Filling the Gap

The Caribbean Acquisition Project Phase 1: Jamaica 2001-2002

Technical Report 2.0

By
Francis Wade

Framework Consulting Inc.
3389 Sheridan Street #434
Hollywood, FL 33021
954-323-2552
www.fwconsulting.com

Introduction

In 2001-2002 Framework Consulting conceived and executed the Caribbean Acquisition Project (CAP)[i], a survey of 7 Jamaican companies that had been recently acquired by foreign firms. The global failure of Mergers and Acquisitions (M&A's) to create new shareholder value[ii] (estimated at between 60-80% of cases) has been well-documented. We felt that a study could help to increase the odds that acquisitions in the Caribbean could be made more successful than their international counterparts.

We decided that there might be lessons to learn and to share from the acquisitions (underway)

We decided that there might be lessons to learn and to share from the acquisitions that were in the implementation phase, and that these lessons could be used across the region to impact future M&A's to the benefit of companies, shareholders and employees.

Specifically, we were interested in finding out how companies being taken over in Jamaica were planning for the most difficult phase of M&A's -- post-acquisition or integration. Many prior studies have shown that cultural / organizational challenges constitute the make or break issues, that can help convert a good purchase into measurable, positive gains. Traditionally, the organizational expertise in culture and organizational development has resided in the Human Resource (HR) function. Our hypothesis was that the use (or non-use) of the HR function in the acquiring company had something to do with the future success of the acquisition.

As the results will show, while executives in the companies studied had what we called "an enlightened awareness," their actual practices did not match this outlook. In some cases, there was insufficient HR expertise and resources to properly assist in the acquisition. In others, there seemed to be a lack of respect for what the HR professionals could perform. In a few, events were happening so quickly that the HR professionals were seen as possible inhibitors to "getting the deal done" -- completing the financial transaction -- and were left out of the picture entirely.

Based on our research, we have found several actions that HR practitioners can undertake to better serve the employees, executives, shareholders and customers of the region's companies during cross-regional acquisitions. This has only become more important since the years when the CAP data was collected, with the onset of the Caribbean Single Market and Economy (CSME) in 2005.

Methodology

The study was designed as an ex post facto study of Jamaican firms acquired by foreign, Caribbean Community and Common Market (CARICOM) companies from Trinidad and Barbados.

Initially, a target list of 10-15 potential companies was drawn up, with the first restriction being that the companies had to be Jamaican firms being acquired by companies outside the country, but inside the CARICOM region. Four companies were eventually included in the survey[iii], after a handful declined and others were disqualified. Those that were disqualified were judged to be unsuitable for the study's purposes: in one case, the activity was judged to be a pure merger, rather than an acquisition, which made it an invalid comparison for the purposes of the study. In another, the acquisition had happened so many years prior to the study itself, it was felt that the information was no longer timely.

For those that did not participate formally, anecdotal data was gathered from interviews and published reports.

Four companies were formally selected, and 30-35 executives in total were chosen to respond to the 230 point survey. The questions asked were heavily guided by those included in two books: Making Mergers Work edited by Jeffrey Schmidt and Frogs on a Log written by Mark Feldman and Michael Spratt. The survey questions, which were printed on a 19 page questionnaire, were divided into five sections: Pre-Deal, Due Diligence, Integration Planning, Implementation and Overall Acquisition Results. One of the intentions of the study was to compare the region's results against the international findings on certain specific questions, but that analysis is beyond the scope of this paper.

Most of the questions posed were presented on the following scale which was converted to a 1 to 100 scale for analytical purposes:

Disagree	**1**	**2**	**3**	**4**	**5**	**Definitely Agree**

Also, a series of structured, open ended questions were asked around topics of interest, such as the respondent's opinion about Jamaican versus acquiring-country norms and business practices. These were either discussed in the interviews, or written answers were given.

While approximately 35-40 executives in Jamaica, Trinidad and Barbados were interviewed, 30 completed the formal survey. Most of the interviews were conducted in person in the respective home countries.

