



Solution Overview:

Making Mergers Work- The Reality

“Unfortunately for most companies, as statistics bear out, the vast majority of mergers just don’t go as planned. In fact, most mergers are driven by growth, but at the expense of shareholder value.”

Jim Jeffries, Chairman M&A Partners

After the initial presentation, the CEO of a Fortune 500 company leaned back in his chair and astutely offered this, “Well, I’m convinced that this (integration) is anything but business as usual. And your points that during the integration, our people must act quickly and decisively and not get caught in analysis paralysis is critical. A good decision made quickly is better than a perfect one made a month from now is right on the mark. This helps me understand your continued references to the Counter-intuitive nature of a successful integration process.”

Given his understanding of the “counter-intuitive” behavior requisite to successful integration, this CEO’s company now had a chance to avoid becoming another disappointing statistic. A recent Bearing Point study of 700 merger and acquisition transactions revealed that an alarming 83% failed to add value. But this understanding was only a start.

Successful merger and acquisition integration is difficult at best and impossible if approached exclusively with internal resources employing existing processes and protocols. “Merger and Acquisitions”

magazine recently quoted the CFO of a company in the midst of the integration process who accurately asserted, “If you overpay, that’s fatal. If the integration fails, you have overpaid!”

The push for “critical mass” in the 1980’s and 1990’s often led to “critical MESS”. Companies focused on the assimilation of assets and hoped for the consolidation efficiencies that were sure to follow. The predictable result: more assets, little to no empirical efficiencies, a stagnant to declining bottom-line, loss of key personnel along the way, and general chaos in the new organization. So how does one avoid chaos and bring order to integrations?

First, every person in *both* organizations must realize that the integration of companies and the realization of the synergies associated therewith, is the most critical initiative for the ongoing business. There is nothing a company can do that will affect shareholder value more dramatically than the success or failure of integrating large mergers or acquisitions.

Most industries trade at some multiple of EBIT. If the removal of costs through synergy realization flows to the bottom-line, one can easily calculate the enormous shareholder benefit derived from 50, 100, or 250 million dollars of synergies. Most companies will never achieve 50% of announced synergies.

How do you get the focused attention of the two organizations? The integration event must be clearly sponsored by the CEO. If the integration is not perceived to be of utmost importance to him or her,

then it will not be important to the employees throughout the organization. In the case of the above-mentioned CEO, he engaged himself in the decision-making process for all major decisions as



Chair of the Integration Steering Committee. He insisted on executive participation in integration planning. He had communications already prepared for both internal and external resources. He agreed to stringent behavioral and decision-making protocols for the integration process. He even put the leader of the integration leadership firm in the office next to his own.

In this case, the company was clear that the integration was a priority. It was necessary that all personnel understand that managing merger and acquisition ambiguity and workload is often counter-intuitive to accepted business practices and tenets. Most companies struggle with managing all the nuances of their day-to-day business. Post acquisition and throughout the integration, companies must manage their own business, as well as the business of the acquired/merged company while simultaneously integrating the organizations, personnel, processes, and systems. Certainly, this is a daunting task inconsistent with the internal machinations of all but a few of the most sophisticated acquisition companies.

All the moving parts of two large organizations being managed concurrently with integration are indeed chaos. But it is manageable chaos. Sophisticated integration models and methodology can help you "bite-size" this overwhelming task. How? Integration engages every division, function and department of an organization. This typically creates ten to fifteen distinct, macro-areas of focus that take dedicated integration management personnel.

Each of these areas may have five to twenty

significant events that must unfold from day one through a six to twelve month period. Each one of these events will have several key actions that drive the event. Each key action will have numerous sub-actions that must occur concurrently. Typically, most organizations have little acumen for such an event and must develop a strategy, methodology, and resources to manage the initiative. All of these actions have to be accomplished without losing focus on the day-to-day business. One must act in a counter-intuitive manner to normal business practices to make the integration work.

So, where do you find the critical resources to ensure the success of your integration? It is unlikely for anyone in either organization to have experienced a successful integration. Sourcing experienced external integration leadership is the most profitable solution. But there is still an abundance of internal resources available. When two companies come together, there are usually many highly knowledgeable and talented executives and managers who may not be retained or are temporarily expendable to a project of this magnitude. These people should form the top layer of your Integration Management Team. A special incentive package should be created for the team members with specific metrics tied to the success of the integration process. Again, using executives who may lose their positions within the new organization post-merger is a desired result. This counter-intuitive approach may appear highly suspect at first glance, but putting their knowledge of both organizations and their years of experience to drive the integration will payoff in huge synergies if you incent them properly.

