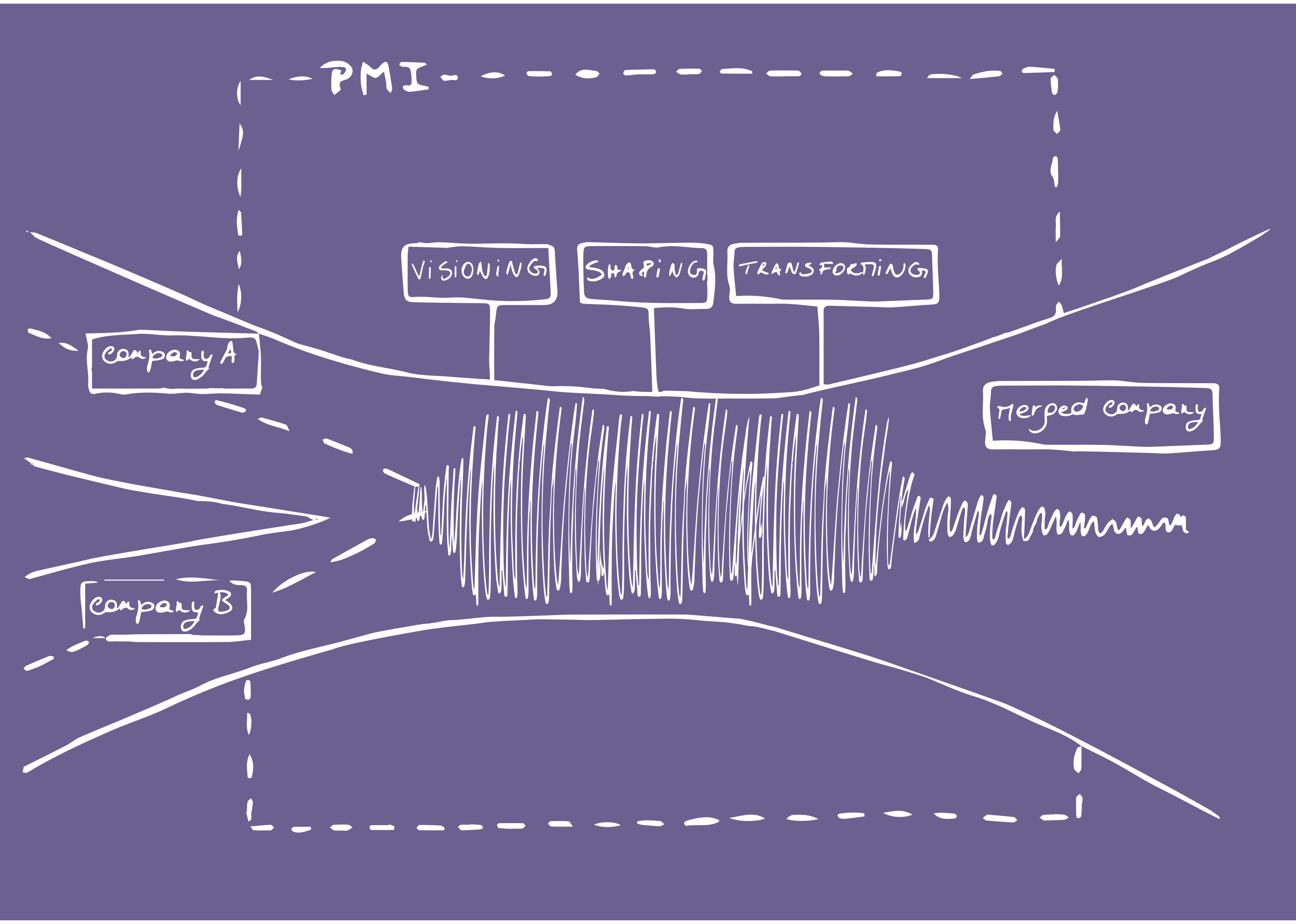
THINK ACT

POINT OF VIEW



POST-MERGER INTEGRATION

More than ever, corporations face the challenge of delivering maximum value and embedding change throughout the entire organization

Roland Berger
Strategy Consultants

In a world characterized by increased mergers and acquisitions, corporations face the challenge of making them a success, i.e. delivering maximum value and embedding change throughout the entire organization. To do so, companies need to be properly equipped to mitigate pitfalls and typical post-merger integration errors – awareness of key PMI success factors is decisive.

