


 HIGHPOINT
INSIGHTS

HighPoint InSights taps into the expertise of HighPoint Associates' senior professionals to provide perspective on the latest issues facing businesses today. To follow up directly with any HighPoint Associates experts, please contact us at InSights@HighPoint-Associates.com.



Founded in 2002, HighPoint Associates (HPA) has developed an impeccable reputation for providing clients with exceptional advisory, consulting and interim executive resources at competitive rates to meet their most important business challenges. Drawing from its network of over 500 extensively vetted professionals, HPA is able to precisely match the right individual or team of consultants to the specific skills, experience and interaction style demanded by each unique client situation.

HPA has worked successfully with clients ranging from mid-sized businesses up to Fortune 100 corporations, as well as investment firms with stakes in companies of similar size.

HPA has offices in Los Angeles and New York.

To learn more about HighPoint Associates, call 310-616-0100 or go to www.HighPoint-Associates.com.

WHAT ARE THE KEY STEPS TO ASSURE POST-MERGER INTEGRATION SUCCESS?

Part 2 of a two-part InSights article on post-merger integration

By Bennett E. McClellan with Alex Nesbitt of HighPoint Associates

OVERVIEW

Mergers and acquisitions (M&A) represent substantial opportunities for companies to consolidate, grow or diversify their strategic positions. M&A also represents a significant level of economic activity. While global M&A activity remains a trillion dollars below its peak level in 2007, M&A activity appears to be on the rise. U.S. based M&A transactions are expected to exceed \$1 trillion in 2012.

As we noted in Part 1, the volume of M&A activity represents a large area of opportunity. We also noted that between 40% and 80% of M&A ventures fail to achieve their stated objectives. While it is easy to focus on the failures, it is also worthwhile to recognize successes.

The combination of Exxon-Mobile in 1999 represents perhaps the greatest M&A success in recent history. The three most powerful financial institutions in the U.S. resulted from mega-mergers. The mergers of Disney with Pixar, Sirius with XM, and R. J. Reynolds with Brown & Williamson also stand out as successful single-company combinations. Google appears to be headed toward setting a new record for most companies acquired. In the past decade, Google has assimilated more than 100 companies. Whether Google will succeed with Motorola remains to be seen.

For this article, Bennett McClellan asked HighPoint Associates' Senior Advisor Alex Nesbitt, "What makes post-merger integration efforts work?"

Based on his 25-plus years as an organizational change agent and post-merger integration specialist, Nesbitt observes that mergers succeed or fail on at least two broad levels. The first level of success is realized when mergers achieve the intentions of those who instigated the merger. The second level of success is achieved when the process of post-merger integration results in a single, integrated, fully-functioning business entity.

In Part 1 of this article, Nesbitt addressed the question, "What separates those mergers that work as intended from those that do not?"

In Part 2, Nesbitt looks beyond the intentions of the merger and takes on the question of "What are the keys to making merger mechanics work so that a

single operating entity emerges?”

WHAT ARE THE KEYS TO ACHIEVING SUCCESSFUL POST-MERGER INTEGRATION?

According to HighPoint Associates’ Senior Advisor Alex Nesbitt, post-merger integration planning starts by clearly identifying the desired outcomes of the merger. This principle applies to all kinds of mergers, regardless of the desired end-state. Mergers can be instigated to save costs, extend revenues or achieve strategic differentiation. Once end-state goals are identified, Nesbitt notes, “In every business combination, you go through the same basic integration processes.”

But if different kinds of mergers result in different end-stage organizations, how should the success of any particular merger be judged? Is there a general principle for determining merger success?

Nesbitt suggests that the key criterion for judging merger success is that the combined organization becomes a single entity that achieves the merger’s strategic intent. For example, in a merger designed to drive revenue growth through new products and services you would measure how well the merged companies act as a single entity in performing for customers. They should judge their success by what customers – both existing and prospective – indicate they are doing right.

