

# MANAGING COMMUNICATION FLOWS IN M&A DEALS

## Introduction

Mergers and Acquisitions (M&A) is the popular instrument of business extension through the change of property and/or management control from one owner to another. The “merger” is the term used to describe a process of companies’ consolidation with creation of the new business unit ( $A+B=C$ ), while the term “acquisition” describes the process of buying one company by another ( $A+B=A$ ). Both mergers and acquisitions aim at gaining the synergy effect which means an advantage of a united company over the two units operating separately.

The current stage of M&A world market development could be characterized as a prolonged slowdown: according to the research of “Ernst and Young”, in 2012 the total value of the world M&A deals has decreased by 43% compared to the peak year of 2007, and the total deal quantity has comparatively decreased by 21%. The companies of developed economies resisted to close M&A deals in 2012 mainly because of macroeconomic problems such as Euro zone crisis and the threat of “fiscal cliff” in the USA. Despite the general negative trend the M&A activity in the Asia and the countries of BRIC has been on the rise since 2010.[1],[2].

Surprisingly, the M&A deals remain popular despite the reports on their questionable effectiveness. According to the experts’ calculations, from 50 to 70 percent of the deals don’t meet the investor’s expectations [3], [4], as the merger / acquisition is the highly challenging process containing a lot of important factors and stakeholders which could rise the risk of failure. One of the important factors is the communication side of the deal, which, from the first sight, could be mistakenly undervalued. M&A managers are used to focus on such aspects of the deals as asset value, deal strategy, structure integration, paying minimal attention to the communication side. But proper dealing with the communications during M&A process could be used as the thing that helps. So the communications of the M&A deal deserve deeper analysis because they make the deal possible. From the Letter of Intentions and to the streamline operation of a united company the communications affect the quality and effectiveness of the M&A deal.

## Literature review

A lot of foreign authors highlight theoretical and practical aspects of M&A deals. T. Galpin and M. Hendon [5] are the authors of practical readers on the all stages of the M&A integration process, P. Gohan [6] describes modern restructuring structures, such as hostile deals, LBO, bankruptcy; A. Lajoux and F. Weston study M&A in the USA [7]. The “internal” management of M&A deal is not popular subject in the M&A literature, especially communication aspect of the deal which can seriously affect the result of M&A deal.

## Purpose of the article

The given paper aims at characterizing and analyzing the management aspects of the communication flows, accompanying the M&A deal, depending on the actual stage of the integration and the party involved. The following tasks could be solved within the aim of the paper: firstly, the analysis should be given to the communication policy features on each stage of the M&A deal (preparation stage, deal closing, post-merger integration); identify the communication flows of the each stage; and characterize the management aspects of the communication flows on each stage.

It is important to notify that communication management in different M&A deals could vary dramatically, so in this paper the communicative aspect of a friendly deal will be in focus. The communication of a hostile deal deserves a special research because the conflict and resistance occurring during the deal process can worsen the communicative strategy and redirect the complex and multiple communicative flows.

## The research

Communication aspect of the M&A deal is not about the announcement about the deal for the staff and media. It includes the strategic communication plan aimed at reaching the desired long-term result. The correct communication strategy can deeply affect the success of the agreement beginning with the first negotiations and finishing with the post-merger corporate synchronization. Communication experts, belonging to the companies or the outside specialists, could be invited to support the integration process at the very beginning of planning the deal. The final stage of the communication strategy should finish even later than the post-merger integration. Moreover, the strategic communication plan has to support all the stages of the M&A process: preparation stage, deal closing, post-merger integration, solving the different communication tasks at each stage.

Strategic M&A communications include creation and delivery of key messages about the deal to some different types of the target audience, having different interests, purposes and information needs, i.e. manipulation of the multiple communication flows (fig. 1).

