The route to successful M&A: Understanding people and managing process

Both large (Big Fish) and small firms (Little Fish) have long used M&A (mergers and acquisitions) to: accelerate their growth, respond to industry disruption, bring in new talent, and ensure greater financial security.

In the context of the UK innovation ecosystem, in the years leading up to the outbreak of COVID-19, an increase in the number of tech start-ups contributed to a growth in M&A activity. As might be expected, these activity levels dropped off dramatically in 2020; a trend that was reflected globally. But, as we emerge from the pandemic, recent figures show that businesses are placing bets on new partnerships at a record rate. The first half of 2021 saw 500 deals announced, representing a 47% year-on-year jump and a 5% increase on 2019 levels from the same period.[1]

The announcement of a deal, however, is only a small step on the path to creating real value. From having the right conversations prior to signing any documents, to managing the realities of HR changes and the wider commercial impact, bringing two companies together is never easy. Getting it right is striking the balance between **understanding people** and **managing process**. This will help to put your business, big or small, in the best place to capture the substantial opportunities on offer through M&A, and deliver the long-term commercial and social benefits that can come from innovation.

This mini-guide provides actionable recommendations to inform your approach to acquisitions and to understand the potential challenges and concerns of future partners. In line with the focus of the wider Big Fish, Little Fish campaign, here we will look at the specific challenges and best practice for a large corporate acquiring a smaller firm.

Each deal is, of course, unique. But each potential partnership will need to carefully consider not only the financial, legal, and commercial implications of the acquisition, but the people you will be bringing on the journey.

[1] *UK Technology M&A Snapshot: Q2 2021,* ICON (2021)

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Businesses we spoke to outlined several strategies they employ to help overcome the common issues that can derail a successful acquisition, and the people and process considerations that must be made by firms both large and small:

- **It's never too early to think about integration**
- **Mind the detail**
- **Review and adapt.**

It's never too early to think about integration

Months, even years of hard work can be put into a potential acquisition before a final deal is signed. Sometimes, no deal is ever reached. The early stages of a negotiation are critical to the future performance of the partnership. Businesses we spoke with stressed the importance of exploring the cultural compatibility of the companies involved during these early stages.

Whilst this will be driven by senior leadership teams, there is more to a business than the people at the top. Some businesses may use a broker to find new partners and there are benefits (negotiation and promotion expertise, risk management skills) and drawbacks (increased cost, potentially longer overall process) to this approach. Ultimately however, ensuring the right fit comes down to more than a what's on paper.

People: How do they talk to the person at the front desk?

Social interaction has real value. Discussions outside of a formal setting, at a dinner or over coffee, can help both sides better understand the motivations and plans of a potential partner, as well as the cultural compatibility that will become even more important during integration. Whilst remote working throughout the pandemic may have limited the opportunity for more informal interactions, businesses have found that observing staff relationships was another good indicator of the likelihood of culture clash further down the line. As one contributor to our discussion said: "walking the floors and seeing how the Chief Executive interacts with the receptionist is as important as knowing if there is a customer at 120 days on the accounts receivable ledger."

Process: Do a trial run

There are several ways Big and Little Fish can work together to innovate outside of a formal acquisition model. As highlighted in our recent mini-guide, many firms are innovating in a variety of open and collaborative ways.

Identifying opportunities to work together on smaller projects (prior to any acquisition discussions) can be a useful way to test the waters. Many businesses have benefited from seeing how potential partners operate in high pressure environments or when working to tight timescales. This insight can prove invaluable and draw attention to (and even smooth out) technical issues that could cause delays further down the line.

Mind the detail

In the excitement that can surround an acquisition, businesses have warned that it is easy to be blinded by the opportunity and untapped potential of a new relationship. Whilst early conversations are often fueled by optimism, for the long-term benefits of the process to be realised, business leaders must look beyond grand visions. Integration should be built on strong financial, legal and operational understanding on both sides.

People: Account for day-to-day differences and manage expectations

In all models of innovation partnerships, differing company cultures can prove challenging. Our article Overcoming culture clash to catalyse innovation points to the actions businesses can take to address different approaches to innovating.

During post-acquisition integration, your people may raise questions that seem trivial but, if left unaddressed, can cause minor disruption at best and employee resentment at worst. It is therefore vital to consider and address these throughout the planning process.

For example:

- What will the minimum statutory holidays be for staff if the merging companies currently differ?
- Is there a requirement for employees to come into the office?
- How do differing companies approach filling out time sheets?
- If you are working with a company outside of the UK, what are the national holidays, or cultural events that will impact your new employees' project delivery?
- Will job titles need to be changed in the new system? If so, how?
- Will budget lines and approvals need to be altered? If so, how?

