

Looking Beyond Reports: Maximizing Shareholder Value in an M&A

By Jackie Bassett

Ensuring a successful mergers and acquisitions (M&A) outcome means going beyond what board members see on the financial statements. Asking the right questions, drilling down into the answers, and debating alternatives are the right and the responsibility of a good corporate director. During an M&A, time is a scarce resource.

The CEO and the executive team are faced with many challenges and an onslaught of time-critical deadlines. Customers want transparency and business as usual—or better. It's a tall order which requires all hands on deck. During this chaotic stage when resource requirements spike, board oversight can often be welcomed by the CEO and personally rewarding to the directors.

For the purposes of this article, let's assume the decision has already been made that Company B is a good strategic fit for Company A and due diligence has been done. For some companies, this is the end of the board's engagement until the next annual meeting. But for boards wishing to maximize shareholder value, the real work has just begun.

Ask the Tough Questions

Throughout the integration, the board should ask tough questions and drill down into the details.

- What assumptions were made about the new company when the acquisition was approved? Are they proving correct?
- Is the post-acquisition plan meeting its milestones? If not, why not?

Director Summary: The author suggests that during an M&A board members can maximize shareholder value by looking beyond audit reports and financial statements, asking tough questions, communicating, proactively addressing data integrity, and staying focused on the core business.

- Are the forecasts just as reasonable now as they were pre-acquisition?
- Have adequate resources been allocated in terms of volume and type?
- Have any unanticipated distractions or barriers surfaced?

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Communicate

Directors, as a united force, should be involved in communicating the corporate strategy behind the acquisition to the market, throughout the enterprise, and to the customers. Whenever there is change, fear of the unknown can undermine the best efforts. Clear and continuous communication at the board level will help alleviate the fear of the unknown, keep customers from being lured away by competitors, and build confidence among investors, partners, and employees.

Communicating the corporate vision allows the market to understand where the company is going, and it serves as a tracking barometer for the board. As directors face tough and probing questions, are their answers readily defensible? Has the market uncovered issues that the board had not been completely alerted to prior? Were there any under-the-radar changes in the global marketplace which are just now surfacing?

Looking Beyond the Reports

A business-savvy board can see the real value of a product beyond what's on the balance sheet. Many companies build a variety of products before their flagship product becomes a market success. In an acquisition, these products are bundled as intellectual property. An IT audit report may have identified the existence of intellectual property, but discounted it as not



directly associated with a revenue stream. In today's market, information is a core balance sheet asset, and often the business driver behind the acquisition. An effective board has a responsibility to drive protection of the intellectual property they purchased, as a key business priority.

The board can make a significant contribution to the M&A's success by looking beyond the reports and the numbers. Internal auditors often complain that no one reads their IT audit reports beyond the checklist. However, while the auditors might believe they've laid out an action plan as part of their recommendations, many directors don't have the depth of IT knowledge needed to translate recommendations into a plan of action that aligns with business initiatives. A good business-IT strategist can help translate these findings into business terms, define the potential risks, and work with the board to produce actionable steps to ensure integration success.

Risk Management and Data Integrity

An experienced board can and must take the lessons learned from other M&As and play an active part in planning and monitoring the acquisition process. Proactively addressing the increased potential for intellectual property theft and data security breaches during an M&A is both a fiduciary responsibility and good business.

Behind the fervor and confusion of an M&A lies much anxiety and job insecurity among internal employees at both companies. Often these days, at even the hint of an acquisition, salespeople start migrating customer databases to their home PCs; engineers start downloading software code they mistakenly believe they "own;" and rumors spread like wildfire. The potential for insider threats, both malicious and unintended, is at its highest. Social engineering*-initiated data breaches are another significant risk, especially when companies push for transparency, and the normal, healthy barriers to trust are lowered.

These are not problems that the board can wait to react to after the fact. The board should not rely solely on the IT security team or on written risk management policies to prevent an insider intrusion. Constant communication to stakeholders setting the right expectations and providing regular progress updates is the minimum standard, while a more proactive approach might involve implementing a social-engineering resistance training program.

Focus on the Core Business

A director's proactive intervention and corporate oversight is invaluable in traversing the rapids of an M&A. During the frenzy and excitement over the initial purchase decision, countless amounts of resources are spent on the project, and many more will be spent during the execution. It is important to ask: What has been left to

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invest in the core business, and what has been the impact of any shortfall on performance? What is being done to make sure existing customers' needs are being met? How was the company performing prior to the acquisition, and what areas are now underperforming relative to expectations? Is the M&A responsible for the performance change, or is there another underlying dynamic?

Keeping the focus on the company's core business will help prevent the CEO from getting distracted by all the relative white noise that an M&A can make. It's not micro-managing; it's ensuring accountability. An M&A always takes longer to execute and costs more than originally expected in terms of resources—boards should seek out areas where resources are being strained, and where the board can offer its own expertise to bridge the execution gap.

Final Steps

As the M&A execution stage continues, the board should step back and determine whether the M&A strategy is still the right one. Has the execution strategy been effective? Are the financial projections realistic and the synergies just as clear today as they were when the concept was first presented? How is the acquisition affecting the overall market dynamics for the core business? What is going well and what is not? Does the leadership team need to be changed? This proactive approach will engage the board and management in productive dialogue long before the situation warrants a crisis management session.

At the end of the day, always remember the original business drivers that were behind the M&A decision. By continuously validating the original assumptions and ferreting out any inconsistencies early on, the expected value of the deal can be fully realized. During the execution stage, a continuous and healthy flow of information and proper leveraging of the significant experience of the board is not just the best way to maximize shareholder value. It's the only way. ■

**A form of hacking wherein the perpetrator gains access by eliciting the trust of the legitimate user.*

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