Acquisitions as a Political Process: An Exploratory Analysis of the Interaction Between CEOs, Boards of Directors, Deal Teams, and Integration Teams

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CITATION

Acquisitions as a Political Process: An Exploratory Analysis of the Interaction Between CEOs, Boards of Directors, Deal Teams, and Integration Teams

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Psychologists serve on Boards and also coach leaders who serve on Boards. This article addresses acquisition events from a practitioner perspective. There are three key political actors in corporate acquisitions: a powerful Deal Team, a less powerful Integration Team, and the Board of Directors. During the last stages of M&A deal making, the Deal Team may be so narrowly fixated on deal completion that concerns of the Integration Team may be given short shrift or the Integration Team may lack the political will to challenge members of the Deal Making Team. In other situations, the Integration Team can get so confident that it fails to ask itself tough questions about what is unique about a particular acquisition. One of the critical roles of the Board during the final phase of deal making is to ensure that the voice of the less powerful Integration Team is properly heard and to understand the Integration Team’s assumptions. A second critical political role of the Board is to make routine Board of Director post acquisition review: What was the discrepancy between the acquisition’s promises versus the shareholder value actually achieved 24–36 months later? Future research should focus on the role of Boards during deal making and in systematically reviewing deal results.

Keywords: governance, M&A, organization development, power, politics, CEO, leadership, coaching

Psychologists in organizations sometimes serve on Boards of Directors. Some provide counsel to Board members and CEOs. This article is based on the author’s experience as a Board member and as someone who has worked with Boards of Directors of acquiring companies.

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M&As are important and well researched, but there are few studies that focus on the role of Board of Directors of acquiring companies. According to their review of M&A events, Cartwright and Schoenberg (2006) calculate that there is an M&A event every 18 min somewhere in the world. According to self-reports generated by acquiring firms, 44% of transactions fail to achieve the stated objectives. In 2004, the value of these transactions was U.S. $1,900 billion.

This article is organized around two core ideas: (1) The role of the Board as a moderating factor in the unequal balance of power between the M&A Integration Team versus the M&A Deal Team (2) The importance of Boards of Directors holding CEOs accountable for achieving stated objectives by routinely scheduling time for postacquisition review 24–36 months after the documents are signed.


When companies make “go” decisions to engage in acquisitions, there are generally two teams that move things forward for the company. The Deal Team has a mission of completing a transaction that can be presented to for the approval of the Board of Directors. This team is often composed of a private bank partner, a partner at a law firm, the CFO, the Chief Legal Officer, and the CEO. Deal negotiations can be extraordinarily complex, intense, time consuming, and dramatic.

The Integration Team works in parallel with the Deal Team but usually is composed of less powerful actors. The integration team usually consists of the Chief HR Officer, the Chief Information Officer, plus a Director level executive who reports to the Chief Financial Officer.

**The Role of the Board When Acquisitions Are Frequent Events**

In highly acquisitive companies, Integration Teams can get so self-assured by past success that they can become insensitive about what is unique about this particular acquisition. Sometimes they cannot know because what the Integration Team needs to know sometimes only comes to the surface in the months following the signing of legal documents finalizing the deal. But there may be times when the experienced integration team simply thinks it can easily force feed the acquired company into the standard operating procedure. It is the typical role of the CEO to question the Integration Team
to ensure that they appreciate what is unique about this acquisition and make sure the Deal Team understands what is unique.

There are situations when the CEO might not have such a meeting with the Integration Team or may not really wish to hear what the Team is saying: the CEO is so invested in deal completion. Politically, it may be in the interests of the members of the Integration Team to tell the CEO what the CEO wants to hear. Sometimes the cockiness of the Integration Team itself can be a problem.

When acquisitions are frequent and the CEO is involved with deal completion, the Board of Directors may serve as a moderating role in helping the Integration Team communicate with the CEO or for the Integration Team to formulate questions it needs to have answered before the deal ought to be completed.

For highly acquisitive teams, the Board should be on guard for Integration Teams that are too inclined to force feed a newly acquired company into a routine they may believe is infallible.

