KEY STEPS FOR POST-MERGER INTEGRATION SUCCESS

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

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INTRODUCTION

Mergers and acquisitions (M&A) are substantial opportunities for companies wanting to consolidate, grow, and/or diversify their strategic positions. According to JP Morgan, global M&A activity in 2018 reached $4.1 trillion – the third-highest ever. JP Morgan expects 2019 M&A activity to remain strong despite ongoing global uncertainty.

As noted in Part 1 of the HighPoint Associates' Insights series on post-merger integration, while there is a tremendous opportunity, a great deal of expected value from M&A never materializes. Various studies estimate between 40% and 80% of all M&A ventures fall short of achieving their stated objectives. No industry sectors appear immune to M&A disappointments, whether such events materialize as quiet failures or public debacles. That said, while it is easy to focus on the failures, it is also worthwhile to recognize successes.

Danaher, Quest Labs, and Cisco have all proved there is a pathway to profitable growth through mergers and successful post-merger integration. They are not alone: Mergers of Exxon with Mobile, Disney with Pixar and later with Marvel, Facebook with Instagram, eBay with PayPal, and Johnson Controls with Tyco also stand out as valuable combinations.

In Part 1, I proposed the idea of intentionality in making mergers work. In Part 2, I look beyond the intentions of a merger and discuss the process of building a new single operating entity that is congruent with the intentions for the merger.

In my more than 30 years as an organizational change agent and post-merger integration specialist, I have observed mergers succeed on two broad levels: The first level of success is realized when mergers achieve the intentions of those who instigated the merger. The second level is achieved when the process of post-merger integration results in a single, integrated, fully functioning business entity.

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

Post-merger integration planning starts by clearly identifying the desired outcomes of the merger before the merger closes. 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, organizations go through the same basic integration processes regardless of the kind of business combination – most commonly **efficiency**, **extension**, and **transformation** – it is.

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

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, one would measure how well the merged companies act as a single entity in performing for customers, then judge success by what customers – both existing and prospective – indicate is being done right.

The above involves taking an objective view of the new organization's performance. Many deal teams struggle with this. Taking an unbiased perspective presents significant challenges during the frenzy of deal-making, deal-closing, and post-merger integration. Countless decisions need to be made quickly and significant changes must be implemented. People get shifted into unfamiliar roles and day-to-day routines disintegrate. The sheer volume of activity can overwhelm even the most seasoned merger managers and teams.

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. As an example, if a decision does not help the combined organization serve customers better, who/what does the decision serve? Success should be celebrated when everyone in the combined organization can answer the following two questions, "What is our new value proposition?" and "How can it best be delivered to the customer?"

8 PRINCIPLES FOR AN EFFECTIVE, POST-MERGER OPERATING ENTITY

There are eight principles that can have a material and positive impact on how well the merger integration plays out:

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.	**Execute with a fast-cycle decision-making process**
5.	**Stay revenue-focused**
6.	**Prioritize communication**
7.	**Handle human relations matters objectively yet respectfully**
8.	**Anchor change in the culture**

1. APPROACH THE MERGER AS A MAJOR, ONE-TIME OPPORTUNITY

Mergers can achieve large-scale change. Management teams that truly understand this notion invest time and resources into making sure they have clear strategic intent and that their objectives are realistic. They also realize it greatly enhances the odds of achieving the desired intent if they act fast on decisions and execute change with critical pace and tempo. In other words, *get 'er done* with a real sense of urgency.

Mergers also need to be recognized as more than the acquisition of assets. It's about realizing a strategic purpose. It's about capability building. About the elimination of redundancy. Finding the best people and keeping them. 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 and generating profits than either of the two parent organizations could have ever been.

In my role advising merger managers, I coach them to approach post-merger integration as the once-in-a-lifetime opportunity it is. I also counsel them to get clear on what they are trying to achieve, to make explicit evaluations of the challenges they face, and to build a focused sense of urgency to quickly overcome the challenges and realize desired results, including but not limited to integrating two cultures and keeping customers and shareholders happy. We only get one opportunity to get a merger right and make it work for the people who will carry the organization forward.

