Post-Merger Integration

Quick Reference Guide

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Assuming that the deal was priced right, speed is the single more important success factor for post-merger integration. How well prepared you are for the first 100 days post-close will largely determine your future as the new organization.

M&A is a high-stakes game. It combines some of the most complex factors in organizational development, such as rapid change, high risk of internal disruption, the need for clear direction, strategy and discipline, emotional intelligence and superb negotiation skills, strong leadership during times of uncertainty and instability, and having to change mindsets and behaviors of people and cultures that are designed to protect their legacy. All of this while the markets, key employees, and the competition are watching closely for flaws, negative news, and opportunities to capitalize on weaknesses. Long-term ties become unglued. Synergies that appear so appealing on paper become elusive. When you want the deal done, risks are discounted. After the deal is done, you must get down to (and stay in) business.

This document is a short guide on “do’s” and “don't's” of successful post-merger integration. It is based on research and years of experience with organizational change, finance and deals. It is written in the form of a playbook supported by questions, risks, and critical success factors. Playbooks are business-specific and each organization will benefit from developing its own M&A playbooks for various types of deals. You can leverage these guiding principles.

Most M&A deals under-perform (they fail to realize the expected deal value) [1]. This is not unique to M&A. It is a complex business challenge when an uncertain future must succeed at realizing value from changing the embedded, highly certain past. One of the major reasons for M&A failures is mispricing the deal in the first place. It is not uncommon to see over-aggressive growth projections, or synergies being factored into the purchase price. Regardless, integration remains controllable after the close.

[1] Various sources quote that between 45% and 70% of deals fail to realize their value.

The first 100 days post-close is a highly sensitive period for all stakeholders, but especially for internal ones. Proper planning and execution are essential to capture synergies, maximize deal value, minimize risks and establish clear direction. Before and during this period, senior leaders should focus on re-engaging and getting to know people, controlling the story, validating information and deal economics, deciding on the future, building integration teams, ensuring compliance, and starting the post-merger long-term transformation if one is desired.

The first 12-18 months are the most critical for external stakeholders who now expect results. During this time, senior leaders should continue to focus on controlling the story and managing key stakeholders, but also on realizing synergies; embedding new systems, processes and practices; growing, monitoring, and supporting the new culture; and building and living the new reality.

Companies must invest in senior resources to support and lead their post-merger integration efforts. Junior change management or project management resources will not be enough to overcome the risks and challenges of this complex process. Senior leaders should form highly competent integration teams, professionally launch them and never stay “out of touch”. Successful PMI is much more than “getting the job done”, it builds the DNA of your future company.

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PMI Value Chain

Define and Prioritize

WHY

QUESTIONS & DECISIONS

How much integration?
What is the mission? Why?

What are the key drivers, risks, metrics for synergies? Are synergies' business cases solid given real facts?

What are the end states and when are we done?

RISKS & RED FLAGS

Due diligence expectations vs. reality

No mutual understanding

Synergies not feasible given cultural or other internal disruption

Excessive internal conflict

Loss of motivation

All synergistic opportunities not identified

Lack of common definition of success or clear end states

Engage and Communicate

WHO

QUESTIONS & DECISIONS

Who is on the team?

What is the story we want to tell?

What is important to stakeholders?

How will we integrate cultures?

Who are the key customers and people?

RISKS & RED FLAGS

Loss of key personnel

No mutual understanding

Market perceptions or negative reactions

Loss of key customers

Internal chaos, confusion & loss of motivation

Disruption to key relationships & business operations

Cultural breakdown

Excessive internal conflict

Top management becomes disconnected

Competition is capitalizing on bad news & outcomes

Plan and Manage

WHAT & WHEN

QUESTIONS & DECISIONS

People, process, culture and technology: keep, retire, replace, integrate?

What projects to prioritize?

What resources do we need?

What are the PMI risks we need to address in real time?

RISKS & RED FLAGS

Post-merger actions not consistent with strategy

Non-compliance with agreements, laws & regulations

Ineffective tax structure

Internal chaos, confusion & loss of motivation

Major operational disruption

Poorly defined accountabilities

Not leveraging new size/ buying power/economies of scale

Functional integration issues (IT, HR, product development, sales, procurement, finance, etc.)

Lack of prioritization of workstreams

Lack of cash / time

Execute and Monitor

HOW

QUESTIONS & DECISIONS

How do we define problem states and talk about them?

How do we capture and communicate wins?

Have we succeeded or not?

How do we stay on track?

What tools do we need?

