

Why Don't Acquisitions Reach Their Strategic Objectives?

by JIM MCHUGH

President of McHugh & Company, Inc., (978) 371-7113, jim@mchughco.com, www.mchughco.com

When Jim Gilreath suggested this subject, my gut reaction was twofold: One, "With such a broad topic, where do I start" and Two, "I could write a book on that—how can I condense my ideas?"

Well, here's an uncomplicated answer. Many acquisitions don't reach their strategic objectives because:

1. there are none—clearly defined strategic objectives don't exist
2. there's no meaningful measurement—performance is not consistently tracked and/or
3. management teams are too optimistic—i.e. they don't deal in reality.

Strategic objectives are not defined after the deal is completed. The initial 100 days after a closing are critical to a deal's success. This valuable time frame can be squandered. The perception that management is too burnt out after a lengthy closing process to commence a joint planning process is wrong and misguided. Setting objectives, clarifying expectations, and working together as a new team (it's not "make work") needs to start before the closing and be completed within the 100 day "integration" window.

There are no meaningful measurement systems—performance against the strategic objectives is not tracked. Numerous middle-market companies only prepare an

annual budget and miss targets throughout the year—the thinking on "how we are going to get there" is often woefully inadequate. A solid, simple operational plan needs to:

1. define the major objectives for each functional area
2. identify the major tasks to be completed, along with who owns them and the due dates; and
3. estimate the financial impact of each task (e.g. revenue enhancement, gross margin improvement, expense reduction, balance sheet change, etc.). The plan should be dynamic so that progress can be consistently tracked.

Management is too optimistic. As a private equity investor, how many times have you listened to outlandish expectations from the CEO about future performance? As you leave a Board meeting scratching your head, your gut is screaming... "There is no way this company can hit those targets!" Do your hope and the CEO's enthusiasm get the better of you? There can be too much over optimism and not enough effort made at analyzing the facts and confronting reality.

But, what's wrong with aiming high? Nothing, as long as the predictions are believable and achievable. In the July 2003 issue of the **Harvard Business Review**, the article 'Delusions of Success:

How Optimism Undermines Executives' Decisions' warns of the negative consequences of 'flawed decision-making' based upon over optimism.

"What's wrong with aiming high?"

The authors' state, '...when pessimistic opinions are suppressed, while optimistic ones are rewarded, an organization's ability to think critically is undermined.'

Jim Collins' best-seller, **Good to Great**, devoted an entire chapter ('**Confront the Brutal Facts, Yet Never Lose Faith**') to dealing with reality. His research proved that

great companies were continually objective about their performance, their competitive position and their customers' needs. Breakthrough results don't happen by simply rallying the troops with a lot of hot air.

So, simply put (it's so easy...), how can an acquisition's strategic objectives be reached?

1. Set clear expectations and goals; challenge all the assumptions behind the strategic and annual plans.
2. Continuously measure the team's performance against the objectives. Look for specifics details on execution.
3. Be honest and realistic about the company's progress.



JIM MCHUGH, PRESIDENT OF MCHUGH & COMPANY, INC.

Jim McHugh specializes in providing strategic, operational, and financial advice to middle-market companies owned by private equity funds.