Finally, the companies that were included in the study paid a small fee to enable their participation and to help defray the substantial cost of the study, with a written understanding[iv] that they would receive the benefit of receiving a summary of the final results, and an analysis of their companies practices against the norm. They did not receive a list of companies that were in the study, which was held as confidential[v] and is not mentioned in this report.

Challenges and Constraints

One of the challenges that the study was not able to powerfully resolve was to be able to definitely say whether or not a practice or group of practices could be used to predict success or failure.

The small data set studied, and the variety of ways in which success or failure could be measured has made this task extremely difficult. Furthermore, each of the companies started out in very different places and even applied the same techniques differently, making strict interpretations of success impossible.

However, there are sound, albeit imperfect, rules of thumb to be learned. Common sense and the consensus of those interviewed clearly indicate that some practices are better than others. In this sense, the study evolved from an attempt to find "best" practices to one in which we are attempting to divine "better" practices. More definitive answers await the advent of better tools or smarter minds.

Caution must be used, therefore in applying the results of the study to other companies, territories or specific situations.

At the same time, we think it is unlikely that any country in the region will once again have the perfect blend of candidate companies and acquiring suitors. The meltdown in the Jamaican financial industry in the early 1990's led to several companies failing at once, which contributed greatly in making the candidate pool of 15 companies as large as it was. Hopefully, there will be no repeat performance of that debacle, and as such we expect that this study is a unique one.

Results

To summarize, the study showed that acquiring companies lacked a capacity and expertise in implementing acquisitions, and that they did not look to their HR in-house expertise to fill the gap that existed.

Also, there was a strong desire to gain the kinds of synergies that come from deep cooperation between two entities involved in an acquisition, but there were some different points of view as to how that should be accomplished. Unfortunately, these differences were not well-resolved before the acquisitions were completed. This led to each company expressing an opinion that opportunities to increase shareholder value were lost.

Lastly, each company suffered from a lack of talent within its ranks which lead to some difficult decisions, and admittedly unwanted outcomes with respect to the leadership of the companies being acquired.

A Lack of HR Expertise in Acquisitions

One of the complaints we clearly heard and observed in the responses was a discrepancy between what executives said they saw was important, and how they acted on that knowledge.

An Incorrect Assumption

Most of the non-Jamaican executives admitted that they were caught by surprise at the differences between their own country's culture and that of Jamaican culture. They reported an incorrect assumption: that the similarity in language and cultural heritage would render the acquisition similar to the act of taking over another company in their own country.

Most of the non-Jamaican executives … were caught by surprise by the (cultural) differences

Most expressed outright surprise at how very wrong they were, and had many useful anecdotes to back up the differences they found.

Examples cited included the newfound, aggressive nature of their Jamaican employees and managers, the rank class differences they turned up, and the tendency towards showy expenditures. One executive complained that the failing company (which had been in financial distress for many years) had availed itself of butler service and fancy cars for its executives which were luxuries unheard of it in the much more successful acquiring company.

Some of these differences were, in their opinion, caused by national differences while others were caused by a difference in corporate culture. Whatever the cause, they saw the job of bridging the gap as a critical one to the success of the company, and resolved never to be caught unawares again. While the study was not specifically designed to address these gaps, some of the data collected did show this new-found sensitivity as an end-product. The following table illustrates the level of agreement with each survey statement:

Cultural issues will affect synergies	**93%[vi]**
Senior management believes that culture affects synergies and ultimate integration	**81%**
Cultural issues should be measured and taken into account early in the deal process.	**86%**
Issues of compatibility concerning business ethics and integrity are important	**94%**
What is the importance to accomplishing the acquisition of having expertise with people/organization/culture integration?	**94%**

The executives we interviewed, including the HR professionals, had had an eye-opening experience that caught them by surprise.

No Connection to HR

However, at the same time there was this sense of surprise, during the acquisition process the executives were unable to connect their need with person(s) that could fill help fill the gap.