Nesbitt states, “This involves taking an outside view of the organization. It isn’t easy to do this from either side of the organizations being combined.” In fact, taking an outside perspective presents significant challenges during the frenzy of post-merger integration. Many decisions need to be made. A lot of changes need to be implemented. People get shifted into unfamiliar roles and their day-to-day routines disintegrate. The sheer volume of activity can overwhelm even experienced merger managers.

The advantage of connecting the definition of merger success to strategic intent is that it provides an objective means for decision-making. People are less likely to get bogged down in territorial disputes or personal power struggles when the metric is clearly defined, such as serving customers better or achieving specific cost targets. In the case of customer focused strategic

intent, it helps to be able to pass decisions through a customer centric filter. For example, if a decision does not help the combined organization serve customers better, whom does the decision serve? Success should therefore be celebrated when everyone in the combined organization can answer the questions, “What is our new value proposition?” and “How can it be best delivered to the customer?”

The following are Nesbitt’s top seven principles for working toward an effective, post-merger operating entity:

1. Approach the merger as a major, one-time opportunity
2. Launch the integration effort as a well-planned, well-managed activity
3. Recognize and manage the inherent complexity
4. Stay customer-focused
5. Make communication a priority
6. Handle all human relations matters objectively and effectively
7. Anchor change in the culture

APPROACH THE MERGER AS A MAJOR, ONE-TIME OPPORTUNITY

Mergers are major, one-time opportunities to achieve large-scale change. Management teams that really understand this notion invest in making sure they have a clear strategic intent and have a realistic assessment that merging the two companies’ people, cultures, processes and assets can achieve the desired outcome.

Nesbitt says, “Mergers mean big change. They need to be recognized as more than the acquisition of assets. It’s about realizing a strategic purpose. It’s about capability building. About elimination of redundancy. About finding the best people and keeping them. It’s about making the two organizations more than the sum of their parts. When a merger works, it’s successful because the combined organization becomes more capable of serving customers than either of the two parent organizations could have been.”

Nesbitt advises merger managers to approach post-merger integration as an once-in-a-lifetime opportunity. He urges managers to know what they are trying to achieve, make explicit evaluations of the challenges they face, and build a focused sense of urgency to overcome the challenges and realize the results.

Nesbitt states, "You have to get it right the first time. You have to merge two cultures. You have to make the merger work for your customers. You have to make the merger work for your shareholders. And you have to make it work for the people who will carry the organization forward."

Making mergers work is not a game of improvisation. Achieving merger success requires a comprehensive and coherent post-merger integration plan. It requires a competent management team to oversee the effort. And it requires a sense of honesty and urgency.

"If you can get really clear about what you're trying to do, what obstacles you need to overcome, and build an overwhelming sense of urgency to get things done, it makes everything easier." Nesbitt's belief in this principle is unmistakable. "I can't emphasize enough how critical getting this right is to making large scale change work. It's the foundation for the company you're building. Make it strong and you can build great things."

LAUNCH THE INTEGRATION EFFORT AS A WELL-PLANNED, WELL-MANAGED ACTIVITY

Handling post-merger integration in a well-managed fashion typically requires the formation of a team of senior people solely focused on the job of integration. Nesbitt states, "You need to have a strong guiding coalition in control of the transition. You need to have the right people in the right spots. Those people need to be bought into, and have a thorough understanding of the goal. They need to feel a very strong sense of urgency during the transition. They also need to be made responsible for accomplishing those goals. And there needs to be robust communications within the organization about how the combined organization will function."

The structure of the guiding coalition is typically driven by what you are trying to integrate. It may be function-

al in nature or it may be a function of what you're trying to achieve. Nesbitt advises beginning by creating a coalition of people who will create the structure needed. You want to recruit the best people from both organizations. The coalition will become responsible for overseeing the entire integration process. They need to be given the staff and resources necessary to get the job done right, including a project management office (PMO) to oversee day-to-day merger activities.