RISKS & RED FLAGS

Loss of key customers & personnel

Missed targets, cash & operating budgets

Market disillusionment

Internal chaos, confusion & loss of motivation

Loss of momentum

Cultural breakdown

Inconsistent policies & practices

Past errors carried forward

All synergistic opportunities not identified/realized

Distraction from regular business operations

Lack of resources / time / commitment

Top 10 Success Factors: 10

CALIBRATE SYNERGIES IN REAL TIME

DO

Re-evaluate expectations from due diligence

Get the facts (do a day 1 internal “audit”)

Evaluate which existing operational projects should proceed given new priorities and capabilities

Leverage change efforts to advance other important business cases (e.g., innovation, automation, size/economies of scale upgrades, or projects to maximize free cash flow). Revisit business cases in light of new strategies, intangibles (goodwill including assembled workforce), budgets, resource availability, and WACC.

Develop a project integration plan

Monitor outcomes, opportunities and tensions from synergistic projects in real time. Change course when necessary.

Do an “after action review” and act on the results

DON'T

Stick to pursuing synergies that are not practically feasible

Abandon efforts if results take longer than expected

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Top 10 Success Factors: 9

GET DOWN TO (AND STAY IN) BUSINESS

DO

Prepare an integration plan before deal announcement: 1) define structure; 2) assign tasks and people; 3) hold a team launch (announce and modify approach); 4) form task forces.

DON'T

Get distracted from the core business: instead, protect sales and customer service from disruption above all else. Like they say in aviation: "Keep calm and fly the plane".

Top 10 Success Factors: 8

RECONCILE DIRECTION AND ENGAGEMENT

DO

Set high expectations/clear direction, paired with superb conflict resolution and negotiation skills, and deep and actionable culture assessments. Consider whether culture supports strategy.

Invest in both organizational capabilities and shareholder value

Understand that culture impacts economics, yet few allocate dollars to address it. Culture involves complex political and psychological issues of value systems, beliefs and behaviors, and leaving it to chance will result in economic loss. Some say that culture is the most complex problem (“factor X”) of M&A. A 2010 Pritchett survey of US executives found that 62.5% rated the influence of culture on merger success as 8 or higher on a 10-point scale. This means that almost 2/3 of executives believe that culture is a highly influential factor. The same study found that while private equity firms make diligent efforts to study culture in M&A, other are not so consistent. Public companies (large and small) made the least effort. As to capitalizing on assessments, few do. Only 21% of respondents said that they conducted formal programs to facilitate cultural integration. It is usually left to chance.

Conduct formal, objective & actionable culture gap assessments & develop cultural integration plans

Include "soft" sections (culture and people) in due diligence checklists. This is not to be “soft” but to succeed without damaging trust. If significant trust-related red flags appear during due diligence that cannot be negotiated, it may be better to walk away from the deal despite the numbers.

DON'T

Be inconsistent or fail to maintain a balanced approach

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Top 10 Success Factors: 7

ACTIVELY MANAGE RISK

DO

Incorporate robust integration risk management in all aspects of the value chain, develop mitigation plans, define problem states and make prompt course corrections

Understand that things will not go as planned and unexpected negative synergies will exist. Make contingency plans.

DON'T

Leave managing key risks (e.g., cultural differences) to chance

Top 10 Success Factors: 6

OBJECTIVITY

DO

Engage and listen to objective and politically independent parties (such as trusted external advisors) to protect from confirmation bias and subjective evaluations of management's own performance or beliefs. Waiting until other stakeholders with a lot of skin in the game (such as the investors, customers or the Board) express their views will likely be too late.

DON'T

Only focus on the news that confirms your expectations or beliefs

Top 10 Success Factors: 5

MISSION-CRITICAL FOCUS

DO

Make a conscious effort to right-size decision-making, risk management, information sharing, and project management (don’t lose the forest for the trees)

Prepare integration project charter, and assign clear accountability for workstreams/tasks/synergies

Prepare an integration RACI chart cross-functionally and conduct regular update meetings with leads

Prioritize workstreams to ensure key early wins are captured and strong roots are built for the future

DON'T

Change priorities unless there is valid support

Top 10 Success Factors: 4

STRONG LEADERSHIP

DO

Set direction, be decisive, drive hard, give support

Recognize, respect and optimize existing organizational identities – no "us vs. them". If you are introducing a dominant culture, don't break trust.

Prioritize impact on people ("me" factor) and team effectiveness at all levels

Talk to your key people one-on-one and reinforce key relationships. Onboard Target employees.

