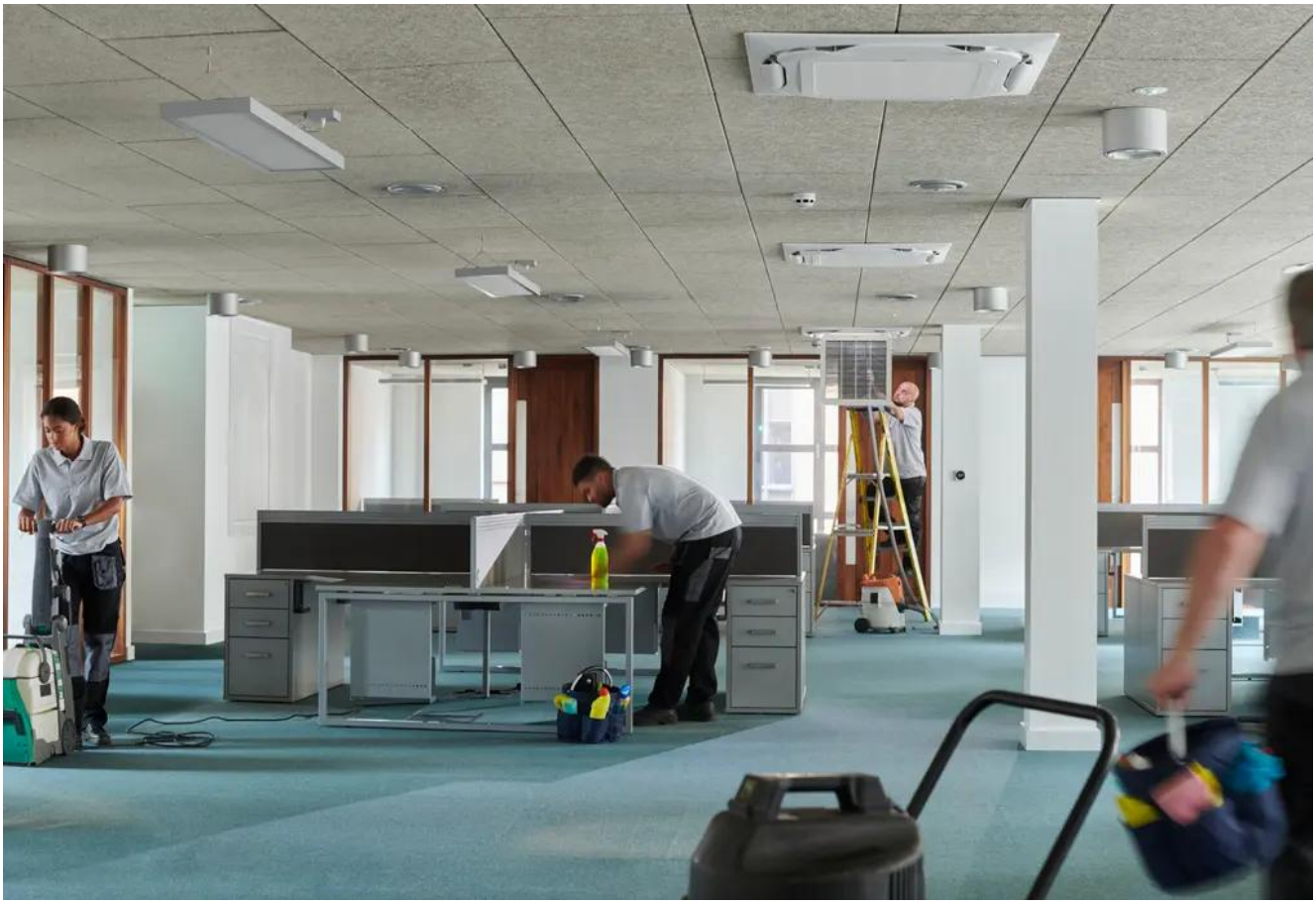
ISS: Keys to successful acquisitions



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More than half of all corporate acquisitions fail. However, the multinational services company, ISS, has managed to become a leader in the areas in which it operates, thanks to its policy of

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acquisitions in the new countries or sectors that it takes on. IESE's Julia Prats and Remei Agulles explain the keys to its success.

