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INVISIBLE RIP TIDES SINK MARRIAGES AND MERGERS

The business news is filled with stories of failed mergers or acquisitions. Recently, the dramatic loss of value of General Electric was blamed, in part, on a string of ill-advised acquisitions. Estimates of the rate of failure (failure to deliver the value described in the investment thesis) vary from 50 to 90 percent.

Yet companies still have an appetite for growth through mergers or acquisitions. Why?

Two reasons: First, the imperative to grow is difficult to fulfill through organic means alone. Second, the lure of a deal is hard to resist and the challenges easy to minimize.

Deals can be glamorous, interesting, thrilling. Especially in the early phase. The proposed merger of SunTrust and BB&T, for example. Andrew Hill, writing in The Financial Times, calls it a bromance and not without evidence. Deals may begin in a way that strongly resembles courtship. Mutual flattery, meetings over dinner, limited contact and conversations that avoid obvious challenges (other than legal and regulatory). It can be heady stuff not easily interrupted by brass tacks and honest admissions about what lies beneath the surface. Indeed, what is not so obvious may be exactly what is conveniently not mentioned.

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 very rewarding to be told how beautiful and charming you are.

For those on the receiving end of flattery, it can be deliciously disorienting. If it is mutual, it is blinding. Most of us understand the concept of infatuation but few see the real influence it has on thinking and decision making or admit it could influence them. Rather, many replace reasonable and necessary skepticism with overconfidence. Emotional influences on major decisions only happen to other people, right?

The Rational Dealmaker

At this point, you may be asking how it could be true that smart, successful, rational people can allow their good judgment to be suspended so easily. It is because the human mind, as capable as it is, is not infallible. Thinking, judgment, and even what we perceive, is influenced by emotion and subject to cognitive limitations that most are loath to admit. Some reading this have already bristled, sure they are the exception. I ask you right now, to think about how you *feel* reading that you are not

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an entirely rational being. Irritated? Annoyed? Ready to stop reading? That's emotion.

Not So Innocent Matchmakers

Let's add to the merger mix people who get paid if your deal goes through. Who is compensated only when a deal is done. If the deal goes south, don't expect a refund.

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 on an ill-advised course.

Whether your merger is corporate or personal, 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. To do this well, leaders don't swim with the tide, nor do they give in to riptides. They deliberately swim parallel to the shore, just as a swimmer does when caught in a deadly riptide. It can look to bystanders like the wrong thing to do. It looks like a round-about way to shore. It turns out, it is the best way to succeed but it takes the right mindset and courage.

Helping Define Your Company's Future Success

Together Constance Dierickx, Linda Henman, and Lorraine A. Moore co-founded The Board Mindset. Independently and collectively, we help boards achieve excellence in critical aspects of governance. We advise on any unaddressed issues to help the board and the company move forward. If you have any questions about The Board Mindset, visit www.theboardmindset.com or contact us.