Successful mergers are not a game of improvisation.

Achieving merger success requires a comprehensive and coherent post-merger integration plan. If you can get crystal clear about what you're trying to do and what obstacles you need to overcome to get things done – and get those things done with pace and tempo – it makes everything easier. And this requires a competent management team to oversee the effort with honesty and a sense of *urgency* (see a theme here?).

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.

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

Managing post-merger integration well requires the formation of a senior team solely dedicated to the job of integration. It's critical to have a strong guiding coalition in control of the transition; to have the right people in the right spots. They need to have a thorough understanding of the goal and believe in the goal. They will be responsible and accountable for the realization of those goals. It will come as no surprise that a strong sense of urgency is requisite during the transition, as is 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 functional or it may be a function of what you're trying to achieve. Begin by creating a coalition of people who will create the structure needed and oversee the entire integration process. Recruit the best people from within both organizations. Providing them with the staff support, budget and external resources they need is critical for success. This support includes standing up a project management office (PMO) to oversee day-to-day merger activities.

The goals and structure of the coalition also depend on the situation. Figure out what is important so 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 priorities. I recommend holding 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 this is to generate some short-term wins. Putting wins in front of people will energize the organization. Don't leave this to

chance: Identify the short term wins you are going to target in your pre-merger planning and prioritize them in your post-merger execution.

3. RECOGNIZE AND MANAGE THE INHERENT COMPLEXITY

Mergers create chaos, even under ideal conditions. The goals and changes required can be utterly overwhelming. It is essential to realize that emotions can run high during the integration period. That's why I suggest mitigating the effects of complexity by breaking big changes into small doable chunks, focusing in, being consistent, and executing quickly without frenzy.

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?" One example of this challenge is the problem of merging complex information systems, such as CRM, Order Management, Production, Inventory, Financial, and Payroll systems. Do we keep both sets of systems? Do we choose one set of systems? How do we get them to talk to each other? Questions like these make systems integration one of the long poles in the tent. Poor systems integration can lead to an operational and communications bottleneck that impedes all areas of the new entity. How do you tackle this kind of challenge?

The answer is, every big change starts with small changes; getting the big thing done requires taking lots of small steps. Break the big change down into smaller and more manageable changes.

Prerequisite planning is a way to break big change into accomplishable steps: Start at the endpoint and ask what requirements need to be in place so that the endpoint can be achieved. Then repeat that for each of the requirements you identify. Keep going until there is a clear set of changes to start on immediately.

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

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 waffle about what they want to achieve through the process can easily throw their organizations into greater chaos.

4. EXECUTE WITH A FAST-CYCLE DECISION-MAKING PROCESS

The guiding coalition needs to model a sustained level of energy to underscore the importance of getting the merger integration accomplished as quickly and effectively as possible. Companies often take too long to make decisions and execute against them, or too much time lags between decision-making sessions. This does not mean making decisions on the fly and introducing changes experimentally "to see what sticks." It means setting up your decision-making process using a fast-cycle process.

For example, instead of using a monthly meeting to review progress and make decisions, hold guiding coalition meetings every week. Make the meetings sharp and to the point. Limit briefing material to a one-page memo per decision. Clearly identify and separate issues for discussion and issues needing decisions. Some decisions can be made on the spot, others may need one meeting for briefing and discussion, and then be up for decision at the next meeting.

The benefits of this fast-cycle approach are multiple: It speeds decisions. It makes urgency explicit. It reduces prep time because nobody will generate huge PowerPoint presentations every week. It reduces last-minute additions to the agenda because everyone knows there will be another meeting soon. And it makes it easier to adjust if the decisions need to be modified because less time has elapsed between decision and review.