Walk the talk

Practice genuine emotional intelligence. Treat all people (whether leaving or staying) with dignity and respect.

Fire non-supporters or keep them off taskforces

Formally launch the integration team that is skilled at leading through uncertainty and shifting environments, and capitalizing on instability. Include HR and IT in the integration team.

Practice healthy team dynamics for integration teams: high psychological safety, low groupthink, high collaboration vs. competition. This requires a specific effort and is critical as integration team members are expected to disagree and be emotionally attached to different things.

The primary integration team should report to the C-Suite (or C-Suite-based Steering Committee) to ensure appropriate direction and support.

DON'T

Play political games

Assign people based on seniority or availability, rather than skill

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Top 10 Success Factors: 3

CONSISTENT AND EFFECTIVE COMMUNICATION

DO

Communicate what the audience needs to know, not what you want them to believe. Explain the "why".

In internal communications, acknowledge existing tensions and speak the truth (e.g. mistakes will be made; change and course corrections will happen; cultures differ and this is hard; leadership does not have all the answers; growth in organizational capability may be at odds with short-term results)

Communicate structural changes (people and organizational structure) as soon as possible

Communicate clear goals, roles, responsibilities and working relationships (internal)

Seek out negative news and act to fix problems

Communicate internally frequently and at all levels

Establish communication plans with risk assessments and Q&A process, for various audiences (employees, customers, investors, analysts, owners, etc.). Draft letters for each audience type.

Control the story

Capture and publicize early wins

DON'T

Over-promise and only focus on the positive

Be afraid to over-communicate

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Top 10 Success Factors: 2

CLEAR VALUE DRIVERS AND GROUND RULES

DO

Define value drivers and ground rules, respect them and use for metrics and decision making

Proactively understand expectations of key stakeholders (investors, Boards, customers, people)

Understand the current state for both companies

Create a specific, common definition of success and milestones that meet expectations of key stakeholders (get upstream buy-in)

Develop a formal integration mission and strategic objectives (company-wide and by functional team)

Answer the "why" of your mission and get team consensus at appropriate levels. There may be little or a lot of integration.

Clearly define, communicate and maintain the new organizational identity

Identify outcomes or "end states" (e.g., sales territories, pricing, customer contacts and engagement rules are determined/ assigned/ communicated and are handled using the same CRM and purchase order system). Be clear on which success measures/outcomes mean that the end state has been reached.

Confirm and make hard decisions quickly

Prioritize expected "wins" based on impact, risks, timelines and sustainability (ability to get "engineered" into the organization)

DON'T

Allow for negative power dynamics to hijack the process. The leadership team must be reconciled on what matters and why. Expectations at the most senior levels must be made clear upfront. This is a prerequisite for any further steps. Leaders must be willing to listen and provide honest feedback, at all stages of the process.

Confirm deal economics. If companies are public, analyze market response to the deal and compare to deal valuation analysis. Normally, synergies should not be factored into the purchase price. Re-assess deal valuation, synergies and growth projections once you have access to complete Target data and contracts. Confirm the WACC. Ensure that you are not trying to "export" your WACC to the Target. WACC is asset-dependent, not owner-dependent.

Top 10 Success Factors: 1

SPEED IS A "MUST HAVE"

