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Effective Post-Merger Integration: Setting your merger up for success

With up to 90% of mergers falling short at the integration stage, Oaklin examines where businesses typically go wrong and what can be done to ensure mergers create value, rather than destroy it.

Integration in all its aspects can be successfully managed and delivered through a well set-up Integration Management Office (IMO), a highly-specialised type of programme management capability.

With the value of global mergers and acquisitions surpassing $5 trillion for the first time in 2015[1] it may be surprising and alarming to note that up to 90% of mergers end up destroying value in the integrated company[2].

Why do so many mergers fail to deliver the promised value? In our experience, this is usually the direct result of ineffective post-merger integration (PMI). In this article, we examine how integration in all its aspects can be successfully managed and delivered through a well set-up Integration Management Office (IMO), a highly-specialised type of programme management capability. We start by presenting some of the key challenges associated with PMI. We then define the key characteristics of an effective IMO to plan and deliver maximum value within the context of a business merger. Finally, we present five key steps to setting up an effective IMO to facilitate the successful delivery of a fully integrated and cohesive organisation.

[1] Dealogic (2015): Data shows that 2015 MA volume supasses $5 Trillion.

[2] Harvard Business Review (2015): Why do up to 90% of Mergers and Aquisitions Fail?

The Challenges of Post-Merger Integration

From the outset, it is important to state that there is no *silver bullet* nor *one size fits all* approach when it comes to mergers and acquisitions since no two deals are ever the same.

That said, the fundamental rationale underpinning the merging of two business entities is that the value and performance of the new integrated organisation should be greater than the sum of its individual components. Why is it so difficult to achieve this outcome? Our experience tells us that there are three common challenges associated with post-merger integration.

Falling short of financial goals

The key to maximising value from PMI activity is to understand the rationale for the merger. For example, if the primary driver is to gain market share, the challenges will be different to a merger where the driver is to acquire a company for a particular product, process or asset. The former may, for instance, deliver value through rationalisation of R&D activities or product portfolios and the latter through integrated logistics. An effective PMI team needs to understand all the potential synergies at the core of the merger to manage it effectively.

When planning PMI activities, work is commonly prioritised to drive out cost. Reducing cost is inevitably seen as a quick and easily understood way to generate value from a merger and is regularly the subject of management focus. Cost reductions often result from reduced overheads from the consolidation of premises, elimination of duplicated support functions or systems and associated headcount reductions or working capital reductions. Realising these savings should be basic fare to an experienced PMI team.

If, however, an integration team's efforts are targeted solely on driving out costs and moving to a new mode of business-as-usual one hundred days after closing, the actual value from the merger may be substantially less than its potential. Such a focus on cost can often be to the detriment of the revenue generating synergies which are harder to deliver. The value from these can be, for example, associated with the ability to sell more products/services or raise prices, which are harder to model and deliver but are often over-egged in the merger's financials. If the associated value from revenue generating synergies has been over-estimated and subsequently under-delivered, the merger may risk being deemed a strategic failure. Combined (cost and revenue) targets should be embedded into the operational budgets of the merged organisation and measured longer term. An essential early task of PMI efforts should be careful consideration of how revenue generating synergies will be realised, and a plan developed to do so.

Establishing a common culture

In addition to understanding and quantifying financial targets up front, other challenges may only manifest themselves during the post-merger integration period. The transformation of business culture, processes and productivity requires careful choreographing. The benefits of cultural alignment are not always obvious when in place but are all too visible where the cultural divide has proven too wide to bridge. Recent history is rife with examples, from the ill-fated Daimler-Chrysler merger to AOL-Time Warner. Careful management of the extensive cultural challenges stemming from a merger will enable further value to be driven from the integrated organisation.

A merger should be viewed as an opportunity to strengthen culture and to build a 'one business' identity. This aspect of post-merger integration is often overlooked by PMI teams focused solely on cost, and yet the value to be obtained from a re-invigorated and integrated company identity can be considerable. Identity and culture are central to everything a company is and does. Building a joint, integrated culture and a renewed business identity needs to be planned, implemented and the benefits measured just like any other large-scale, transformative change.

Risk of losing key personnel

Key to developing a common culture are an organisation's primary assets: its people. All too often, the people change element associated with PMI activities is not given the priority required to retain and motivate key personnel, instead focusing on the easier-to-quantify financial targets.