The fact that the acquisitions were taking place in Jamaica, allowed for some commonality in the surprises they encountered between companies. Over drinks, they shared some of the frustration and discoveries they were finding with other executives who were in the same boat. Yet, in their minds there was no-one they knew in their own companies, (and certainly no broad area of expertise) they could turn to for help in interpreting what they were seeing and experiencing.

Normally, matters related to cultural differences are an HR area of expertise.

However, in some situations, it was suggested that things "were moving too quickly" to get bogged down by trying to bring in HR. HR was not up to speed, and it would take too much time to try to bring them into the loop.

In the majority of interviews, when it was suggested by the survey questions that the HR function could provide this kind of expertise there was a marked reluctance to see HR as a viable provider. When asked a range of questions about whether HR was used in the Implementation Phase in a series of key activities, the overall average response was only 54% (basically a neutral response.)

Even at the end of the acquisition, and well into implementation, executives were still ambivalent about their organization's ability to undertake acquisitions successfully, a comment that we took to be targeted not at their ability to make deals, but to create shareholder value during implementation. Specifically, when asked what the current level of capability was to accomplish M&A's within their organization, the response was only 62% positive agreement.

Furthermore, it almost seemed as if executives were unwilling to look to their HR professionals in the future for this expertise in "people / organization / culture integration.

(There was) a lack of faith in the HR expertise on staff to provide what … was needed

This dichotomy showed up all throughout the study: a refreshing sensitivity to cultural differences and the need to account for difference in corporate and national culture, coupled with a lack of faith in the HR expertise on staff to provide what they said was needed. We connected that with a variety of roots causes, all of which were mentioned in the interviews:

1. A historical bias to view HR as little more than "the personnel department." In this case the HR executive would have to take the lead in changing the popular perception.
2. An uneasiness with their HR department's ability and competence to play a strategic role
3. The inability of the HR department to effectively get itself into the fast-moving waters of an acquisition process
4. A failure of the HR leaders to clearly establish their knowledge and expertise in the area of M&A's before the opportunity came up

A deeper investigation of the exact cause would be the subject of a different study.

A Difference in Perspective

While it was clear that this specific expertise to help guide the cultural aspect of the acquisition was needed, our surveys demonstrated that there was a significant discrepancy between the perspectives of HR professionals versus other executives involved in the acquisitions under study. Specifically, this difference showed up in response to the question: "What is the right role for HR?"

In analysing the results, we noticed that there was a difference between the two groups, in answers to the following questions:

What is the right role for HR?

Strategic Business Partner	**The HR response was 20 points higher***
Advisor to Executive Management	**The HR response was virtually the same**
HR Functional Expert and Implementer	**The HR response was virtually the same**
Project Manager and Thought Leader	**The HR response was 13 points higher**
Steward of the HR Functions	**The HR response was 33 points lower**
Employee Champion/Advisor	**The HR response was 21 points lower**

* when compared with non-HR executives

There was a clear difference in perspective. While HR executives and managers saw a clear contribution to make, their fellow executives were more reluctant to use them in this manner. They needed the expertise, but did not hear the HR professional shouting "TRY ME!"

The widespread nature of the observation (backed up in the interviews) indicates that this is a challenge for the profession in the region, and is not a problem related to a small set of individual practitioners. The executives did not seem to be asking (much less demanding) that their HR professionals step up to the plate and provide what was missing. The HR professionals, for their part, were not demanding that they had the skills and expertise needed.

The HR professionals were not equipped to answer the questions that CEO's wanted answers to

Did they?

The truth is, our observation was that HR professionals were not equipped to answer the questions that CEO's wanted answers to, such as:

- how does our company's culture

compare against those across the region?
- what is the difference between acquiring similar companies in Trinidad vs. Guyana (or any other 2 countries in the region?)
- what are the best practices in integrating two different corporate cultures in the region?
- who are the HR professionals you know in, for example, Belize that could be candidates for an acquisition in that country?
- how deep is our talent pool and is it sufficient to provide the executive leadership we require to undertake one acquisition per year for the next 6 years?