The goals and structure of the coalition also depend on the situation. Nesbitt advises, "Figure out what's important so that you can put your resources where they can be used most effectively." The trick is to make sure you are pursuing the right goals and that the time applied reflects the right priorities. Nesbitt further suggests, "You want to hold your transition team responsible for focusing available resources on achieving the most important goals."

The guiding coalition needs to build positive momentum as quickly as possible. One of the best ways to do that is to generate some short-term wins. Putting wins in front of people helps energize the organization. You therefore want to hold your coalition team responsible for capturing short-term wins. The more of these opportunities you can identify in pre-merger analysis, the more quickly you can achieve them.

RECOGNIZE AND MANAGE THE INHERENT COMPLEXITY

Mergers create chaos, even under ideal conditions. The goals and changes required can be completely overwhelming. It is essential to realize that emotions run high during such periods. Nesbitt suggests four themes for mitigating the effects of complexity: break big changes into small doable chunks, focus, consistency, and a sense of urgency without frenzy.

Nesbitt says, "The scale of the change can be so overwhelming that it's hard to know how to get started. It's not uncommon to hear people ask, 'how do we eat this elephant?'" Nesbitt responds, "Every big change starts with small changes. If you want to build a house, you need to start by finding some land, finding a bank to finance it, identify an architect to plan it. It's the same for merger integration. Getting the big thing done re-

quires taking lots of small steps.”

Nesbitt likes to use a process he calls prerequisite planning to break the big change into accomplishable steps. He says, “You start at the end point and ask what requirements need to be in place so that the end point can be achieved. You then repeat that for the requirements you identify. You keep going until you have a set of clear changes that you can start on now.”

The prerequisite planning process creates the basis of a detailed change roadmap. The roadmap helps the guiding coalition, work teams and PMO focus the organization on achieving the clear, short-term goals that are essential elements in emerging from merger chaos.

Nesbitt says, “The real benefits of the detailed change roadmap are focus and a sense of achievability.” One of Nesbitt’s clients described merger integration as changing the engines on a 747 while keeping the plane flying. Once this client had gone through the process of building the change road map, he described it as a step-by-step guide for how to get the job done and keep the plane flying.

Management consistency also helps mitigate the complexity of integration. While managers need to look for quick wins, they should not delude themselves about achieving quick change. Organizations and people do not change overnight. If you want to achieve lasting change, you have to stick to the same message of change day in and day out for the duration of the process. Managers who change their minds about what they want to achieve in the process can easily throw their organizations into greater chaos.

Finally, managers need to approach the task of addressing integration complexity with a sense of urgency. Nesbitt differentiates between urgency and frenzy, or even panic. Urgency, for Nesbitt, equates to a sustained level of energy. Management needs to model an urgency that underscores the importance of getting the merger integration accomplished as quickly and effectively as possible. Acting with urgency does not mean making decisions on the fly and introducing changes experimentally “to see what sticks.” Urgency supports clarity of mission and the importance of achieving the end-state vision.

Nesbitt summarizes by stating, “A sense of urgency gets everybody going. Once people feel that a task is urgent, then the organization will start to grab it on its own and begin to grow. When you can get to that point, then the change process starts to get real momentum.”

STAY CUSTOMER-FOCUSED

Staying customer-focused during a merger is challenging, but essential. It is easy for people in the organization to get distracted by internal turmoil. Customers rightly worry about declines in service, increases in cost, or other possible outcomes when competitors or collaborators merge. It is therefore essential to keep the customer’s concerns in view during the entire merger integration process.

Customers are also stakeholders in the merger outcome and their needs must be addressed directly. Rather than just allaying fears customers may have, Nesbitt advises merger managers to use the opportunity to get to know their customers better. Turn the customer’s fear of abandonment into a dialogue about ways to work more closely together. Find out how the combined organization can serve customers better.

