

When the Going Gets Weird...

PM's Marta Włodarz talks to Thomas Kolaja, from Kolaja & Partners, an interim management advisory, about the specifics of M&A deals in Poland.

Włodarz: Is the Polish market mature enough to support many M&As?

Kolaja: A boom will come when people who have capital feel that what is up for sale is relatively cheap and buying it will enable them to make more money. The valuations of companies listed on the Warsaw Stock Exchange (WSE) were considerably higher than in other countries, which was a problem.

Of course this can be explained by the fact that the economy is growing quicker and therefore the growth potential of Polish firms is higher than in the West. But it seems that the majority of large, foreign funds are gone from the WSE.

The majority of funds on the Warsaw market are pension funds, backed by Polish capital. There was a correction in the first quarter of this year and I think that this will lead to a general feeling that businesses will now be sold for less. We can expect a considerable increase in mergers and acquisitions in Poland.

Włodarz: Poles abroad performed M&A deals worth USD 7bn in 2007. Is the domestic M&A market exploited?

Kolaja: The situation is once again a consequence of the real value of expensive shares. If people think that Polish companies are too expensive, then they won't buy them unless they see that the price still doesn't reflect the value so it may increase further. If abroad things were cheaper, then it's no surprise that investors bought them there. Now that we expect the US and Western Europe to fall into recession maybe it's a good time for Polish firms to carry out takeovers in Central and Eastern Europe.

Włodarz: There is a belief that 80 percent of M&As end up in failure or a reduction in profits. To what extent is that true in Poland?

Kolaja: I think that 20-30 percent are successful. There is a large proportion, 30-40 percent, of transactions which lead to a reduction in the value of both the companies involved. But we haven't seen

this happen yet in Poland. Even if companies go through a difficult period when they just merge, this will make the Polish economy grow by five percent annually, even unsuccessful mergers eventually lead to a general increase in value for both parties. If you take a general look at the structure of our economy, consolidation must occur not only in Poland but in Europe as well. In Poland we will see more takeovers, particularly in the industrial sector.

Włodarz: Will we see foreign entities taking over Polish companies, or will all the companies involved be Polish?

Kolaja: Probably at first Polish companies will take over other Polish companies, and later foreign ones as well. At the end of the day we can expect that Polish giants which emerge from certain sectors will become leaders in CEE if they continue to purchase a lot.

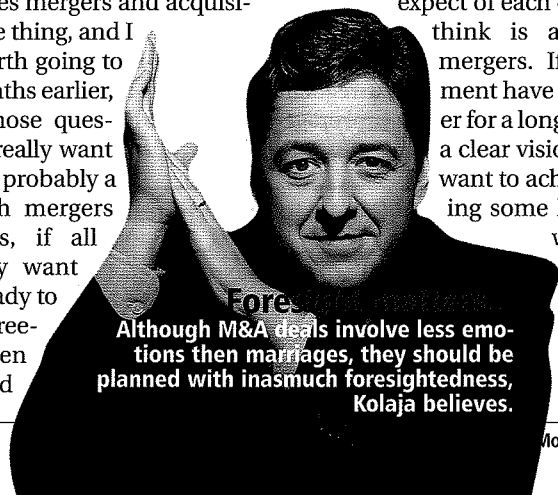
Włodarz: What is the greatest challenge for managers trying to successfully combine corporate cultures of two different firms?

Kolaja: I think that the first and probably the most important thing is that before the process begins, managers have to establish whether the two cultures will generally be able to mix. I think that one of the worst things to do is to go to Las Vegas, fall in love at first sight with a stranger and after half an hour relationship get married in a chapel around the corner. Sometimes mergers and acquisitions are the same thing, and I think that it's worth going to a priest a few months earlier, and asking all those questions like do we really want children? And it's probably a similar case with mergers and acquisitions, if all know what they want and if they are ready to enter into the agreement with open eyes. It's not good

if you are part of the company which is being taken over. Suppose a foreign company comes in and tries to force a Polish firm into becoming something it isn't. Although mergers or acquisitions are obviously less emotional than human relationships, you have to take a common sense approach. Sometimes company owners aren't in a position to decide themselves. It's a good idea to hire external advisors, law firms, accountancy firms etc. And not to scrimp on them. You should pay per hour spent on the project and not for specific tasks. You earn money when you complete the merger. These advisory firms are there for a reason. During a merger, it's best employ the most expensive advisors you can find on the market, who charge by the hour and have a lot of experience. They can say what you should expect from a given transaction, and due to the fact that they are paid by the hour they will not try to sort everything out as quickly as possible. It's worth planning all steps necessary before the eventual consequences for clients and employees, for the whole operational activity and for the owners. Planning this in advance enables you to avoid problems later.

Włodarz: There is also the view that firms that are managed by people who have been in the job for a long time do better mergers. Would you agree with that?