Bringing a sense of urgency will get everybody focused on the importance of achieving the end-state vision. Once people feel that a task is urgent, the organization will begin to take ownership and the change process will start to gain real momentum.

5. STAY REVENUE-FOCUSED

During the days, weeks, and months after a merger, it's easy to get so internally focused that customers and other external stakeholders are neglected. Staying revenue-focused during a merger can be challenging, but it is essential. It is easy for people in the organization to become seriously distracted by internal turmoil and increased bureaucracy. Customers rightly

worry about declines in service, increases in costs, or other possible outcomes when competitors or collaborators merge. It is therefore essential to keep customers' concerns in view during the entire merger integration process and address issues around bureaucracy immediately.

Customers are also stakeholders in the merger outcome and their needs must be addressed directly in order to remain revenue-focused. Rather than simply allaying fears customers may have, it's imperative to use the opportunity to get to know customers better. One of the merger teams should be tasked with getting inside each customer's environment. See what frustrates your customers. Turn any fear of abandonment into a dialogue about ways to work more closely together. Come into the conversation armed with concrete ideas on how the new organization can better serve customers. Once you create solutions to what they are actually dealing with, you'll discover there are needs you previously had no idea existed. That's why you have to get into the organization to see what they see.

Merged companies need to maintain a focus on revenue-generating activities. Once the basics have been established, move on to things like how to serve customers better.

6. PRIORITIZE COMMUNICATION

Customers are not the only stakeholders who get nervous when companies merge. People at all levels within the organization become desperate for information about anything that will affect them. That's why I advise managers to recognize the need to communicate early, frequently, truthfully, and compassionately. You must do a superior job of communicating on four levels: getting the collective executive team on the same page, executing formal communications to the organization, exhibiting informal behaviors that implicitly communicate to the organization, and executing external communications to the media and other outside parties.

In my experience, companies tend to struggle with the first three levels, but do a great job with the fourth level – communications to external parties – largely due to their extensive experience with media and investor relations and the personal importance of these communications among the most senior executives.

Building a coherent and consistent communications program starts with getting the entire senior executive team on the same page. You would think this is easy, but data suggests most executive teams do a poor job of consistently identifying a company's top five strategic priorities. And if senior executives don't communicate the same message then the rest of the organization will be completely lost.

Invest heavily on building a common mental model of the vision for the merger's outcome among the management team. Once they say they understand, test them on their understanding, and make them demonstrate their understanding explicitly.

Once the management team is aligned, build their participation into the formal communications plan for employees (and their families), including executive speeches, formal presentations, town halls, mass emails, newsletters, and the like. If you don't have people with deep experience doing internal communications, find an outside resource to help. Do not make the mistake of using your media or investor relations (IR) team for internal communications. Media and IR teams are experts at dealing with the press and investors, not employees. Communicating with employees is a different skill set altogether.

Adopting an ethic of robust communications begins with the initial communications around the impending merger. During each phase of the merger, managers should clarify and set their communications goals. What do you need to do to communicate the message? How are you communicating it? 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 – the employees. They want to know how the changes will impact them. Merger managers need to answer personal questions directly. Typical questions include:
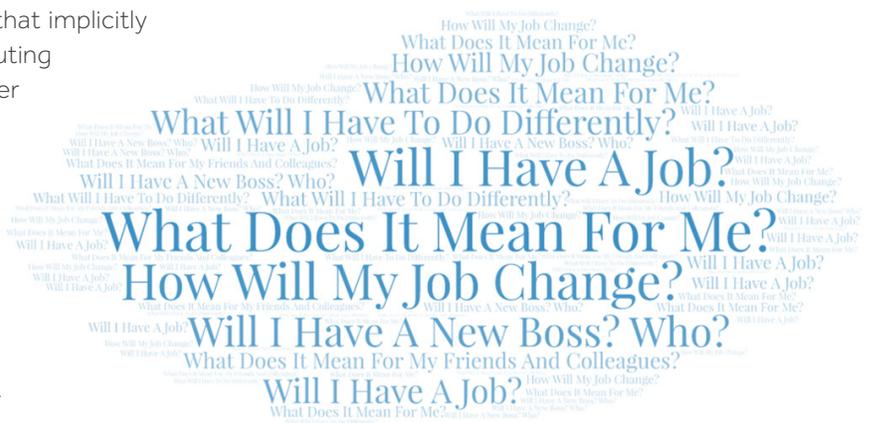
The last thing people inside any organization want to hear are general assurances. They need specifics. The more you can tailor communications to be relevant to them, the more people will pay attention and start to absorb the information within your communications.