Nesbitt underscores the idea that mergers create unique opportunities to better understand customers. “You need to get inside the customer’s environment. See what frustrations they are dealing with. Once you can create solutions to what they are actually dealing with, you’ll discover that there are needs you had no idea existed previously. But you have to get out there, into the organization, to see what they see.”

MAKE COMMUNICATION A PRIORITY

Customers are not the only stakeholders who get nervous when companies merge. People at all levels in the organization become desperate for information about things that will affect them.

Nesbitt advises managers to recognize the need to “communicate frequently, truthfully, and compassionately.” He notes that, “You have to do a great job on the formal communications. Companies are usually pretty good at that, but you also have to do a great job with

the informal communications which is much tougher. It's the informal communications that make the company work, or not work, day-to-day."

Nesbitt advises merger managers to adopt an ethic of robust communications. Robust communications begin with the initial communications about an impending merger. Nesbitt suggests that at each step, managers should clarify their communications goals. What do you need to do to communicate the message? How are you communicating it? And are you clear about the goal the organization seeks?

"Most importantly, you want to make the communications personally meaningful to the people you're communicating with." People want to know how the changes will affect them. Merger managers need to answer personal questions directly. Typical questions include:

"What does it mean for me?"

"Will I have a job?"

"How will my job change?"

"What will I have to do differently?"

"Will I have a new boss? Who?"

"What does it mean for my friends and colleagues?"

The last thing people inside the organization want to hear are the words, "Trust me." They need specifics, not general assurances. Nesbitt says, "The more you can make it relevant to them, the more people will pay attention and start to absorb what you're communicating."

Nesbitt differentiates between formal and informal communication channels. Formal communications include public announcements, executive speeches, formal presentations, mass emails, newsletters and the like. While formal communications are important, Nesbitt observes that the informal communications channels are the ones that really matter to people.

Nesbitt uses a company's reports and measurement systems as an example. He says, "You usually don't think of a report that gets discussed at a meeting to be communicating. You get focused on the details of the report and whether it says things are better or worse.

What one may overlook is that the organization attributes meaning to the fact that you had the meeting about the report and therefore you must think it's important. Whether you intended it or not, the informal communication is saying this is more important than something else."

Another formal communication channel, e-mail, is often dominated by the informal communications it conveys. For example, if you keep getting emails from theboss@theothercompany.com, do you really think you work for the same company? And what about the daily flow of emails that are driven by the old pre-merger businesses. What signals are they sending about what's important to get done today?

The meeting system is also a powerful informal communications medium. "If you want to know what is important or who is important within an organization, just look at the meeting schedule." The organization looks at how the management team is spending their time to see what's really important.

Nesbitt concludes that putting some forethought into what you're trying to do, what you want to communicate, and how you want to embed that communication in the organization is critical. He asks, "How can we get the formal and the informal channels communicating what is important? What do we need to change to make the formal and informal channels consistent with each other? What do they need to do to communicate that sense of urgency? How will they communicate the wins they are having with the merger?" Nesbitt clearly feels that managers should not leave the job of communicating merger integration matters to their PR professionals.

HANDLE ALL HUMAN RELATIONS MATTERS OBJECTIVELY AND EFFECTIVELY

People need to see that the process of deciding who stays and who goes is fair and respectful. Deciding among those who will stay and those who will go is one of the first, and one of the toughest, tasks.

Nesbitt observes that people know who the best peo-

ple are in every organization. He suggests merger managers try to identify those people before the merger closes. Deciding who you want to continue in leadership roles of the merged entities is a prerequisite step to forming the transition team. However, not everybody on the transition team will necessarily have a role in the combined company.

To illustrate, Nesbitt shared a story from a merger he helped manage. "There was one senior executive who was number two in one of the organizations. He was well respected and capable, but there was no role for him in the combined organization. He was given a leadership role on the transition team and an attractive exit package that was connected to making the merger a success. It was important for him to be part of helping settle the organization he had helped build. And it was important for others to see that he was treated with respect. By leveraging his capabilities and recognizing his contribution in a meaningful way, it gave others confidence that when the decisions came to them, they would be treated fairly and with respect."