HR executives that we have worked with, and who responded to the surveys were not equipped to answer these questions. Although there were complaints about not being treated a strategic partners, the fact is that the HR professionals included in the study did not demonstrate that they have (or had) answers to hard questions such as the ones noted above.

In other words, the groundwork was missing that could be used to demonstrate the expertise that was needed.

This is not to cast blame entirely on the shoulders of those HR executives who were in the study. The fact is that virtually none of the foundation research from which HR practitioners would glean answers to these questions has been done. A single company would have found it almost impossible to do the kind of research needed back in 2001.

Virtually none of the foundation research … has been done

On the other hand, we did detect a parochial nature existing among the practitioners in some companies. In some cases, they had not even met their counterparts in the same company in other countries, except on the odd conference call.

This reflects an interesting lack of curiosity -- one that at the end of the day manifested itself in a lost opportunity to make a unique and significant contribution in each of the acquisitions covered in the study. In many of the companies, the issues being faced today are a result of outstanding questions to which there were no answers during due diligence and implementation.

It takes years to develop the kind of expertise that the CEO's and other executives were requesting, and a late start has meant a non-start for the HR profession.

The Key to Synergy

One of the anomalies we found during the research was a sense of regret in each of the companies studied that the desired synergies did not transpire, in spite of their best attempts.

Synergies were seen as critically important. One of the ways in which this synergy would be measured would be through cost savings, and while there was an average of 83% agreement that cost savings were important, there was only 63% agreement that cost savings were actually accomplished. Most of those came from downsizing after the merger was complete, rather than any other method.

Meanwhile, the companies clearly saw the importance of the cultural fit, as shown by the following response:

- Cultural issues will affect synergies: 85% or 93% agreement (the question was repeated)

Yet, the execution was done quite differently.

In response to the survey questions regarding the pre-deal phase, the following responses were received:

How much value did your company place on the following items in the pre-deal phase?

During due diligence … executives were unable to focus on the cultural aspects of the exercise.

- Identifying issues and preparing a rigorous plan for conducting the due diligence stage: 86%
- Assessing the people, organizational and cultural fit, and the related risks entailed in various combinations: 63%

During due diligence, in other words, executives were unable to focus on the cultural aspects of the exercise. For different reasons, each of them found themselves working against the clock and focused single-mindedly on the short-term objective of being successful at the right price while raising the capital needed.

From our interviews, we gleaned that in some cases, the leadership of the new entity did not create an environment in which synergy was a priority from the onset. In other cases, the new leadership of the company was more interested in establishing control over the new entity. In others, the leadership tried to protect what had been a winning formula when the difference in national and corporate culture turned out to significant. And in another, the new entity showed only a change in ownership, but no significant change in cost structure, company name, brand or leadership.

At the time of the study, there was no evidence of the kind of cooperation that results in real synergy either through shared talent, intellectual property, technical know-how or consolidation of important functions. There was a common feeling expressed that not enough was understood or subsequently put in place with respect to the new corporate culture and leadership required to accomplish this critical goal.

With respect to the issue of how the HR function could have been used, respondents were asked the following: To what degree was HR used to educate the "deal team" about potential people, organizational and cultural risks? The answer was a mere 40%. It seems that in retrospect, they wished that they could have done so, if they had had the right expertise at their disposal.

The Development of a New Culture

While it is clear that the Human Resource (HR) function was not used to help plan the acquisitions included in the study, the question still remains: what are some of the things HR would do, if asked?

One key action would be to lead the development of we have called an "Acquisition Philosophy" by the deal team.

Most of the executives interviewed readily agreed that they were undertaking the purchase with the belief that their management and leadership could make a positive difference. They also agreed that making an acquisition successful has much more to do with the way in which the culture of the acquisition is integrated than the price paid.

What we have termed the "Acquisition Philosophy" has to do with a decision as to what precise combination of vision, mission, values and leadership to bring to the new company to turn it into a financial success in the mid to long term. The Philosophy created has everything to do with a sound understanding of the culture that prevails in the target company, and what interventions need to be created to make it successful.