Kolaja: An important issue is the level of integration of key management members. Only management teams that have worked together for at least seven years start to function properly. When a management team is initially put together, people have a small battle amongst themselves to define their positions. After three to four years everyone knows their strengths and weaknesses, and after seven years they already have no reason to hide anything. They know what to expect of each other and this I think is a plus during mergers. If the management have worked together for a long time and have a clear vision of what they want to achieve, then during some kind of merger where there are a lot of spoils to be divided, if you know that you can count on your



NOTE: Although M&A deals involve less emotions than marriages, they should be planned with inasmuch foresightedness, Kolaja believes.

colleagues and know how they are most likely to behave, then everyone is able to position themselves accordingly and trust one another. This can enable them to achieve greater stability during the transition and work out in which direction they can progress further. However if it's a new management team that have worked together for, say, six months, then during a merger they don't trust one another. This creates a lot of tension particularly in firms taking over other firms where a stronger internal battle appears within the team. This internal battle is played out during the exact period of the merger which is never the best time.

Włodarz: Which methods of evaluating investment projects do you think are the most effective? Do you have a particular favourite?

Kolaja: I don't have a strong opinion here. I would look at EVA or the Net Present Value of the project. I'd see if the value of the company goes up during the project. It's also worth looking at how projects generate cashflow, as not only net profits count. Financial liquidity is important too as is the sufficient net level of working capital.

Włodarz: You have worked in a lot of different countries, gaining a lot of experience, how would you rate the possibility of disciplining a management team in Poland?

Kolaja: There is no problem, you just have to motivate people in the appropriate way. Probably the most important thing is that everybody understands what they're aiming for and how much can be gained by working on achieving that. Then everything will go like clockwork. If there is no money available for bonuses, everyone will look after their own interests and won't work as a team. Aims must be clear, like the rules of a game are clear. Personal aims must be harmonised with corporate aims, so that everyone is pulling the firm in the same direction, and they want what's best for the firm and not for themselves.

Włodarz: What about the fact that the world's largest investment banks are not represented in Poland to advise on mergers and acquisitions?

Kolaja: But there are a number of Polish banks who provide an investment observation service for corporate finance.

Włodarz: Are they on a par with world giants?

Kolaja: They are tailored to the needs of

the local market. The problem with transactions which are carried out here is that they are too small to engage large investment banks. As soon as someone big does a merger then the largest banks in the world will be invited and they will advise, but these small transactions don't attract the attention of the biggest banks, because large investment banks want to earn several million euro for each transaction. And if a company has a sale of only PLN 200m, then there's no way they'll be in a position to employ the world's biggest banks. And it wouldn't make any sense to.

Włodarz: How long does the process of consolidation usually take?

Kolaja: The quicker it is finished the better. It generally depends on the size of the firm. Average Polish firms should need six months to sort out everything. Within three months a new team of directors under the management is chosen, the external identity of the firm is updated, and clients are informed that it is now one company. Within six months everything can be functioning well. If it takes longer I don't think it's good for the clients, it's not good for the management team and the employees because throughout that period there is uncertainty. In fact, one of the biggest problems is uncertainty. The best people may receive offers from headhunters. Clients are approached by other suppliers who are in a better position to take orders. There can also be uncertainty on the market if it isn't clear what direction the company is heading. If we work for Polish clients, we often observe that they are afraid of taking unpopular but breakthrough decisions. They are afraid that they'll get the sack for it. But you have to remember that when you take decisions, you have a 50 percent chance that you have taken an appropriate decision. If you don't take a decision you may be 100 percent certain you that you haven't made a good decision. And it is this way of thinking that is essential during mergers and not the opposite, which is the traditional Polish way of thinking. Getting rid of this attitude is the most important thing during a merger.

Włodarz: Besides the financial aspect, how to find a good partner to merge with?

Kolaja: I think that again culture is an important factor as is whether the companies are in the same sector or a similar sector, do they take decisions in the same

way, whether their way of thinking about business is the same. Because you can end up with an organisation which is strongly centralised with some kind of head who takes all decisions trying to integrate with a company where there is a very open process of taking decisions, where a board of directors think together about various things and take decisions. During a merger these two companies would have very little chance of success. The approach to business is also important. You have to establish if you want to be the cheapest product or have the lowest costs. Because your partner may want to concentrate on achieving the highest possible quality. Cultural compatibility between the two organizations is one of the most important things, without this nothing will happen.

Włodarz: How do you go about informing people within the company? Or stakeholders? The suppliers or the clients?

Kolaja: You need to have a well-organised communication strategy, which is very proactive. In mergers and acquisitions you can never have too much communication. Even if you say something to employees and they understand it well, a hour and a half later they will be buzzing with the latest gossip that some thing isn't quite right. You have to communicate with employees everyday, several times a day, about management plans. The same goes for people outside the company and clients, everyone must know what is happening. Otherwise there can be a resurgence in uncertainty which can have a negative impact on the image and results of the firm.

Włodarz: Finally, what are the characteristics of a good manager according to you?

Kolaja: I see it as divided into two roles, one is being a manager, the other is being a leader. A good manager is probably well organized and does everything he or she is supposed to do. A good leader has the kind of characteristics which incline people to choose them as their leader. If we talk about my role, it is usually to try to concentrate more on what makes a good leader than to be a good manager. Leaders can be completely bad managers and have chaos around them. I would say that I am probably a better leader than manager. ■

Comments? Questions?

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