Overcome the barriers

DEBORAH THOMAS LOOKS AT HOW TREASURERS CAN HELP THE BUSINESS RETAIN CORPORATE KNOWLEDGE DURING A MERGER OR ACQUISITION.

Why is it that when an organisation takes over or merges with another, communication barriers seem to come up and neither party gets the best end result? Partly, it's related to information ownership, partly exercising control and partly lack of forethought. But there are some things treasurers can do to ensure better communication to enhance such transitions.

One of the key initial decisions for an acquiring company is which staff it needs to keep. It will need enough people to facilitate the transition of the treasury from bank account closure to unwinding positions and managing the bank relationships. Staffing levels will vary according to the complexity of the unwinding and the existing resources within the acquiring company. On a private equity-led acquisition there is usually no existing resource to bring across and an interim solution is frequently the first port of call.

There are two options. First, the acquirer can keep existing staff, a strategy which can be helped immeasurably by tying people in with retention bonuses for a fixed period (typically six months) and using that time not to leave them in a silo but to integrate staff and find out how things are done, what the differences are between departments and what that will mean for the new team. Making people feel part of the team is key to ensuring you maximise delivery via the download of intellectual property and experience of the acquired organisation. We often hear that members of the departing team are treated as automatons, just asked to carry out duties without further question.

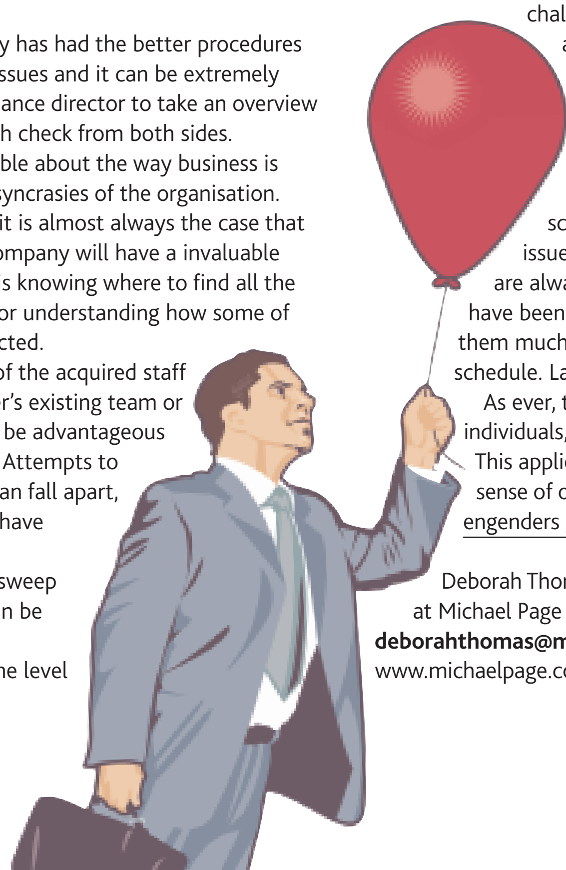
Sometimes, the acquired company has had the better procedures for dealing with particular treasury issues and it can be extremely useful for the incoming treasurer/finance director to take an overview of all practices and carry out a health check from both sides. Download all the information available about the way business is done, the relationships and the idiosyncrasies of the organisation. Not everything will be valuable but it is almost always the case that the treasury team of the acquired company will have a invaluable wealth of knowledge, whether that is knowing where to find all the documentation from years gone by or understanding how some of the previous operations were transacted.

The second option is to let most of the acquired staff depart in favour of using the acquirer's existing team or bringing in temporary help. This can be advantageous in terms of a relatively clean sweep. Attempts to instill a different culture and focus can fall apart, together with morale, when people have redundancy hanging over them. But remember, the downside of a clean sweep can be a loss of knowledge which can be time consuming to replace.

The next decision to be made is the level of staffing required in the new entity. In private equity-led deals, the level of expertise required can vary from recruiting or retaining a senior individual who can renegotiate debt, deal with the complexities of restructuring the legal entities or with international issues, to an individual who can monitor debt, covenants and cashflow positions. It can be beneficial to bring in an interim treasurer and team for the setup phase and then review the permanent requirement subsequently. In a private equity deal it is also worth considering a level of equity participation appropriate to ensure the right calibre of senior individual is drawn to the role.

Where there are two departments to be restructured, a thorough review of both teams is required to find the best fit for the team and its responsibilities. Where the decision is made to merge some or all of the two teams, a great deal of integration work may be needed to create a cohesive unit. Communicating effectively and encouraging social interaction really adds value at this stage.

A POSITIVE APPROACH As an employee at the acquired company it can be a difficult time, particularly to be motivated or to motivate a team to continue. But while it can prove challenging, it also offers an opportunity to benefit from the experience of devolvement and transition. Working positively with the acquirer can lead to new opportunities and the chance to see what has worked best in your department to date. Closing out a function brings a range of challenges and experience that could prove advantageous for the future. The more positive you can be through the transition, the better you are likely to fare later.



One of the other decisions to be made is timing and the management of the process. A full and detailed project plan and timing schedule allows full forethought to be given to the issues that may arise and planning for them. There are always unforeseen challenges but the fact that most have been thought through and planned for will make them much easier to accommodate into the working schedule. Lack of planning frequently leads to costly delays.

As ever, the better the communication between individuals, the greater the chance of a smooth transition. This applies to all parties involved in the process. When a sense of openness exists through the transition, it engenders greater support, cohesion and facilitation.

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