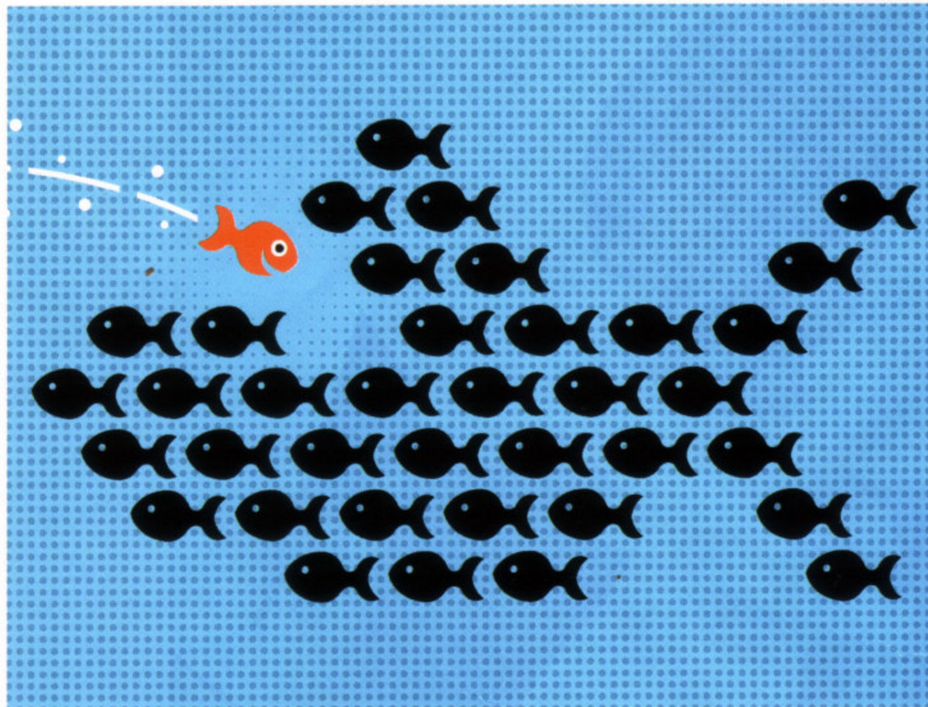
[Mergers Without Tears]

ENTREPRENEURS INSIDE THE MACHINE



EXPERTS who study mergers and acquisitions know deals have a dark secret: Most of them destroy shareholder value. The question is why, and the answer, according to David Harding, has a lot to do with the exodus of top talent from acquired companies.

That's why Harding, who runs the M&A practice at management consultant Bain & Co., is encouraged by the increased attention acquirers now pay to what he dubs "human due diligence." For Harding, that means looking at the entrepreneurs whose companies are about to be rolled up as potential assets rather than tumors that need to be excised.

The process starts with identifying key employees early—preferably within the first 30 days of the transaction's announcement—and moving quickly to retain them and find roles that keep them motivated. Sounds obvious enough, but in a Bain survey of 40 recent deals, barely half of the acquirers bothered.

One example where that approach has worked is General Mills' 2000 acquisition of Small Planet Foods, an organic-food company in Washington State. After the deal went through, General Mills allowed Small Planet founder Gene Kahn to continue running the company much as he had when it was independent. "They gave me a lot of leeway to explore the synergies on my own rather than be rushed into them," says Kahn, now General Mills' green czar (official title: vice president of sustainable development).

FOLDING A MAVERICK INTO MIDDLE MANAGEMENT IS A BAD IDEA.

Such a kid-gloves approach was especially crucial, says Kahn, given the antipathy toward the mainstream food industry within the organic-food movement. "They knew it was wise to have a respectful, hands-off approach," says Kahn.

The strategy has worked. Small Planet, home to the Cascadian Farms and Muir Glenn organic-food brands, has since turned into one of General Mills' fastest-growing divisions, with sales rising 15% in the quarter ended in February.

Acquirers are also paying more attention to what makes entrepreneurs tick. They've learned, for example, that plugging company founders into middle-management jobs is a retention strategy doomed to failure—but giving them their own division to run often works.

For instance, not long after Viacom acquired online games and short-films company Atom Entertainment for $200 million last year, Viacom anointed Atom founder Mika Salmi as head of digital media for its MTV, Nickelodeon, and Comedy Central networks.

Similarly, when Yahoo bought online photo-sharing site Flickr in 2005 for a reported $30 million, Yahoo asked Flickr cofounder Caterina Fake to launch Brickhouse, an in-house incubator tasked with creating the next Flickr.

"That was perfect for me," says Fake. "Entrepreneurs have a drive and a passion that needs to be channeled. A cushy job is not what these people are looking for. They're looking for a challenge."

It could be that more companies are beginning to get religion on their dealmaking. Harding's research finds that the track record of M&A deals has actually improved lately—the percentage of deals that fail to increase shareholder value has declined in recent years, from 65% to 50%. "Companies are learning from their mistakes," he says. —*Jon Birger*

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