Once the standard of fairness and respect has been established, Nesbitt says, "It's really about consistency." The message needs to be the same down the line and the members of the coalition team must model that message.

ANCHOR CHANGE IN THE CULTURE

"At the end of the day you want to get a single culture." Nesbitt notes that changing culture is a job more easily named than completed. He observes that if you look at what culture is, you can boil it down to the phrase: "It's how we do things around here." Culture is the sum of everything about a company. It encompasses the personalities of the people, the way they make decisions, the meetings they have, what gets rewarded, who gets promoted. It's all of those things and more. So to change a culture you need to change many, many things.

Two elements of culture have already been discussed: the way management communicates and the importance of acting consistently in the way people are treated, whether they stay or leave. Nesbitt considers the personnel review, measurement and compensation system as a third element of culture that merger managers need to address.

Compensation systems are typically inherited. Nesbitt points out that incentives and compensation systems tell people implicitly what management thinks is important. As a result, conflicts can emerge between the messages sent formally and the messages embedded in the compensation system. If measurement and compensation systems are not brought into alignment with the organization's new goals, the people running the merger will eventually lose credibility and the organization will go back to doing things the old way.

Nesbitt points to the guiding coalition as the place to put responsibility for aligning the systems that support and reinforce culture. He says, "You want to hold your transition team responsible for spotting and correcting contradictory aspects of the culture, such as those embedded in compensation systems. You need to make 'how we do things around here' consistent with the new company culture you're building."

BOTTOM LINE

Mergers are major organizational disruptions. Managers need to use these once-in-a-lifetime events to rethink the way the organization serves its customers. Retaining key people during this time of chaos is also critical. Honesty in communications, consistency in behavior and alignment of policies with the new strategic goals are all essential for keeping customers and keeping your best staff.

As a closing thought, Nesbitt responds to the question of what are the major pitfalls of post-merger integration. He states, "I would put the pitfalls under two large umbrellas. The first thing that causes mergers to go off the rails is lack of clarity about strategic intent. If you're not clear about what you're trying to get done, then bad things are bound to happen. The other major pitfall is that lots of things go wrong because of a complete misunderstanding of how communication works and how it affects large organizations."