Merger & Acquisition (M&A) activities are globally on the rise again but the failure rate remains high

Global M&A deal volume is at a 7-year high. In 2014, the global deal volume increased to USD 3,230 billion, up by 48% from the previous year. The proportion of cross-border M&A increased and accounted for 43% of global deal value, i.e. USD 1,400 billion, close to the historical records reached in 2007[1] (cf. Figure A). Moreover, the size of deals increased significantly, making M&A integration more complex. Corporations engaged in large takeovers with foreign companies. For example, corporate inversion by US companies boosted cross-border takeovers, and Europe and the US have proven to be attractive target markets for Chinese companies as they can provide access to new market geographies, more advanced technologies and more mature brands.

However, the failure rate is high: many companies do not manage to achieve the synergies they had been anticipating from a merger, at least to the planned extent.

Lack of synergy management and incomplete integration are the most frequent reasons for PMI failure, resulting in three painful consequences

According to a Roland Berger Strategy Consultants' survey of more than 130 experienced PMI managers worldwide across 15 industries, lack of synergy management and incomplete integration are the main reasons behind failed PMIs (cf. Figure B). Lack of compatibility between corporate cultures ranks second. This results in 3 painful consequences:

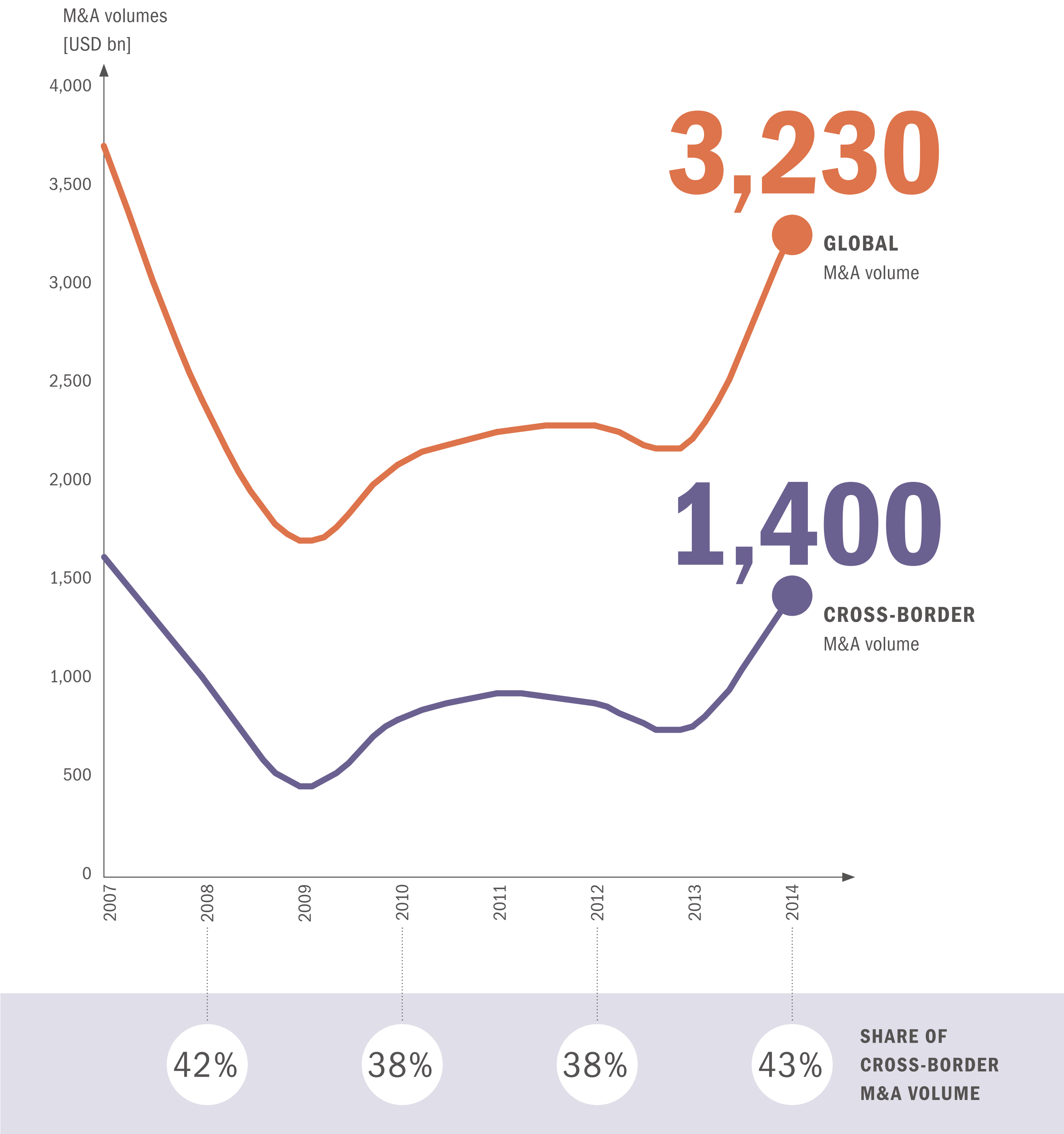
A. **MISSED TARGETS**, due to: **lack of synergy management** (e.g. erroneous assessment of synergies' potential, feasibility, sustainability), **organizational deficits**, **management egos**, poor integration decisions (e.g. processes, organization design), lack of a clear vision, strategy and business model, unclear priorities or action for integration from Day 1 onwards, no buy-in by the organization, transversal projects (e.g. social plan, IT systems integration) going wrong;
B. **LOSS OF KEY PEOPLE**, due to: lack of cultural integration, absence of retention plan;
C. **POOR PERFORMANCE IN DAY-TO-DAY BUSINESS**, due to: postponed communication on new organizational structure, too long and time-consuming integration, lack of focus on business continuity.