However, our research showed that within the individual companies we researched, there were widely differing views on the Acquisition Philosophy to be used. In other words, executives within the same deal team differed with each other, and from what we could tell, did not realize that there was this critical discrepancy. The data collected showed that little value was spent in determining these differences. The question was asked: How much value was placed on the following items in the pre-deal phase?

Assessing the people. Organizational and cultural fit, and the related risks entailed in various combinations	**63%**
Educating the "deal team" about potential people, organizational or cultural risks	**63%**

Our research further indicates that different acquisition scenarios call for very different Acquisition Philosophies.

For example, take 3 sample companies:

<u>Company 1</u>: A company being acquired was a combination of entities that had formerly competed, and had all failed financially. The parent company decided to create a culture in the acquired company that was a modified version of the culture found in the parent's company. The new firm was formed around the same values, vision and mission of the parent, with small changes to account for differences in national culture. The leadership came from the parent company.

<u>Company 2</u>: A very successful company was taken over to help expand the market share of the acquiring company. The Philosophy created was to keep the company intact, and to keep the ownership in the background as much as possible, trusting that the success would continue and be unchanged by what was, in effect, a stock sale.

The lack of a clear (Acquisition) Philosophy left (companies) vulnerable

<u>Company 3</u>: A company did not know that it should create an Acquisition Philosophy, and did not address the culture of the company and how it would effect integration, except to mention it in passing comments. The company fought fires as they came up in the form of strikes, poor results and a rotating door of successive of leaders, none of whom were groomed for the job.

In our research done in 2001-2, the companies studied came closer to the Company 3 than any other. The lack of a coherent Philosophy left them vulnerable and without adequate plans for the many inevitable surprises that came once the acquisitions were completed. A complete Acquisition Philosophy may have included the following answers to questions being asked:

- Does the acquired company require a new culture, replete with new values, vision and mission that is new and distinct?
- Or, should the new culture just be the same as the parent company?
- Is there an intention to have local executive leadership? What will be done to develop it?
- If a culture change is required, how will it be affected?
- Will the new company be run by a local board or by the parent company? What are the lines of accountability?
- Will profits be repatriated to the parent company / country?
- Is the parent company willing to learn from the acquired company and change its culture accordingly?
- What will be done (or not done) to send a message to the employees that the change is a positive one, and what is the plan for motivating them and communicating in a way that reduces rumour-driven anxiety?
- What will be done to help people in the acquired company bring closure to their past successes and failures?

While the above list may appear formidable, our experience tells us that it is more important that the company's executives come to agreement, rather than be "correct." It is a fact that there will be surprises and unforeseen events that the implementation team will need to react to, and a well formed Acquisition Philosophy can be used to guide them in making the joint decisions that are required.

In fact, a badly formed Acquisition Philosophy is better than none at all, for at least is can be changed and improved as more is learned if it is managed within a common-sense process.

For example, at one regional company the directors of the firm steadfastly denied rumours that an acquisition was being considered. A week later, they announced that there was in fact an acquisition underway.

Instantly, everyone knew that they had lied, yet the fact was never addressed openly. Of course, it was talked about quietly for years after the fact and used as evidence as to why the company's leadership could not be trusted. A commitment to undertake the Acquisition according to some common set of values might have prevented the problem from being created, or at least have opened the door to ameliorative action.

A Dearth of Talent

One of the important findings of the research we conducted was one that had important ramifications with respect to each company's lack of managerial talent.

Most of the companies in the CAP study were undertaking acquisitions in response to a fire-sale – the immediate and urgent need for the Jamaican government to sell off companies it had acquired in order to save them from extinction.

As such, they were not actively searching for companies to acquire (by and large) and activated their due diligence teams in response to tenders that were put out by the government of Jamaica. There was virtually no extensive, detailed pre-deal activity from what we could detect.

Instead, they were invited to submit bids, against a particular deadline.

