“Speed Dating” Increases M&A Integration Risk

We all operate in a business environment in which “faster” is usually synonymous with better. “Faster” is the hallmark of business communications by-passing the formal business letter in response to a demand for the “get-straight-to-the-point” e-mail and, more recently, “tell-me-in-ten-syllables” text message. “Faster” is rapidly moving into the realm of relationship-building in business meetings in which attendees participate in “speed networking” with the objective of meeting as many people as possible in a prescribed, short period of time. And when it comes to business marriages, there are some who advocate “speed dating” – shortening the courtship and due diligence process and moving as quickly as possible to the main event.

There are compelling business advantages cited by those who advocate “the need for speed.” One of those advantages is cost containment. It is in the buyer’s interest to manage the due diligence process to ensure that it is completed as quickly as possible. The cost of experts who render legal advice, financial audits, tax assessments, and valuation reports can be considerable. Although it is never a good idea to cut corners when it comes to due diligence, one way of effectively managing cost is to establish reasonable timelines for the completion of the process.

The challenge involved with maintaining the confidentiality of the deal is another reason for expediting the process. Compliance with regulatory requirements is not optional when the marriage involves a publicly-held company, but regulatory requirements aside, maintaining the confidentiality of any transaction is critical to success. The longer it takes to reach a settlement, the greater the probability of leaks and rumors that can adversely affect the dynamics of the deal. Momentum can be lost when rumors of the deal must be addressed with employees and customers prior to deal close or when competitors seize an opportunity to bid up the price of the target company complicating the negotiation process.

Given these compelling reasons for moving as quickly as possible through the courtship and due diligence phases of the deal, M&A experts suggest caution, especially if leaders of the target company will be joining the buyer’s leadership team. Buyers are advised not to rely solely on the historical performance of the target company as an indication of future leadership performance. Experts agree that it is important to take into account whether there is a potentially “good fit” between the leaders of the target company and the leadership style of the buyer’s team and they emphasize decision-making style, communication style, problem-solving approach, and the values that guide leadership decision-making as reliable indicators. They acknowledge that this type of assessment may require a number of interactions over time in business and social settings. Some would suggest that the courtship period is also an opportune time to begin to discuss expectations regarding future roles and responsibilities easing the post-deal transition process.

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When successful post-deal integration is a consideration, faster is not always better. While everyone would agree that it is important to get the deal done, when the honeymoon is over, it can be very difficult to face the unpleasant reality of discovering that you are hitched to the wrong partner.