The Role of the Board When Acquisitions Are Rare Events

In companies where acquisitions are rare events, the members of the Integration Team may politically feel the need to pose themselves as more confident than they truly are. After all, many of the members of the Integration Team report to members of the Deal Team. Is the Deal Team ready to hear this message?

The emotional dance of acquisition is not dissimilar to couples engaging in sex. The early stage involves casual dating with many dismissals of potential partners. A second stage involves courtship leading to foreplay. But toward the end of sex and deal making, both parties are passionately seeking completion. Sometimes they may be so intense in this desire, anything that does not contribute to completion is perceived as an unwelcome nuisance. The outside attorneys on the team are supposed to provide an objective perspective, but they too can be caught up in the desire to please clients when the issues are shades of gray.

This final stage of the deal making process can be dangerous for the company. The members of the Integration Team are less powerful than the members of the Deal Team, so they too are caught up in the desire to please superiors. For this reason, the Board of Directors has an important role in asking the Integration Team the following questions:

(1) What do you know about the target company and (more importantly) what do you NOT currently know about the target company that might influence your ability to successfully integrate the company?
How is this company similar to successful corporate integrations we have done in the past?

How is this company different from successful corporate integrations we have done in the past?

In your opinion, do you think that the integration effort is worth the resources the company will spend?

The Board of Directors is a natural political player because it has a fiduciary responsibility to consider the longer-term interests of shareholders when key corporate leaders are immersed in the intense drama of deal completion. Indeed, some Boards create ad hoc Board Committees with the mandate to examine deals and report conclusions to the full Board.

THE ROLE OF THE BOARD OF DIRECTORS IN HOLDING CEOS ACCOUNTABLE

In the U.S. Army and Marines, it is standard practice for squads to conduct postconflict reviews once things have calmed down. The military justification for spending this time is that there are important lessons to be learned to help squads better deal with future conflicts.

The structure of Boards does not easily allow for such routine post action reviews. The Board Committee that was set up to review the proposed acquisition is often disbanded once the acquisition is complete. The Compensation Committee has the mandate to review the performance of the CEO, but looking at acquisition success is one of many financial/nonfinancial matters this Committee must deal with. What might have happened 2 or 3 years ago is less important to this Committee than what happened 6 months ago and what is going to happen 6 months into the future.

The corporate M&A equivalent would be a routine full Board Post Acquisition Review 24–36 months following the signing of the contract. This provides enough time for Boards to be able to ask CEOs to discuss the gaps between the aspirations when the deal was presented for Board approval versus the achievable results.

I conducted an informal poll of 15 Board members representing 15 small to midsize public and private companies that had engaged in acquisitions. Only 1 company scheduled a routine post transaction review.

The word “routine” is worth stressing, particularly for companies where acquisitions are frequent events. Routine postdeal reviews will not be perceived as an attack on the CEO or any member of the CEO’s team. It would seem appropriate for Boards to schedule such reviews 24–36 months following each acquisition. One hour of Board of Director postacquisition review could also help the full Board learn how to improve its own future performance in M&As.
CONCLUSIONS

This practitioner-oriented article makes two concrete points for psychologists on Boards or psychologists advising leaders who serve on Boards.

The first point is to look at acquisitions as a political process with teams of unequal power: the Deal Team and the Integration Team. Because the CEO is often intimately involved with the Deal Team, the Board of Directors has an important role to moderate this inequality. In situations where acquisitions are frequent, the Board wants to know whether the Integration Team is planning to cram a unique acquisition down a standardized integration process. In situations where acquisitions are infrequent, are there concerns team members are reluctant to discuss with members of the Deal Team?

The second point is for Board of Directors to hold CEOs accountable for delivering on the expectations the CEO established when the Board agreed to the deal. I recommend a routine full board postacquisition review 24–36 month after every deal is signed. The Model I use is the U.S. military post action review. Such routine reviews can improve future performance of CEOs and Boards.

For researchers, the role of the Board of Directors in acquisitions is under researched and represents an opportunity for further work.

REFERENCES