The result was a scramble to assemble successful bids, and to beat their competitors in the effort to expand their companies into new markets. This they did successfully, but there were several casualties of this situation that were seen in all the companies studied.

Once the companies were awarded the right to execute the acquisition, they had to face the difficult question of who would lead the new entity – a question that we did not see answered before the very last minute (and sometimes after.)

It was as if it was a case of "be careful of what you ask for, because you might just get it."

Obviously, for each company, there were the options of continuing with the prior management, but that had clear and obvious risks (especially in the absence of an Acquisition Philosophy.)

The problem was that there were no "spare" executives to lead the newly acquired company. The survey responses showed this grim reality:

- There is a process that will reliably develop managerial talent to ensure the success of future acquisitions -- 50%

- There are sufficient policies to allow easy movement of personnel between current and future subsidiaries -- 47%

- There is sufficient talent for the company to undertake another acquisition successfully -- 59%

... each of the companies... was found to have neither a success plan or management development programme

Suffice it to say, each of the companies, upon further investigation, was found to have neither a succession plan nor a management development programme when the acquisition was executed.

Furthermore, there was a considerable difference of opinion within some of the companies studied as to the leadership strategy to be employed in the post-acquisition on the following questions:

- Should the new leadership of the company be from the new country?
- If a temporary executive is used, who should that person be and who should be the replacement?
- Should someone be sent permanently from the acquiring company to lead the new company and how should he/she be culturally trained?
- How will new leaders in the next 3-10 years be developed?

There were divergent views on the above questions. The end result was that most companies did nothing at all, until implementation started and a snap judgment had to be made under pressure. In many of the cases studied, this misstep had ramifications that are being felt several years later.

The truth is, each company was experiencing the consequences of an underinvestment in its senior management development which limited its own growth. There was a feeling among the HR professionals interviewed that this was something that could be remedied with the right programs and proper funding.

Conclusion[vii]

The challenge for HR practitioners across the region is to develop the kind of expertise necessary to meet the challenge of increases M&A activity predicted by the changed spurred on by the Caribbean Single Market and Economy (CSME.) To do so, they must develop a level of curiosity and commitment to expand their world-view that may not have an immediate pay-back, but will spur individual growth and professional networks that will prepare them well for the future.

The challenges of a lack of expertise, differences in perspective, and the creation of synergy, talent and culture are all surmountable, although they will take the kind of regional cooperation that has up until now not been available. The sooner it occurs, the greater the benefit will be to the people of the region.

---

[i] The study benefited greatly from the input of its Advisory Committee, chaired by Robert Holland, former CEO of Ben and Jerry's. Committee members included Amie Devero, Prof. Mark Peterson, Prof. Donna Cooke and Mark Grossman who have spent many valuable hours contributing to the study.

[ii] Ahkenas, DeMonico, Francis, Making the Deal Real: How GE Capital Integrates Acquisitions, Harvard Business Review 1998. Booz Allen Hamilton, Merger Integration: Delivering on the Promise, 2001. Henry, BusinessWeek, Mergers: Why Big Deals Don't Pay Off, Oct. 21, 2002. Bekier, Bogardos, Oldham, Why Mergers Fail, The McKinsey Quarterly 2001.

[iii] A copy of the survey used can be found at the Framework Consulting website: www.fwconsulting.com/ideas under the section on Downloads

[iv] A copy of the offer letter sent to each company is available from the Framework Consulting website: www.fwconsulting.com/ideas under the section on Downloads

[v] Framework Consulting would like to thank the companies that chose to participate in the Caribbean Acquisition Project, as without them, the effort would never have started.

[vi] Unless otherwise stated, the common scale used was 0% for full disagreement, and 100% for full agreement

[vii] For further discussion about the results of this report and recent findings from the CAP research, please visit the Framework Consulting blog: www.fwconsulting.blogspot.com

FRAMEWORK
CONSULTING

3389 Sheridan Street #434
Hollywood, FL 33021
954-323-2552
www.fwconsulting.com