

10 Keys to a Successful Merger or Acquisition

Mergers and acquisitions are a fact of corporate life for companies seeking to grow rapidly. The selection, validation and negotiation exercises are time consuming and expensive and many candidate merger or acquisition projects do not come to fruition. For those that make it, once the deal is done and the accountants, lawyers and other advisors have departed, it is easy to assume that things will settle down quickly. The reality is that many mergers and acquisitions still haven't delivered the anticipated value some years later. So what can be done to improve the likelihood of a speedy and successful outcome?

Change Management Group has observed many merger and acquisition exercises, and has identified ten keys to success that typify a successful integration.

1. Management Capability and Motivation

The management teams of the constituent parts of the combined organisation are unlikely to be kept separate, otherwise why decide to acquire or merge in the first place? The management teams will need all their leadership skills to bring about an effective integration.

Keeping a tight focus on the business whilst the senior management teams are themselves integrated will be important. Start by asking: "What would good look like?" Use this thinking to help shape the integrated management team and to migrate smoothly to the new structure.

The example set by management teams will cascade down to the wider workforce, and is likely to be noticed by customers, suppliers, industry analysts and the media. It is therefore clear that their capability and frame of mind will be pivotal to the success of the integration.

It is important to stabilise the integrated management team quickly. Ideally, changes will be made decisively, quickly and with dignity to minimise the aftershocks. Have you planned a skills audit of the top 2-3 layers of management? Have they been independently canvassed to ascertain their views about the integration? Has their skill set been formally assessed? Has coaching or mentoring been made available, individually and collectively? How will you know if the post-integration management team is working well? What internal and external support will be needed for this work?

These are a subset of many questions that need to be answered, yet they may easily be overlooked under the pressure of other integration work. Leadership isn't optional: it needs to be cultivated and the management team developed into a cohesive force.



2. Revenue Forecasts

Due diligence work will have identified the value of work in progress, order backlog and sales pipeline. When the merger or acquisition has been finalised these figures need to be scrutinised thoroughly. Do both constituent organisations use the same method of forecasting? Are the forecasts optimistic, realistic or pessimistic? What needs to be done to secure the forecasts? What are the contractual and other risks? Are there any contingencies (or have these already be used?) Are there any unwelcome surprises?

Using impartial people, or cross-fertilising the constituent organisations, will give the best answers to these questions. If there is bad news (and there usually is) the sooner it is known about the easier it will be to deal with. An amnesty period may encourage a culture of honesty rather than deception, and this may be an important value that endures in the long term.



3. Cost Reduction

Assumptions will have been made in the business plan about the opportunity for cost reduction. Inevitably, some of these assumptions will prove to be ambitious, whilst others may be discovered at a later time.

Focus needs to be on realistic levels of cost reduction that don't cause damage in other places. Headcount is an obvious area to consider. In the event of large scale redundancies it is necessary to comply with complex legal processes, and consultation with staff may need to be curtailed until the impact is known, A lack of information made available to staff will create uncertainty and anxiety, at the very time that good performance is required. Speed is therefore of the essence.

It is worth considering the impact of headcount reduction on the ability to execute other areas of cost reduction, whether a matter of capacity, skill or morale.

In other areas one-time cost reduction opportunities may be less time-critical than those that recur. But the impact of timescale needs to be modelled to see the impact on quarterly and annual results, in both P&L and cash flow terms.

4. Asset Utilisation

Assets here can be interpreted in the broadest sense, to include:

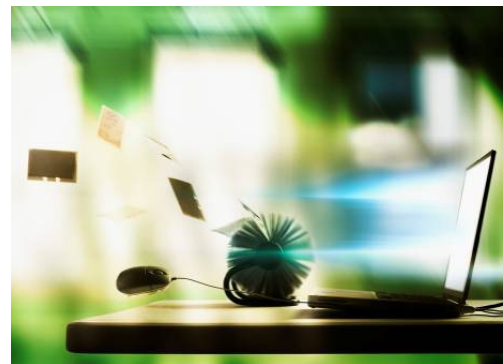
- Plant and equipment
- Vehicles
- Property and facilities
- Workforce
- Purchasing power
- Natural resources (wind and solar power generation, ground/grey water supply, heat pump infrastructure, waste reduction or recycling)
- Neighbouring organisations or partners who may share assets.

How are these assets valued? Do they have spare capacity that could be exploited in some way? How? And who would be responsible for this? An open and creative exercise will identify many opportunities to leverage the assets of the combined organisation, to rationalise provision or to generate and deploy additional capacity.

A good starting point is to allocate accountability and responsibility for extending the utilisation of each class of asset. To be completely effective this will need to be reflected in personal objectives, and weighted sufficiently to encourage an appropriate focus.

