

## The sensibility of responsible acquisitions



[Russ Sherlock / Special to IBJ](#)

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Bring up the topic of business acquisitions, and most people get one of two images in their minds: Gordon Gekko in the movie “Wall Street” or headline-grabbing megadeals.

Most of us know that, while there’s some reality in those images, they don’t represent typical acquisitions. The truth is, the acquisition is one of the marketplace’s most reliable drivers and one of our best tools for climbing out of our economic slump.

Put simply, an acquisition is a transaction that allows one party to monetize an illiquid asset and another party to invest. The result is that cash is released into the system and economic growth gets a jolt.

Unfortunately, Hollywood and headlines have distorted this reality by focusing on big, company-gutting transactions. Businesspeople need to set the record straight by doing things right.

Most entrepreneurs start businesses with a vision of working for themselves doing something they love. They typically don’t think about how they’ll ultimately get the value out of their enterprise. Sure, they might dream about one day selling for a million dollars, but they don’t spend much time planning for that day. They’ve got a business to run.

Then one day they find themselves at a crossroads. Maybe business is leveling off and they don’t know why. Maybe the business has grown tremendously and they’re frustrated about spending more time shuffling papers than doing work they love. Maybe they just can’t see how to reap value from their hard work without selling the enterprise and walking away.

This is where an acquirer can step in and make dreams come true. In doing so, the acquirer has three responsibilities.

Before I get to those, though, I want to discuss value. If an entrepreneur doesn’t know how the marketplace values that business, there is homework to do. The probability of a successful deal goes up significantly if both parties have done their valuation homework and aligned their expectations with recent market transactions.

For the acquiring firm, the first responsibility is to increase the long-term value of the enterprise, not simply draw cash from it. This means investing in the acquired business, providing resources and leaving intact the elements that make the business work—including the people. Think about it: An entrepreneur whose business is being acquired shouldn’t feel that the best day in his or her life is the worst day for his or her employees.

Second, the acquisition should help the entrepreneur grow, not put him out of business. For the typical entrepreneur, the business is his biggest asset and the biggest obstacle to getting to do the work he does best. The best acquisitions allow an entrepreneur to focus on her strengths, delivering value to the bigger enterprise while also getting a reward for years of hard work.

Finally, the acquisition should create value for all parties, from the entrepreneur to the acquiring entity (after all, business is about generating a return on invested capital). Structuring a payout over years to capture the value of future growth versus giving the entrepreneur a one-time payout can often deliver a sizable return today and offer the entrepreneur an opportunity for a “second bite of the apple” in the future.

Why do I feel so strongly about all of this? Because in a time when capital for growth is hard to come by, acquisitions can provide a much-needed boost not only to an entrepreneur but also to our nation’s economic recovery. That’s why I believe acquirers have a responsibility beyond their own bottom lines, and why they must see beyond their own transactions.

Otherwise, they might add little real value, and they could do as much damage as Gordon Gekko and his notorious “greed is good” mind-set. •

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