

M&A Impacts

BY RICHARD POWERS

This month's column will combine and retell some anecdotes we've been told about being acquired in a merger or acquisition (M&A), good and bad; the four stories are fictional but based on real-life as told to this author. Last time, we told the story of an EW entity likely to disappear due to OTA competitive pressure. But we also explained how being acquired multiple times degraded their ability to compete, so we will start there.

Story 1: The Shotgun Wedding

In the February "Industry Insights" column, we introduced our protagonist, a small EW business that was started in the 1990s by entrepreneurs who hired people who shared the same entrepreneurial DNA. After a decade, they sold to an EW company that kept their core team in place. That EW company was bought by a larger EW company, which was bought by a big defense contractor, which was merged into another defense contractor. Each step in this progression

brought "golden handcuffs," and once each "handcuff" period was over, some entrepreneurs vanished, but a core EW team remained. At one of the steps, an owner decided to combine the EW business with another acquired operation that had nothing to do with EW, and it made the manager of the other operation the leader for the combined business.

This other operation was failing, did not know it was failing, and brought no EW skills or experience to the combined business. The leader did not care about anything other than making orders, sales, profit and cash with minimal investment (including IRAD) and put his people in charge above the EW people, despite EW being the core strength and money-maker. The EW business, due to this poor leadership and lack of investment, began to fall behind the times. The EW team, with no meaningful internal support, made an all-out effort about a decade earlier to convince one of their military customers to fund an upgrade of their excellent fielded EW system. But that upgrade suffered

cost and schedule problems due to weak leadership from the new company leadership, non-existent oversight, and lack of IRAD to have better prepared for the modernization bid. They got a black eye with the customer and with the big corporation that owned them. They recovered, but with a significant overrun and delay, and delivered a good result that will keep the product relevant against the threat.

To survive, the non-EW product line within the protagonist organization had foolishly accepted a firm-fixed-price development project and completely blew it by millions, the details of which are not important, other than to say that weak leadership, arrogance, incompetent engineering, and non-existent corporate oversight were major contributors. The combined business (including the EW operation) simply got another black eye within the corporation. Thus, going into a current EW competition that could shape the next 20 years of their EW existence, the EW operation has been weakened internally, and not trusted with a major investment to win, which causes more talent to vanish, including new leadership that was solving many of their execution and strategy problems. So, along with the challenge of chasing their entire EW future against well-heeled competitors, our EW team is saddled with baggage that resulted from poor executive leadership decisions made after each acquisition. If they lose the competition discussed in our previous column (see JED, February 2026, p. 30), incompetent M&A and resultant incompetent leadership will be part of the root cause.



In a shotgun marriage, corporate headquarters can be thought of as the father of the bride.

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Story 2: "Good News"

Our second story is a "good news" tale. A large company with a history of being the "Star Trek Borg" when buying companies ("You will be assimilated, resistance is futile"), where value was

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resultantly destroyed (although nobody would ever acknowledge this), was about to acquire a major new product line. This product line is very profitable, and the big company CEO made it clear they were not to be derailed by the rapid, forced use of big company processes, which had been a root cause of problematic integrations in the past. This enlightened view, to not fix what is not broken (while obvious in hindsight) is not always the case, which will be discussed in our next anecdote. The big company CEO earned his compensation with this wise decision (despite being the “Borg” for previous acquisitions).

Story 3: Center of Gravity

The opposite scenario happened when another big corporation acquired an entrepreneurial EW specialty shop 20 miles from its “center of gravity.” The big corporation approached this small company with an attractive offer; they were not actually for sale. This small specialty shop had a new technology that was “the right product at the right time,” although it was also immature since it was proof of concept R&D. Golden handcuffs were placed on the leadership of the specialty company, and initially the strategy was to let them continue to do what they do.

But the Borg did have their way here, with its Engineering function demanding

Their biggest complaint, however, was that headquarters leadership never took the time to truly understand their avionics business, their technology, their history, their regional culture, their local corporate culture, nor respected their accomplishments and abilities.

the specialty shop adopt the entire set of processes used by the big company. This little company thrived on QRC and keeping costs down to be competitive, and it was thrown into chaos by this new set of mismatched engineering processes.

It was then decided to move the small EW shop’s product development and production to a larger site hundreds of miles away, because that other site had no work because they had mis-managed and priced themselves out of their “right product at the right time” advantage. The Borg also closed the local office of the small group, moving their remainder to the headquarters facility.