5. Back Office Efficiencies

The concept of shared service centres providing finance, HR, training, IT and marketing facilities across a range of group businesses is not new, but these can take a long time to set up. If combined with an offshore strategy the risk increases. Projects to set up shared services need dedicated resources with strong and relevant experience. The resulting user experience needs to be modelled as well as the cost savings, to avoid designing an inferior solution that inadequately supports the business.



6. Location Review

The location of each part of the integrated business can be considered in order to release surplus capacity and to align services with the needs of the organisation and its customers.

A property review should be carried out to ask such questions as:

- Can freehold property be sold at an acceptable price, or can leases be terminated?
- Does the location and appearance of the property make the right statement about the organisation? If it needs to be improved, could it be refurbished or is relocation the best option?
- Would a centralised or distributed operating model be best?

- Can technology be used to automate processes and reduce the need for physical presence?
- How does planned business development growth translate into property suitability and scalability?

7. Cultural Integration

This breaks into several components.

Leadership

The example set by the most senior people in an organisation will be the most significant determinant of its culture. In most merger and acquisition projects the constituent organisations will have marked cultural differences. The senior leadership team needs to decide on one of the following options:



- Adopt the culture of one or other of the constituent organisations. Typically this will be the larger or more powerful of the two organisations. The risk is that the other party will feel that they are losing something that they hold precious. It is important to understand the impact of this sense of loss, and to allow time and resources for it to be overcome.
- Blend the cultures. This is a tough job, as everyone will need to change. Picking the best of both organisations might seem to be a way to appeal to everyone, but it is, in essence, a compromise. Will the best of each organisation's cultural characteristics truly be selected, or will politics prevail? A blended culture can be created, but will take time, energy and skill.
- Define a completely new culture. This is an admission that neither organisation had an acceptable culture. The approach is more likely to succeed only if there is a coincident change of senior leadership to herald a re-birth of the integrated organisation.

Whichever option is chosen, leaders need to be visible and committed exponents of the required culture. Culture cannot be mandated, but it will be emulated by staff following the example of respected leaders, and this is the trick.

Shared vision and values

Creating a shared vision and values is easy to say, and very hard to do. Just writing a mission statement or strap line, one that really means something, can take weeks and will promote huge (and valuable) debate. A broad cross section of people from all levels of both constituent organisations should be invited to contribute, initially by defining important elements to be incorporated into the vision and values. A smaller team will then be required to boil this down into a punchy and inspiring mantra.

Rolling out the vision and values to the entire organisation needs to be a comprehensive exercise using a wide variety of communication methods to reinforce the message and demonstrate real sponsorship and commitment. Sending everyone an email won't come close to what is required.

Embedding the culture

The ideal is for everyone in an organisation to live the vision and values, demonstrating the culture in everything they do and say. Cynicism is the biggest enemy, and needs to be countered by creating a strong, positive environment within the organisation. This has a lot more to do with how you do things than what you do, although both are important.

Let's start with encouraging individuals to adopt the newly defined corporate culture, essentially to modify some aspects of their personal behaviour. This is not something that comes naturally to people, and needs to be encouraged. Are the cultural values embodied in personal objectives? Does this get measured and reviewed as part of the performance appraisal process?

Creating followership

The concept of followership has been around for a couple of thousand years, and it might catch on in the corporate world soon. Of course, there are examples of organisations that create a loyal and committed workforce who live the corporate values, but they are few and far between.

How many of your staff feel like stakeholders in the organisation, knowing that their contribution makes a real difference? Are they passionate about the organisation and do they believe that they have a great job? What is the rate of attrition, and how many top performers are among those who leave?

Answering these questions will help you to establish and measure followership in your organisation. But be prepared for some of the answers to be uncomfortable.

8. Staff Communication

A merger or acquisition will generate a voracious appetite for information at all levels. There may be periods in which management hands are tied by legal or compliance restrictions and little can be said to staff. At other times it is important to give frequent, clear and honest information to staff. Face-to-face communication has particular value, being more personal and more likely to be believed. Over reliance on written communication, teleconferences, webcasts, websites and worst of all email, risks breeding mistrust and gossip that distracts staff from their work.



Face-to-face communication consumes a lot of management time, especially in a geographically widespread organisation. The best solution to this is a management cascade, in which good quality briefing packs, scripts, presentation materials and other media can percolate through an organisation and each level meeting face-to-face with its own line management.

An open question and answer facility is valuable, as this gives feedback on staff perception of the integration. Answers can be published for all to see, addressing concerns that may be harboured by a large number of people.