Decision-making based on established integration protocol and planning should be rapid and precise. Operational and administrative executives must be engaged in the process and interact with team managers, but their focus has to be maintaining the stability of the business. Team management, conversely, must be 100% dedicated and focused on the integration. Part-time integration is doomed to failure.

Possibly the most critical element in the integration process is *SPEED*. The speed in which the integration of two companies is completed is the single most important predictor of success and is directly proportional to the amount of synergies (dollars) captured. Why speed? It mitigates employee uncertainty and forces integration focus while eliminating the time to talk yourself in and out of decisions. Finally, it impresses and stabilizes your customers, and drives bottom-line value. In a recent

engagement, the company's predicted twelve month cash flow related to cost reduction was actually realized in less than six months due to accelerated integration planning and an aggressive execution timeline. Forty-five million dollars worth of cost were removed in the first two weeks following close as opposed to internal plans that had cost-cutting events staged over numerous months. This hard driving execution creates real shareholder value.

A recent Harvard Business Review article observed that, "Guiding this kind of expedition takes a new type of leader, someone who can jump into complex situation quickly, relate to many levels of authority smoothly, and bridge gaps in culture and perception. But this leader also needs...world-class project management skills..." Unfortunately, few companies



have the time or integration experience to develop the complex and requisite skills necessary to manage such an endeavor. Successful integration management needs to:

- ❑ Develop structure around and drive the process
- ❑ Connect the diverse management cultures and practices of the two organizations
- ❑ Employ a disciplined methodology that creates focus and drives *SPEED!*
- ❑ Engineer short and long-term successes that produce value
- ❑ Simplify the complexity of integration

The article also states that, "integration management cannot be wedded to perfection." The "perfect answer" is the death knell for successful integrations. Nowhere is the 80/20 rule more applicable. In integration leadership, a good decision made today is better than a perfect decision made next month.

Perfection is the enemy to speed and speed is an absolute in integration.

Additionally, a great integration without stabilized performance during and after the process loses its luster very rapidly. Early wins and positive stock performance can evaporate as quickly as they were achieved. The CEO, company executives and management must understand that performance is almost always tied to the quality of the personnel driving the effort. If the right personnel are the key to stable performance, does this mean that the acquiring or primary surviving company should maintain their positions? The answer is simple although the process to determine the answer is not. "Best Players Play" should be the corporate mantra regardless of the organization in which such players may be found.

Experience dictates that personnel selection is one of the most difficult tasks organizations face. Most companies fail to develop even the most basic personnel selection process. The dominant company generally likes their people and has developed long-term psychological contracts that are difficult to break.

This brings to mind the story of a Human Resource executive within a large company. The company was in a growth mode, which led to promotions throughout the organization. In his exasperation at the lack of adherence to the personnel selection process by the CEO and others, the HR executive lamented, "We think we're looking for the person that stands tall among all the rest, but no one realizes that we're just choosing between the tallest pigmies." The point being that unless you have objective measures and outside benchmarking in which to rank personnel, you may just be choosing the tallest pigmy. Your business is too important to focus such selections internally or even within the acquired companies' personnel. The perfect candidate for your ongoing success may well be sitting at the desk of another company. Don't limit yourself to what you can see or touch. The stability of the company and success of your performance is too important.

There are many lessons to be learned regarding merger and acquisition integration, and only a few have been addressed herein. Unfortunately, for most companies, integration lessons are learned in the throws of an active merger, and as statistics demonstrate, at the expense of shareholder value. Most mergers and acquisitions fail to even earn the cost of capital.

For simplicity sake, take the following to heart:

- ❑ The integration process requires “counter-intuitive” behavior, disciplined decision-making, and processes
- ❑ The value of successful mergers is directly related to the integration process and the resultant realization of captured synergies

- ❑ Integration is a unique event, to be managed separately so the best players can focus on stabilizing the new business
- ❑ Speed is critical to minimizing employee and customer uncertainty and driving shareholder value

As we stated earlier, most mergers do not bring value to the shareholders. And, most mergers do not apply Counter-intuitive measures to the integration process.

Synergies-Speed-Stability

The faster you can achieve synergies while maintaining the stability of the ongoing business, the higher the impact to cash flow and resulting share price.



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