1 Source : Thomson Financials, MergerMarket

A

HISTORY OF WORLD M&A VOLUMES

M&A ACTIVITIES ARE ON THE RISE AGAIN

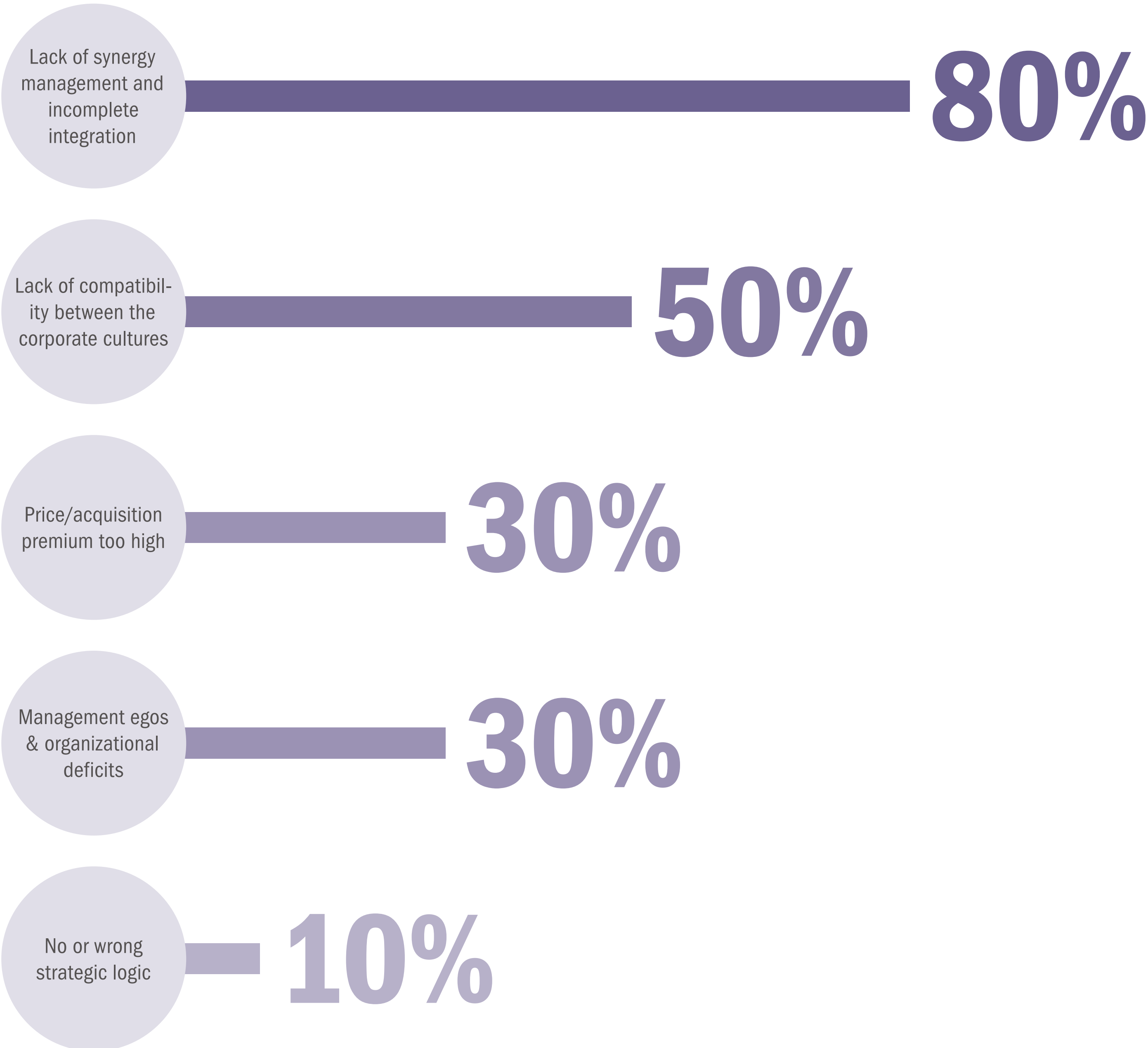


Source: Thomson Financials; MergerMarket, Roland Berger's experts

B

MAIN REASONS BEHIND FAILED PMIs

Ranking based on share of responses according to Roland Berger Strategy Consultants' survey of more than 130 experienced PMI managers worldwide across 15 industries



Source: Roland Berger Strategy Consultants

Based on experience, Roland Berger Strategy Consultants has identified 9 key success factors for achieving successful integration pre- and post-deal

During a merger, company management are often under time pressure to maintain business momentum, define a clear vision and strategy, set strategic integration priorities, identify synergies, assess cultural differences, and draw up an integration master plan. Several crucial issues must be addressed during the PMI process: the most appropriate integration model, the best way of integrating different cultures, how to retain key talent, how to prioritize the functions to be integrated, the most suitable level of integration, how to achieve synergies, what and how to communicate with internal/external stakeholders, how to keep employees focused on customers and business during the PMI process. The list is long. So knowing what action to take, and how and when, in order to tackle all these challenges is crucial to the success of the integration.

Organizing key success factors into a series of steps helps to systematically apply them in the PMI process:
STEP I – VISIONING: setting strategic choices and priorities;
STEP II – SHAPING: defining how companies and respective functions need to be integrated, detailing and putting in place the integration process, and managing cultural and people challenges;
STEP III – TRANSFORMING: integrating the merger partners while transforming the new organization to bring it to the next level.

Note that all success factors apply to all steps of the integration process (cf. Figure C).

STEP I – VISIONING

Definition of strategic choices and priorities, by involving top management, must be undertaken before a potential deal is closed. The future **Group vision**, **strategy** and **business model** are defined ex-ante (to secure strategic alignment and coherent management) as well as maintaining focus on business continuity (e.g. reassuring clients) and addressing any short-term issues that could put business and merger success at risk as of day 1. Merger partners must quickly validate and communicate the M&A rationale to internal and external stakeholders.

What type of **synergies** should be prioritized – revenue synergies, cost synergies or technology transfers? The optimal level of integration between merger partners (business model) must be pinpointed in order to capture the full potential. Each synergy requires a different level of integration. Based on all these actions, a coherent integration **project step-up** and top-down high-level **master plan** are to be defined: sequencing, prioritization and planning of post-acquisition work/action, appointment of dedicated project managers (e.g. in pairs from both companies) under the direct supervision of the CEO, identification of implementation risks, etc.