As important as formal communications are, what people inside the organization will believe and remember will come mostly from informal communications and what executives and managers demonstrate with their behavior. Informal communication is how employees figure out what is really important and what's really going on.

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

A second powerful source of informal communications is the performance management system and what leaders focus on when reviewing performance reports. For example, if reports segregate performance along the lines of the pre-merger companies, that will send a signal to employees to stay focused on maximizing performance of the company they came from and not the performance of the new entity.

The way the email system works provides another example of how informal behaviors can overwhelm formal communications. If employees constantly get emails from leaders using email domains from the two pre-merger companies, it undermines the formal "one company" message.

Take care to address as many of these incongruent informal behaviors as possible. You won't find all these behaviors upfront, so stay alert and rapidly address them as quickly as possible.

Putting some forethought into what you want to communicate and how you want to embed that communication in the organization is critical. One way executives can demonstrate their belief and commitment to the merger's success is by personally prioritizing the communications process and taking responsibility for making it happen.

7. HANDLE HUMAN RELATIONS MATTERS OBJECTIVELY YET RESPECTFULLY

People need to witness the process of deciding who stays and who goes as fair and respectful.

Deciding among those who will stay and those who will not is one of the first – and toughest – merger-related tasks. How well you do this and how respectfully you treat the people who must leave will have tremendous impact on both the people leaving the organization and the people who remain.

Staff generally know who the best performers in their

organization are. Therefore, merger managers should try to identify those people before the merger closes. Deciding who you want to continue as leaders in the new merged entity 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, there was one senior executive in a merger integration I helped managed who was number two in one of the pre-merger organizations. He was highly regarded and highly capable, but there was no role for him in the combined company. 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. It was also 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 if they were let go, they would be treated fairly and with respect.

Once the standard of fairness and respect has been established, be relentlessly consistent. The message needs to be the same down the line and members of the guiding coalition team must model that message.

8. ANCHOR CHANGE IN THE CULTURE

At the end of the day, the goal is to achieve a single culture. Changing culture is a job more easily named than completed. If you look at what culture is, you can boil it down to, *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 (and who doesn't), along with many more aspects. Therefore, to change a culture, it's important to change how you do many things within an organization.

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. I consider key management processes such as goal-setting, performance measurement, personnel review, and compensation systems to be a third element of culture that merger managers need to address.

For example, compensation systems are typically inherited. 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.

Once again, the guiding coalition should be responsible for aligning the management processes that support and reinforce culture. 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 their 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 your best staff, keeping customers happy, and meeting financial targets.

In terms of pitfalls – and there are always pitfalls – here are three large umbrellas: The first pitfall that causes mergers to go off the rails is a 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 second is not moving quickly enough. Merger managers have a short window in which to show progress or people will lose faith in the effort and in leadership. Moving quickly may seem counterintuitive, as there is a lot of change happening during post-merger integration, and employees and customers are quite often nervous. It's reasonable for leaders to feel moving slower is gentler on them. However, that is not the case. The last major pitfall major is that much can go wrong because of a complete misunderstanding of how communication works and how it affects large organizations. The responsibility for communicating must be taken on by senior management. In fact, everything leaders do communicates something. If what your leadership team is 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 'er done*.

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