DO

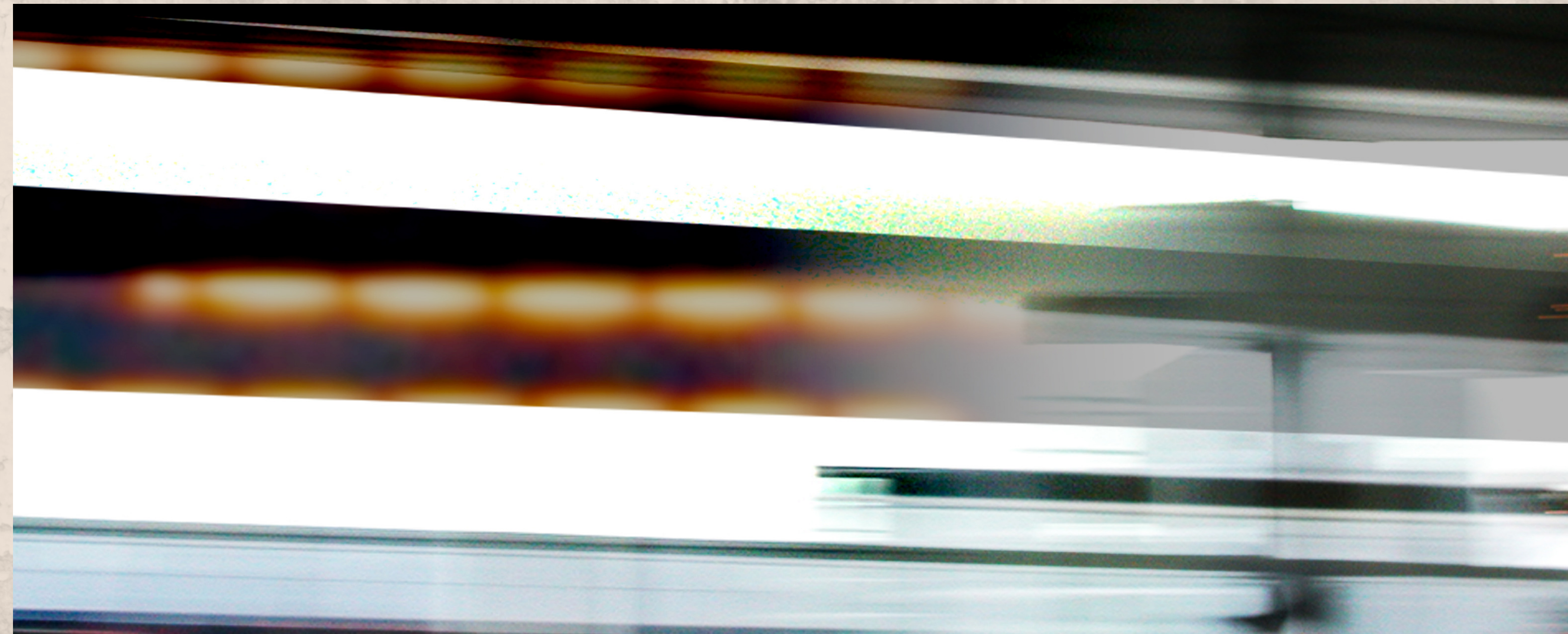
Understand that this is a race and if you are slow, you will lose

Be thoughtful and deliberate with a strong sense of urgency

Pre-plan several weeks before announcement and have a detailed PMI plan ready before closing occurs. Managing, executing and monitoring the plan will occur over the first 100 days (with measurable results) and then continue for the next one to two years.

DON'T

Get overwhelmed by the detail or lose focus/momentum



Integration Team Charter Template

1. TEAM SCOPE, OBJECTIVES AND BOUNDARIES

- Define the overall mission & key objectives, integrated with the Steering Committee's communications & expectations. This is what the team will be measured on and accountable for. There should be about 3-5 specific objectives.
- Define scope: all assets, people, business operations/specific functions/functions that will not be part of the work (e.g., separate charters may be done for procurement, finance, HR, sales, product development, IT, etc.)

2. EXPECTED VALUE/DELIVERABLES/MILESTONES

- Be specific on the deliverables and their expected delivery dates
- Be specific on the value that the deliverables will provide and its relationship to key value drivers established by the Steering Committee
- Be specific on accountability for delivery dates (hard and flexible deadlines)

3. SUCCESS MEASURES

- Outline what will mean that the team has succeeded
- Focus on mission-critical outcomes
- Define end states with timelines

4. KEY RISKS

- Outline key risks that the team must manage (e.g., negative synergies, structural issues, etc.)

5. TEAM

- Outline team members, their roles and responsibilities
- Be specific on what each team member will be accountable for
- Identify the lead and accountability at the lead level (i.e., cannot delegate accountability for the overall success of the project)

6. ECONOMICS AND RESOURCES

- Outline the business case if applicable and the expected resources (time, budget) required/allocated, including who is sponsoring the resources
- Specify who is accountable for overspend

7. COMMUNICATION, ESCALATION AND REPORTING

- Outline key stakeholders and frequency of communications/nature of reports
- Outline who the team is ultimately accountable to (e.g., the Steering Committee)
- Define key problem states to be escalated to the Steering Committee (e.g., team disagreements, bottlenecks or overspend)
- Establish the communication cadence for the team

8. CONSTRAINTS AND ASSUMPTIONS

- Outline what cannot change (e.g., mission and strategic objectives, budgets, timelines, systems)
- Outline what can change (e.g., tools, solutions)

9. SIGNATURES

- Include team lead signature on behalf of the team (the team must have consensus on the contents)
- Include approval signature for the party the team reports to (e.g., the Steering Committee)
- If required, include approval signatures for functional leads/resource sponsors

Bold Change

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