Finally, people and culture are at the root and at the heart of a firm's success. So creating an internationally capable organization involves 2 fundamental requirements: first, being able to **retain key people** (e.g. having the technological know-how, knowing all facets of the organization), especially leaders who are capable of working internationally; second, paying special attention to **cultural sensitivity** and identifying the type of corporate culture that will be accepted by the merger partners.

STEP II – SHAPING

Detailing and organizing the merger also means involving middle management.

First, **future processes/organization** and **synergies** should be detailed and validated (bottom-up) – securing the line managers' commitment to synergies and rapidly identifying and implementing quick hits will facilitate merger success. The integration of merger partners goes hand in hand with transformation and optimization. So a merger implies changing processes, for one or both companies, depending on the processes' maturity, the culture and the chosen strategy. The objective should not be to align processes but to optimize them: identify best practices/quick wins/improvement suggestions.

Second, integrating corporations into a future-proof organization entails having the **right people**, **tools** and **processes**. However, care must be taken over the sequence of action: "the right thing must be done at the right moment". Unrealistic deadlines or lack of adequate resources can quickly disrupt the entire process. What is paramount, therefore, is to set up a strong PMO (Project Management Office) team tasked with creating a clear **integration organization** structure early in the process, including an **integration committee** and t**ransversal integration teams** (e.g. social negotiations, system integration, HR mobility), and documenting the action to be taken. Properly selected leadership, from line managers to executives, will make it possible to achieve the vision and an ideal culture.

Lastly, it should come as no surprise that M&A may change the way an organization is managed, thus causing uncertainty for employees, customers, suppliers and other stakeholders. This is an emotive issue, and it usually creates resistance to change. To mitigate this, it is suggested that a corporate **culture gap assessment** be carried out (e.g. a cultural survey) and that key moments of change be carefully managed by ensuring a coherent **focus on Day 1 requirements** regarding all stakeholders: customers, employees and the company itself (e.g. coordinating sales teams, thus giving a clear message to customers).

STEP III – TRANSFORMING

The last step in a PMI is the transformation phase, i.e. **implementing all the action points** (organization, synergies) decided during the shaping phase, the ultimate primary aim being to achieve **merger savings**.

This phase is the **most critical** and usually the longest timewise: it implies making the firm able to manage a higher turnover, monitoring the integration progress in terms of synergy achievement and risk management, and making sure that everyone feels involved in bringing the company to the next level. In this process, Roland Berger Strategy Consultants have developed strong expertise (methodology and tools) in **systematic PMI implementation**, such as putting in place a cultural integration program, developing a communication toolkit, facilitating staff mobility, delivering maximum value from leadership workshops, etc.

To sum up, given the increased complexity of mergers (due to cross-border M&A amongst other things), the inherent challenges and the amounts usually at stake (larger average deal size), it is vital to be properly prepared and to have a reliable ally by your side. Systematic PMI management must cover all the critical key success factors.

C

KEY PMI SUCCESS FACTORS

TYPICAL SYMPTOMS OF PMI FAILURE	KEY PMI SUCCESS FACTORS	I. VISIONING	II. SHAPING	III. TRANS-FORMING
A MISSED TARGETS	1 Vision, strategy, business model	✓	✓	✓
	2 Synergies	✓	✓	✓
	3 Focus on day 1 of each process' step	✓	✓	✓
B LOSS OF KEY PEOPLE	4 Culture	✓	✓	✓
	5 People retention	✓	✓	✓
C POOR PERFORMANCE IN DAY-TO-DAY BUSINESS	6 Business continuity	✓	✓	✓
	7 PMO (master plan)	✓	✓	✓
	8 Communication	✓	✓	✓
	9 Process and organization	✓	✓	✓

TIMING OF INVOLVEMENT IN THE IMPLEMENTATION PROCESS

Pre-merger deal (I. Visioning – II. Shaping)

Post-merger deal (II. Shaping – III. Transforming)

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