates of failures for mergers are that up to 90% of these deals fail. Yet companies still have an appetite for growth through mergers or acquisitions. Why? These deals look good on paper. Some work out. Benckiser and Reckitt-Colman joined forces and 2 years on the share price had doubled. It's deals such as this one, led by the very talented Bart Becht that people remember. They remember it and assume that their deal will be equally profitable. Not often do people study what Bart and his colleagues did to make it so.

Deals can be glamorous, interesting, thrilling. They are often complimented with elaborate courtship rituals involving investment bankers and very nice dinners. Heady stuff. Don't bore us with the messy reality of integration, please!

The Hunt

Looking for a company to acquire and planning the "deal" can be thrilling. You look, you find, you conquer. Hopefully there is a reasoned thought process about the merits of a union. Whether there is or not, it's fun–dinners, flirting, being told how beautiful and charming you are.

If you are on the receiving end of this courting, it can be deliciously disorienting. Most of us understand the concept of being blinded by infatuation but few see the real influence it has on our thinking. The pursuer, seeing signs of encouragement, becomes even more determined to seal the deal. Tension rises and some resolution is needed for it to subside. This is intensified by overconfidence. This deal will work! I'll make it work because I'm smarter than those other guys.

The Rational Dealmaker

At this point you are probably asking yourself why I'm making smart, successful, rational people sound like jungle animals. Because we humans are far more than brains; we are also highly emotional creatures whose thinking is influenced by amorphous, but powerful, feelings. Our "gut instincts" impact our decisions far more than we care to realize. Indeed, many of you reading this will say "I am not like that. I am rationale." I ask you right now, to think about how you *feel* reading that you are not an entirely rationale being. Irritated? Smug? That's emotion.

Businesspeople are often described as having drive-at least the successful ones. This drive may look like energy, passion, even heat. Think about the contestants on the TV show "The Apprentice." Drive and ambition are viewed as positive attributes and a lack of it gets people fired fast. That said, loss of control is not regarded positively. Passion is good–being over-whelmed is not.

So why do the contestants on "The Apprentice" sometimes show strong emotion even though they know that losing control of oneself will not be viewed in a positive light? They are human. Even when the stakes are high, indeed especially when the stakes are high, emotion effects what we do.

Not So Innocent Bystanders

Let's add to the merger mix people who get paid if your deal goes through. Investment bankers or other interested parties who may be compensated only when a deal is done. If the merger later goes south, don't expect a refund. You are aware of this compensation but the bankers also bring a lot of data and analysis, exactly the sort of stuff that quells your fears. Your confidence goes up because you feel you are being both rational and passionate.

What about the bride or groom telling their best friend, wedding planner, parents, or florist, "I'm really not sure about this." Is it cold feet or a clue that something isn't right? A lot of money has been spent to throw this shindig. The decision to pull the plug or go ahead is impacted by the human tendency to see money spent as a waste if a deal is not fulfilled. This notion of sunk costs (which can be tangible and intangible) leads many a person to stay an ill-advised course.

Whether your merger is corporate or personal, you will quickly begin to see the wisdom of your decision. There are always surprises, even without misrepresentation. Billions of dollars and untold agony result from trying to fix bad decisions. Why not spend a little time on prevention? The return on investment is far greater.

Five Questions for Disaster Avoidance

1. Ask yourself what you know about the company you are considering buying or merging with.
2. With reference to #1, how do you know these things? Where did this information come from?
3. What do you know about the people who interact with the target company? Customers, suppliers, employees, creditors?
4. What does the other party want out of this deal? I'm not talking about what they told you, rather what does your own research say?

5. How easy or difficult has it been to discuss the merger? A bad prospect makes a bad client. A difficult fiancé makes a challenging spouse. People don't magically change once the ring is on their finger or the check in their pocket.

If you plan to grow your business through acquisition, you would be wise to recognize that the difference between failure and stunning success is not related to the quality of your financial analysis. It lies in your ability to manage yourself through the decision-making process and the transition period. This may be counter-intuitive but so is swimming parallel to the shore when caught in a rip tide.

Constance Dierickx, *The Decision Doctor ™,* helps spectacular leaders navigate rough waters and achieve dramatic growth. She has worked on mergers of companies large and small, private and public, global and regional for 20 years with results that fly in the face of the typically dismal outcomes. Clients call her their "*secret weapon."*