People retention challenges can result from companies not moving quickly enough to mobilise new organisational structures, the result being an exit of key personnel. The impact of this is often compounded by talent and experience joining the competition. On the flip side, long drawn out integrations run the risk of people becoming fatigued. This is exacerbated when individuals are required to conduct integration activities as well as their existing operational activities.

While we have differentiated between the financial, cultural and people-oriented challenges presented above, it should be noted that these are intrinsically linked and should be considered holistically when planning for, and undertaking, PMI activities. The remainder of this Insight introduces the concept of an Integration Management Office (IMO), a central coordinating entity that, when set up effectively, can address and overcome the main challenges encountered when undertaking PMI activities.

Integration Management Office: An introduction

In its simplest form, an Integration Management Office (IMO) is a limited-duration specialist type of programme management office.

In addition to its operational programme management role, an IMO should be established as a highly empowered, innovative leader of cultural change throughout the end-to-end lifecycle of an integration (typically covering; Due Diligence, Integration Planning, Integration Execution and Post Integration Support).

Given the complexity and challenges associated with PMI, we recommend taking the step of setting up an IMO at least 60 days prior to a deal close to ensure sufficient time for integration activity scoping, planning and staffing as well as the building of post-deal momentum. Whilst such a recommendation may elicit questions regarding the likely costs, disruption and the potential for information leakage during such a set up period, establishing an IMO early is a key enabler for successful PMI activities. An IMO should be structured with a careful balance of business knowledge, market understanding and experience of previous integration programmes to ensure the merger delivers the promised value. Carefully assessing the specific staffing requirements for an IMO during the initial Due Diligence phase is essential as it is not advisable to restructure an IMO during the Integration Execution phase. Remember, no two deals are the same, thus it follows that no two IMO organisations will necessarily be structured nor resourced in the same way.

Characteristics of an effective IMO

As the day of a merger approaches there are two workforces challenged by uncertainty, two strategies to align and two strategic portfolios to run.

Whilst the organisation may be experienced at managing complex programmes, the alignment and concurrent management of two sets of strategic programmes is uniquely challenging. The complexity of the situation is increased by the added layer of post-merger integration activities when roles, responsibilities and decision-making rights are at best new, or at worst unclear. In order to plan, manage and deliver the promised value from the new integrated organisation, an effective IMO becomes central to meeting the challenge and should embody certain essential characteristics right from the start.

IMO – empowered and agile

The IMO should be empowered to manage the transition from two organisations into one smooth-running merged entity. To achieve this, it needs a strong cross-functional mandate with a rapid decision-making mechanism. The IMO should effectively facilitate decisions at every level, from functional workstream to Steering Group, taking into account the

cross-functional dependencies of every decision. Decision-making in post-merger integration must be more rapid than the approach normally seen in standard transformation programmes – with the IMO driving an agile decision-making process, ensuring that decisions are made at the appropriate level and in a timely manner.

IMO – a leader in culture, a champion of identity

Without a clear vision for an integrated culture and a clear plan to facilitate it, financial benefits which assume new colleagues will work productively and efficiently together will be buried in a layer of misunderstanding and friction. Cultural synergies are elusive and hard to realise, but may be the vital difference between delivering the full potential value of the merger and having it deemed a strategic failure. As such they cannot be ignored, or de-prioritised, in favour of the more easily-measured financial synergies. Cultural change needs to be led from the top and facilitated through the IMO to reinforce the cultural vision from the outset. The IMO should take responsibility for ensuring that stakeholders across the merged business own the definition of the new cultural vision and can cascade this to the integrated businesses through a jointly developed action plan.

Developing an aligned brand, and positioning it internally from the day of the launch, will impact the employees' sense of moving forward together as one business. Communicating the brand clearly to clients, customers and suppliers as part of the new integrated vision, will aid the internal understanding and expression of the new corporate identity. Branding alone will not generate a new sense of corporate identity.
The IMO must act as the champions of the new identity, reinforcing it and driving it through proactive management to overcome organisational challenges and unlock the full potential of the merger.

IMO – analytical and innovative

Traditional PMI programme management has typically focused on business processes to quickly realise functional synergies and to ensure that the merged entity operates smoothly from day one. However, getting the basics right should be a minimum requirement for the IMO. It is not enough to simply make sure that the merged business can operate post-merger. An effective IMO needs to be able to provide continuous, rigorous analysis and validation to support the delivery of ongoing synergies. The IMO should be at the heart of identifying, quantifying and driving a constant stream of new opportunities.

Five steps to setting up an effective IMO

Oaklin recommends five key steps to set up an IMO that can deliver a successful post-merger integration programme.