Businesses can be rightly cautious about too much change, too quickly. Much has been written about the negative impact of acquisitions on the innovation performance of acquired companies. Business leaders should protect what works well within their operating models but be prepared to compromise where appropriate for the long-term success of the partnership. You are not going to please everyone, and some level of change is often unavoidable.

Process: Advisers advise but you decide

Internal advisers and external consultants can guide executives through the due diligence process, but they should not necessarily have the final say. These advisers will have expertise in particular areas and will likely be focused on minimising risk. Risk, however, is a part of innovation.

Comprehensive due diligence should address financial metrics, statements, and legal matters (IP protection, potential lawsuits etc.), as well as issues relating to cybersecurity, environmental standards, tax, corporate reputation, and material contracts. But ultimately the final decision to push ahead or step away must come from those who have been involved throughout and see the full potential of the partnership – the respective business leaders.

Review and adapt

There is no hiding from the fact that acquisitions can be risky. Even after a strong cultural fit has been established and the details of the deal ironed out, any number of external and internal factors can crop up that might impact the relationship. Setting mutually agreed Key Performance Indicators (KPIs) for the relationship can facilitate effective responses to these challenges for future success.

People: Build a picture of employee sentiment and make adjustments

To understand how an acquisition is impacting employees, business leaders should gather data and then look beyond the spreadsheets:

- Conduct employee pulse surveys at regular intervals (e.g. the end of each month) to gain valuable insights into how staff are feeling across the board. This includes spotting potential declines in mental or physical health, and adjustments for retaining key talent
- Use staff forums to hear directly from employees and gain a more nuanced understanding of the professional and personal challenges facing your people.

Once this information has been gathered, the next phase will be to communicate how the issues raised will be addressed and then to repeat this listening exercise periodically.

Process: Agree milestones and plans for improvement

Part of the due diligence process will likely involve modelling expected post-acquisition metrics including new profit margins, sales, customer retention, growth, and expenses. From the outset, both parties must feel these targets are realistic, and raise concerns where predictions seem overambitious or undervalued. In a perfect world, improvements would be seen across all indicators post acquisition, however, in reality this is rare. The lead project team must commit to clear review points where priority issues can be addressed, bringing in the relevant expertise to advise on crucial improvements.

If two companies have been unable to do a trial run, and internal software systems differ greatly, it can be incredibly resource intensive to align them. To limit interruption, a clear timeline should be put in place as quickly as possible for when alignment will be completed.

M&A for a broader reach and a developed product offering

Andrew Hobbs-Grimmer, Head of Corporate Development and Maureen Paul, Head of Planning and Strategic Initiatives at Kainos

Name of company partnered with: IntuitiveTEK

Partnership model taken: Acquisition

What were your goals for this relationship, or problems you were trying to solve?
By reputation and experience, IntuitiveTEK was a leading North American partner for Workday Adaptive Planning, an expertise we at Kainos were keen to deepen. An acquisition offered us the opportunity to critically expand our footprint in North America and support our growing Adaptive Planning customer base with additional Workday modules and functionality.

How did you identify the right company to work with?
We always keep an eye the market, and broadly there are two ways to find the right company

1. Seek out a company that is actively up for sale
2. Do your own research and exploration to find a suitable firm.

At Kainos we stay close to what's happening within Workday's ecosystem to identify and harness potential new opportunities. We do this by building and maintaining good relationships and keeping up to date with Workday Inc's position and plans. This helps to assess the benefits and risks of any transactions (return on investment, scale, management, impact, current performance), as well as the cultural fit.

What were the main challenges you faced, and how were these overcome?
The key challenge we faced was geographical. Our teams being based on different continents limited the opportunity for face-to-face meetings which is important for assessing progress, character, and culture. This assessment is not only important in the transaction phase, but is vital for integration planning. Afterall, the success of a transaction is defined by the success of the integration.

What was the direct outcome of this relationship? (New product, productivity improvement, increased sales, etc.) What were the wider benefits?

1. Established Kainos' Adaptive Planning capability in North America, bolstering our global capability, and expanding our offerings
2. Continuous business improvement through learning, developing and evolving our processes
3. We benefitted from insight into IntuitiveTEK's homeworking operating model which has since become prevalent within our industry.

What did you learn through the process; what would you do differently next time?
It is important to try and constantly improve and learn from each transaction; the acquisition approach iterates and matures each time. Integration planning, including people and resource management, cannot come too early. Finally, we learned the value of a project champion (someone internal who is dedicated to a successful outcome) to help facilitate an understanding of internal functions and navigate potential blockers.

What advice would you give to a company looking to innovate in the same way?

1. Set expectations on both sides: timelines, roles and responsibilities, process. It is never too early to start thinking about integration and what is needed to make this a success
2. Prepare and plan how to communicate the transaction internally and externally, taking into account any confidentiality requirements. Set out the story and the ambition.

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