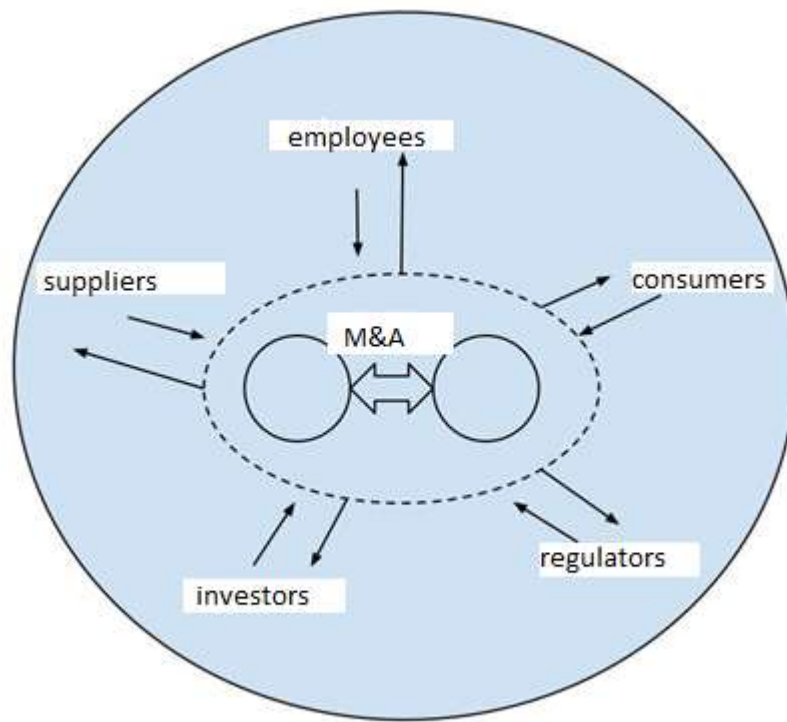


Fig. 1. Communication flows of the M&A deal

The main communication flows unite the following audiences of the M&A deal: employees of the integrating companies, consumers of the two companies, regulators (state institutions, business-consultants, mediums, middlemen, lobby), investors (share holders, banks, other creditors), suppliers of the companies and other partners. Communication between the management of two merging companies is a particular aspect where the personal relationship plays an important role. All the communication around the M&A deal takes place inside the information field which is formed by the multiple communication flows intersection forced by media. We are going to characterize the communication flows depending on the stage of the M&A deal.

At the first stage of the M&A deal - deal preparation – the development of the M&A communication plan takes place. The communication plan should include preliminary audience and purpose analysis of each important communicative message, as far as the methods of data collection inside and outside the integrating companies. The communication planning begins with defining a purpose and program of changes waiting for the two companies. The general recommendation for this stage is that the purpose has to be clear and realistic in order to be understood, controlled and finally reached. The audiences of communicative flows at the given stage of the deal include employees, investors and regulators.

Communicating the employees of the two companies at the preparation stage it is important to remember that firstly, the employees are the most vulnerable

intangible business asset; secondly, the employees themselves will take part in the transaction and, thirdly, in some companies the employees are the main shareholders (minority investors). So, the effective and measured communication policy with the company staff is a vital factor of the successful M&A deal.

The communication policy tasks regarding the employees of the integrating companies are the following:

- informing the employees consistently about the reasons and expected consequences of the M&A restructuring;
- explaining the role and the desirable contribution of the employees in the process of M&A;
- explaining the possible threats and benefits.

The main principles in communication with the company employees regarding the M&A deal should be consistency, argumentativeness, timeliness, care and support towards the employees.

Communicating the investors of the M&A deals at the preparation stage the following tasks should be solved:

- informing objectively about the financial aspects of the deal;
- providing consistent and regular information flow even negative news about future risks;
- supporting the realistic expectations of investors about the deal results.

The main communication task regarding the regulators of the M&A deal at the given stage is gaining the preliminary approval of the transaction and support during the M&A realization. The other task of communicating the regulators should be the following:

- making important business contacts with the influential people;
- objectively informing about the deal analysis for the state (in case of the big transaction), industry, and corresponding market where the transaction takes place;
- finding the corresponding supporters.

The second stage in M&A deal is a deal realization when the information about M&A transaction becomes public. This period is aimed at informing public about previously confidential aspects of the companies' consolidation, and the role of media and PR-service is highly important. PR campaign includes the following steps: issue of press-releases, arranging interviews and press conferences, and other means of sharing actual information about the transaction. The principle task of public communication via media at this stage is to control the emerging information field about your transaction taking the initiative to create the key messages following the ethic and legal rules. The main communication flows of the given stage include:

- the management of integrating companies – partners (suppliers and customers) – public;
- the management of integrating companies – employees (the employees are informed officially about the transaction).

Communicating the suppliers and customers at the second stage the following tasks should be solved:

- forming positive attitude to the M&A deal with the help of argumentation based on future benefits;
- preventing possible rumors about the M&A deal via well-timed well-reasoned and prepared messages;
- reassuring the partners about stable cooperation after the deal closing;
- reassuring the customers of the companies about the quality standards of products' and services' in the integrated structure ;
- providing the serious communication campaign of brand name change if it takes place.

At the given stage it is important to establish good communication among all the parties involved in the process of integration. Management informs the employees about the company restructuring. The task of the message for employees is to minimize uncertainty and tendency to provoke panic and rumors. So in this case the managers have to be consistent, active and attentive. The message for employees has to be clear and honest it should demonstrate openness to dialog.

The practice of communications at the given stage shows that it is reasonable to prepare FAQ – documents – lists of possible questions and answers for different audiences.