The people who invented the new product were now tasked with transferring their knowledge to people who were failing. To make matters worse, the Borg’s engineers were arrogant about their abilities to do better than the inventors of this new product. To bring this sad tale to a

close, a few of these systems were built and sold, but the program never really took off because the product became far too expensive. The small company entrepreneurs eventually all departed and started another company, which they recently sold, and the Borg’s team that killed two innovative products needed by the warfighter is now out of that business.

Story 4: The EW Borg

Let’s turn our attention to culture shock: for example, when the acquired business is distant from its new headquarters’ center of gravity. In this story, a large defense corporation that also owns a large EW-centric operation acquires a non-EW defense avionics business. This avionics business then ends up under the corporation’s EW-centric operation.

The newly-acquired avionics supplier has a long history of excellent performance, strong profit margins, and lasting customer relationships. It has developed and manufactured products for its loyal customers from the same location for more than 50 years. Its staff and leadership are well rooted in this location, which is in another part of the country with a different regional flavor. In terms of processes, the avionics company has relied on engineering and manufacturing processes that have served it very well. But these processes are different from those of the EW-oriented business that will oversee the avionics operation.

The Borg, it should be understood, are present in more than one company. In this case, just to be clear, we’re talking about an EW-centric Borg, and the EW Borg (a.k.a. headquarters) is going to have its way. It will demand that the avionics business it oversees must adopt the headquarters’ processes.



When a small specialty operation is moved far away from its original home, the business can lose a lot more than its former location. | SAKAVICHANKA [SHUTTERSTOCK.COM](https://www.shutterstock.com)



Sometimes company leadership can focus too much on its own identity and fail to integrate new acquisitions properly. | SASIN PARAKSA [SHUTTERSTOCK.COM](https://www.shutterstock.com)

Upon non-partisan examination, the engineering and manufacturing processes at the headquarters were no better than the existing ones at the avionics operation, and forcing the latter to accept the former's processes would only cause disruption and margin erosion. The avionics team finally gave in, however (not that they really had a choice). The resulting disruption caused margin erosion for the avionics operation, which the headquarters subtly blamed on the avionics team leadership. Next, the headquarters decided to close the avionics operation's manufacturing facility to save on real estate costs, and it decided to move all avionics manufacturing to headquarters, which represents yet another disruption that eroded margins – also quietly blamed on the avionics leadership.

Even before the avionics operations were moved to headquarters sub rosa deep hatred of the headquarters – and hatred it remains – developed at this remote site. This hatred was compounded when the avionics business was starved of next-generation product investment so that the headquarters could pay for an EW investment instead. The avionics business was treated as a cash cow to be milked to pay for growth in other areas – growth that never actually materialized.

Their biggest complaint, however, was that headquarters leadership never took the time to truly understand their avionics business, their technology, their history,

their regional culture, their local corporate culture, nor respected their accomplishments and abilities. Their technology was seen by the headquarters "EW mafia," as they were called, as requiring lesser engineering skills. An open-minded examination would prove otherwise; it was different, but just as hard.

The good news is that because of their tenacity, the avionics business continues to thrive and deliver strong margins despite all the trauma inflicted by the EW Borg. But one has to wonder what they could have accomplished if they were embraced as equals by the EW mafia.

Does a smaller operation at a distance from a center of gravity face a significant disadvantage in receiving proper, balanced attention, understanding, resources and investment, and strategic integration? We found they are subjected to instant demands inconsistent with previous practice and culture, thus destroying the value paid during their acquisition. Due diligence needs to take culture and location better into account and plan for a gradual integration that preserves value. Golden handcuffs are not enough; as soon as those retention bonuses are paid, key personnel will vanish if they feel their people and their business are not respected and not treated fairly. The value of the business will decline, and whatever synergy claims were made to justify the original acquisition price never materialize. These problems are avoidable if due

diligence is done right; take the time to understand the culture and people and have a strategy in place before buying.

Integration

Acquiring a new business is challenging for both parties. While a lot of time is spent finding buyers and identifying potential acquisitions, the real work begins after the deal is completed: executing the best integration strategy. In a merger or acquisition, the companies – leadership and their respective staffs – inherit each other to one degree or another. Some teams and operations can be moved. Others are better off left where they are. Some processes can be shared between operations and others cannot. Culture always matters.

The objective is to create value from the synergies and certainly not to destroy value because of poor management decisions fueled by leadership arrogance or just intellectual laziness. Preserving a culture of innovation or execution excellence after an acquisition is extremely challenging, as these tales told to this author indicate.

Up Next

In our next "Industry Insights" column, we will look at competitive pre-proposal and proposal positioning to win and (just as important) to execute the program. 🦅

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