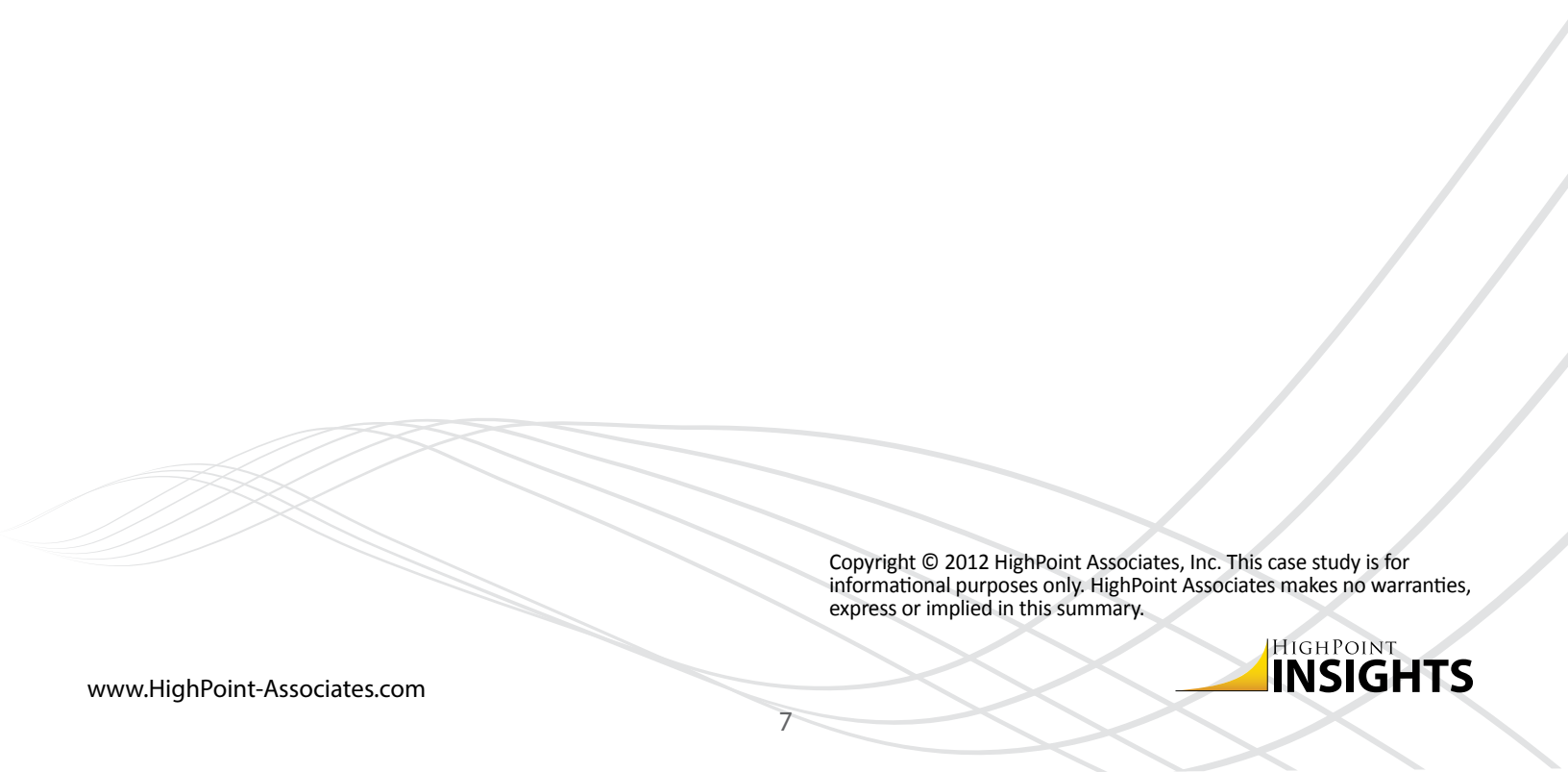
Nesbitt insists that the responsibility for communicating must be taken on by senior management. He concludes, "Everything leaders do communicates something. If what you and the other leaders are doing day in and day out is consistent with achieving your strategic intent, the organization will get the message, get on board, and help you get there."



HIGHPOINT ASSOCIATES ADVISORY TEAM MEMBERS CONTRIBUTING TO THIS ARTICLE

ALEX NESBITT is a senior strategy and operations professional with over 25 years of experience. He has focused on large-scale change, post-merger integration and organizational redesign for clients across a broad range of industries including automotive, industrial, financial services, health care, telecommunications and energy. Alex is a former Managing Director for The Boston Consulting Group where he specialized in helping clients achieve success with large-scale change. Alex holds a BS in Industrial Engineering from Stanford University.

BENNETT MCCLELLAN has over 30 years of corporate and consulting experience. Most recently, he was a Managing Director in PricewaterhouseCoopers' Media & Entertainment practice. Bennett has also held management positions with leading entertainment companies, and has worked as a consultant for McKinsey & Company and Arthur D. Little, Inc. He also serves as a freelance journalist, and has had over 100 articles and editorials published. Bennett holds a PhD from Claremont Graduate University, an MBA from Harvard Business School and a BA from University of California-San Diego.



Copyright © 2012 HighPoint Associates, Inc. This case study is for informational purposes only. HighPoint Associates makes no warranties, express or implied in this summary.