ISS began operating in Spain in 1999. Within three years, it acquired more than a dozen companies and boasted more than 6,000 employees. How do you create a major company through acquisitions, when statistics show that more than half of such operations fail?

A case study of ISS Spain, carried out by IESE Prof. Julia Prats and research assistant Remei Agulles of the Center for Family-Owned Business and Entrepreneurship (CEFIE), analyzes the strategies that brought success to this multinational services corporation.

Growing through acquisitions

Founded in Copenhagen in 1901, ISS began as a security company before branching out into cleaning services. From the 1960s onward, it began expanding beyond Scandinavia by acquiring companies or diversifying its services portfolio. In the 1980s, it consolidated its presence in Europe and Brazil, and launched operations in the United States.

In the late 1990s, Joaquim Borràs was hired to lead the Spanish expansion. Borràs, who still ran the company's Spanish unit at the time this study was written, was given total freedom and support to launch the project, with just one condition: he had to grow through acquisitions.

This meant that ISS had to buy up existing firms in their entirety, paid for with funds supplied from headquarters. Companies showing any hint of corruption or negative margins were to be avoided.

The Spanish unit was established near Barcelona. Borràs started by buying cleaning companies. By 2003, ISS acquisitions focused on services other than cleaning, starting with pest control, then moving into maintenance, auxiliary services and eventually catering.

Having made 18 acquisitions and experienced organic growth of 7 percent, ISS turned its attention to the western part of Spain where it had the least presence. It set its sights on UNICA, a big catch, but acquiring it was going to be tricky.

The two companies studied how to transform UNICA's structure into business units of ISS Spain. In return for integration, UNICA was offered a high degree of autonomy and major decision-making responsibilities. In this way, UNICA was able to embrace the move, as most

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interpreted it as a promotion.

UNICA's director Javier Urbiola described the integration process as surprisingly stress-free, due in part to the painstaking efforts that went into the design of the combined operation. Even though he had planned on leaving the company when the process was over, Urbiola decided to stay, because of the "personal way" in which Borràs addressed things. "I think that is the key," he said, "because organizations are made up of people, and we all appreciate humility, respect and personal attention."

Three lessons

Mergers and acquisitions can be viewed as great opportunities for learning. Here are some lessons that ISS learned from its Spanish experience.

- *Choose the best.* Combining two companies into one inevitably means there will always be two sets of people vying for one remaining job. Your job is to choose impartially the better of the two candidates. The same goes for deciding which systems to retain: you must opt for the best practices. Sometimes the company being acquired may have better organized systems: you would be better off adopting them and instituting them throughout the rest of your organization, instead of discarding them out of hand. Rather than say, "Out with the old, in with the new," you must weigh up both and hold onto the best.
- *Sales are not everything*. When considering the best candidate for a merger, do not simply look at sales figures, but also evaluate knowledge, experience and technology. For instance, when expanding into pest control, ISS Spain knew that the true asset of that sector was the knowledge of the technicians, which only comes with experience, because there are no specific studies to learn such a trade.
- *Integration is a human issue*. Each company has its own way of doing things, so try to understand the organizational culture of the company that is being acquired, and make sure there are excellent work habits in place before taking on more companies. Also, do not force yourself on the target firm: actions taken against someone else's will usually come back to haunt you.

Addressing fears

Integration of this kind naturally raises all kinds of anxieties: fear of losing a job, of being demoted, of pay cuts. Executives also fear losing control of the process, being sidelined or being ignored.

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Before undertaking the acquisition, ISS Spain tackled these fears head-on with a letter of intent and by devising an integration plan. To offset so-called "passenger anxiety," Borràs recommended letting executives take part in the process, creating teams in which people from the acquiring and target companies could work together.

Another fear is of the unknown, which ultimately feeds rumors. When people do not know things, they make them up. To avoid this, the best antidote is information. Otherwise, silence encourages speculation.

Recognizing this aspect of human nature, within a day of making an acquisition, ISS Spain held a meeting with all employees and union reps of the newly acquired company to present a detailed integration plan, thereby allaying fears arising out of ignorance.

A final fear is that the process will be long and painful. With this in mind, one should aim to make the process as short as possible, preferably introducing it during the summer, so that it can be implemented during the fall months and come to a natural conclusion by the year's end. This allows the new organization to be up and running at the start of a new year, which is psychologically helpful.

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