1. Define and sell the vision

The strategy and vision for the end-state integrated organisation should be defined before the merger is formally agreed. The vision should clearly set out what the integration means for the customer, the employees and the future of the company. The vision must be clear, compelling and at the heart of all communication for the duration of the integration, with the IMO and senior leaders as its loudest evangelists. Cascading the new vision to impacted third parties and ensuring that employees understand the new vision, and the business strategy underpinning it, are key parts of the merger launch.

2. Plan to succeed

Based on the new integrated vision and the anticipated benefits identified as part of the merger agreement, senior leaders should work with the IMO to develop a master integration plan. This plan will define the initial work for the PMI team, and detail all activities to support the delivery of the new vision. The plan is a working document that drives the action plans for the realisation of value throughout the integration. As further opportunities for synergies are identified and prioritised, the plan will evolve. Most crucially, all identified synergies, whether part of the initial assessment or a result of in-flight iteration, should be integrated into the corresponding business units' budget and targets. This should help to embed the vision and create ownership for the changes.

3. Structure the IMO to continuously identify opportunities

From the outset, the IMO should be structured to continuously identify and deliver complex integration synergies. It should consist of programme level managers with a range of skills and capabilities which include cultural change and post-merger integration experience. As the master integration plan is developed, project managers leading individual workstreams reporting to the IMO should drive the resulting action plans to deliver on prioritised opportunities. Integration experience should be balanced with a mix of business knowledge, functional competence and industry experience.

4. Utilise top performers

Where possible the IMO should be staffed by top performers from both companies. The business know-how of these leaders can be essential to laying the groundwork of a joint culture and mutual understanding through the sharing of business practices and content experience. Leaders with a track record of cultural maturity and sensitivity are often the key players in facilitating and expediting a shared sense of cultural alignment. In situations where it is not (practically or politically) possible to have such a concentration of senior / top performers, external expertise can be brought in to address this. Experienced PMI specialists can provide support in roles that the companies are unable to fill and/or where previous PMI experience is essential. Such a heterogeneous mix within the IMO organisation provides a strong balance of internal expertise and influence, and PMI best practices.

Having senior, experienced leaders on the IMO's Steering Group will help ensure that sponsors buy into and cascade the new vision. Ideally the Steering Group should be chaired by the CEO of the merged (or acquiring) organisation to ensure the integration is given the very highest priority by the business. The presence of this steady hand at the helm should go a long way towards reassuring employees, customers and suppliers. The time after a merger is often tense. It is a time when employees are nervous and unsettled and when customers and suppliers can pick-up on any uncertainty emanating from management. Strong leadership is required to secure ownership and motivation among all impacted parties.

5. Prepare for the long haul

The realisation of value from PMI activities can often be a longer process than initially anticipated requiring senior stakeholders to commit significant time to sponsoring and governing them. As such, mobilising an effective IMO with experienced PMI practitioners 60 days before a deal close is critical, not only for the identification and planning of PMI activities, but also for setting and managing stakeholders' expectations. As with other transformational programmes of change, the identification and delivery of "quick (benefit) wins" can be an effective way of gaining and maintaining momentum beyond the traditional one hundred days of post deal closing planning. To ensure synergies are identified and continuously realised beyond the initial frenzy of post-closing, leaders are well advised to set up and budget their cross-functional teams for the long haul.

Conclusion

In Oaklin's experience, the reason why up to 90% of mergers fail to deliver on their promised value is as a direct result of ineffective post-merger integration. This Insight presented three common challenges typically shared by companies undertaking PMI activities, namely;

1. Falling short of financial goals
2. Establishing a common culture
3. Risk of losing key personnel

To address and mitigate these challenges, we believe that successful PMI requires a highly specialist and rigorous type of programme management capability, delivered by an Integration Management Office (IMO) which focuses on more than driving out obvious cost savings. The IMO should be an empowered and agile organisation capable of delivering cultural change, rapid decision making and the continuous identification of new business synergies.

In support of conventional PMI thinking, this Insight corroborates the position that the key to maximising value from PMI activity is dependent on understanding the rationale for the merger itself. Accordingly, our experience suggests that setting up an effective IMO ahead of a deal close to plan and subsequently to manage, measure and deliver PMI activities, should result in a merger which is amongst the success stories.

Get in touch

Please contact Oaklin Partner Danny Kelly if you would like to discuss how Oaklin can support your business to structure and manage the post-merger integration process to unlock its potential value.

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