There is plenty of room for innovation in staff communication. One organisation successfully used a variation on its own customer advertising campaign to publicise an impending integration, using analogies with product features and benefits to demonstrate the advantages of the integrated organisation. Staff reception to this form of communication was excellent.

Too much staff communication is preferable to too little, and an open, honest approach will be valued by staff.

9. Brand Identity

The brand integration conundrum dogs many mergers and acquisitions. Should all group organisations migrate swiftly to a common corporate brand? To do so means that the brand value of the acquired company is written off. Has the effect of this been modelled in the business plan?

Perhaps the acquired organisation should adopt a new brand after a period of time. Six months? A year? Two years?

Maybe a completely new corporate brand should be developed to symbolise the strengths of the newly integrated organisation.

The law of unintended consequences is alive and well. One professional services firm adopted a new name after a merger. Market research a year later showed that clients felt that the whole value system of the firm had changed; a completely incorrect perception.

It is wise to start by considering the impact of a brand change on each category affected. Let's start with customers. Will they be confused by a brand change? How will the brand change be communicated to customers, and what outcome from the change is desired? Are there any special geographical, market sector or product category considerations? What do we want customers to be saying about us (and buying from us) a year from now?

Next, let's consider investors. They need reassurance that the integration will deliver a superior return on investment. Any change to the brand needs to embody a sense of strong performance.



Then consider employees. Will a brand change excite them or will some be disillusioned? How can negative feelings be turned around?

Finally, consider everyone else in your supply chain. How will suppliers, service providers, partners, distributors and others react to a brand change? You have a golden opportunity to enthuse all these players as well.

10. Customer Alignment

There may be an opportunity to cross-sell products and services between the constituent businesses of the merger or acquisition.

Which are the biggest or most important customers, and how will an integrated account plan be rapidly developed? Which customer accounts have the greatest growth potential? How will each organisation be incentivised to cross-sell? Will existing revenue streams be put at risk by inappropriate cross-selling, and how will these risks be controlled? Will existing account teams be defensive of “their” customers, and how will this be addressed?



Perhaps the best starting point is to ask how we will excite customers about the potential arising from the merger or acquisition. That same excitement can be used to inspire management teams, sales and account teams and operational staff, to create a collaborative spirit from which everyone wins.

Do we have to do all ten of these?

This rather depends upon the level of ambition in the business plan for the integrated organisation, and the strengths and weaknesses of the component organisations. A further factor may be the demands of a third-party funding organisation, such as a venture capital or private equity investor. In the public sector this might be a Private Finance Initiative partner.

A Risk and Opportunity Assessment can be initiated as part of the due diligence work, and this needs to be extended and completed as soon as possible after completion of the transaction. Involving the management teams in a Risk and Opportunity Assessment can help to bring the teams together in their thinking, and can be an important step in creating a shared identity and vision for the integrated organisation.

The Risk and Opportunity Assessment will identify the balance of activity required for each of the ten keys to success. Every merger or acquisition is different, and some will have additional unique priorities that are specific to the organisation or its marketplace. Identifying and prioritising the keys to success will help to focus on the things that matter most, rather than attempting to do too many things simultaneously.

Isn't this motherhood and apple pie?

Perhaps it is. Yet so many mergers and acquisitions fail to execute a successful integration that it seems to be worth stating the obvious.

Senior teams may be so exhausted by the sheer effort required to conclude the transaction that they may lack the energy to embark on a major integration exercise. A fresh team may be required, with sufficient freedom from day-to-day responsibilities to devote sufficient time to the integration activities. The integration team will need to command the respect of operational management so that they don't find themselves working in an organisational vacuum. And the integration team will need to have excellent experience of successful post-acquisition integration.

Is there an alternative?

Organic growth will rarely meet the ambitions of large organisations seeking to upscale their business rapidly. Mergers and acquisitions carry considerable risks, and these risks need to be fully understood and addressed. If an organisation has the focus, determination and resources to succeed with a merger or acquisition project the results are likely to be good. But don't underestimate the size and complexity of the task.

Change Management Group

We are a leading independent management consultancy specialising in business change. Our work falls into three main categories:

- **Culture change**, where an organisation needs to work differently or display different attitudes
- **Step change**, where organisation structure or process changes need to be implemented effectively
- **Technology change**, where the impact of new IT systems needs to be carefully managed to achieve the required business benefit.

Our clients include leading global and national organisations such as Tesco, Kingfisher, McCormick, Assa Abloy, Wilkinson, National Express, ASOS and a number of major NHS trusts, for all of whom we have undertaken successful transformation programmes.

Change Management Group has worked on many merger and acquisition projects, and with private equity and venture capital investors. We will be delighted to discuss the potential for improving your organisation's performance.

Change Management Group

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