The third stage of the communication plan is the monitoring of integration processes in the created company, receiving feedback from the different audiences and evaluation the deal results. Despite the fact that the M&A deal is closed, the integration stage requires proper attention to the communication side because internal and external challenges are very hard: rapid and scale changes, staff redundancies, processes' restructuring, unpredictable market reaction. At this particular stage it is important to reveal unrest, conflicts, organization structure drawbacks, double functions, and other unexpected potential problems. The purpose of management at the given stage is to minimize the mentioned problems with the help of communications.

The other important management task at the given stage is to help form common environment and vision of united company among the employees who recently survived the great stress and remain the vulnerable asset. The

harmonization of the work in the united company after the M&A and building of common corporation culture could be reached at the account of effective communication between management and employees. So the communication flows should be two-side: not only from executives to the subordinates but also from subordinates to the management. Asking the subordinates for feedback is the important instrument of measuring the quality of M&A. The employees help to find “blind spots” in the organization, they appreciate the careful attitude and become more loyal.

The research of Pricewaterhouse Coopers in 2007-2010 years among more than 15 000 companies shows the importance of human aspect in communication during M&A transaction. On the one hand, proper communications can positively influence the success of the deal and, on the other hand, communication challenges are capable to prevent the companies from reaching the desired synergy effect. Based on the mentioned research, Table 1 shows the key success/failure factors of the M&A deal [8].

Table1. The key success/failure factors of the M&A deal.

People-related integration activities are among those considered of greatest importance to deal success		Change issues rank high among factors thought to have the greatest adverse impact on realization of deal	
Aligning company strategies and business models	36%	Selecting the right people to lead the newly combined organization	83
Cultural and communication challenges	34%	Establishing clear accountability for deal tasks and activities	71%
IT/system incompatibility issues	31%	Developing a sufficiently detailed integration plan	66%
Delays in implementing planned actions	31%	Identifying value drivers and measuring synergies	64%
Underestimating integration costs and complexities	28%	Disciplined program management	53%
Insufficient data from due diligence	22%	Articulating a clear definition of deal success	47%
Inadequate resources dedicated to the effort	17%	Retaining and engaging pivotal talent during the transition	46%
Lack of accountability for integration activities	15%	Paying proper attention to various stakeholders and their concerns, and communicating effectively	45%
Overestimating potential synergies and cost savings	13%	Small integration team with others focused on business as usual	29%
Challenges in securing the customer base	12%	Getting integration tasks completed rapidly	28%

The table shows that culture and communication problems ranked 2<sup>nd</sup> in the list of possible M&A failure factors, and 34% of the M&A managers find them contributable in the case of unsuccessful transaction. On the other hand, the 2<sup>nd</sup>

rank in the key success factors belongs to establishing clear vertical relations in the organization, supported with 71% of the managers. 46% of the managers believe that attraction of the best employees contributes to the deal's success as far as 45% underline the importance of attention to all the audiences involved the deal and proper communication support. These factors ranked 7<sup>th</sup> and 8<sup>th</sup> correspondingly in the list of the key success factors for the M&A deal.

So the given data show the importance of communications during the integration process at the M&A deal. The success of the deal depends on the managers' general vision and understanding of business processes as far as their ability to realize it through successful communications with talented employees and other communication flows.

From the first sight, it may seem not reasonable to pay a lot of attention to the communication side of the deal, because traditionally management is responsible for financial and legal aspects of the transaction. But experienced western companies now can't ignore communication strategy during M&A deal [9], [10]. The fundamental connection between the M&A deal success and correct communication policy is now obvious so more and more companies, involved in M&A activity, are trying to implement M&A communication "with human face".

#### Findings and recommendations for future research

So, communication of the M&A process' participants is one of the key success factor of the deal. This unexpected finding is reached by many researchers working in the sphere of M&A. Developing the strategic M&A plan it worth paying special attention to the communication planning including communication flows aimed at different target audiences. Depending on the audience characteristics and M&A process' stage, it is necessary to plan absolutely different communications with personnel, state representatives, suppliers, customers and investors. Quality communications provide positive attitude to the M&A deal as far as facilitate integration processes.

The problem of communication support of M&A deals and business processes in general is getting more and more popular in the professional editions, and there is a need in developing the corresponding research. The most promising areas could be the communications in cross-border M&A deals when cultural, educational and language differences affect communication. These areas of business communication could be the subject of further research.

#### List of notes

1. Общая стоимость сделок слияния и поглощения в 2012 году снизилась вдвое по сравнению с рекордными объемами, зафиксированными в 2007 году; в 2013 ожидаются стратегические сделки с легко интегрируемыми активами – Пресс-релиз // Ernst and Young. – 21/12/2012. [Электронный ресурс] – Режим доступа: <<http://www.ey.com/RU/ru/Newsroom/News-releases/Press-Release---2012-12-21>>

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