



Integration: Where Deal Value Is Realized

It's Merger Monday ...

... Among other transactions, another mega-merger was announced today—this morning, industry leader Your Company announced an initial agreement to merge with industry giant Their Corporation. During a joint press conference, the two companies' CFOs described the combination as “a true merger of equals.”

The two went on to state, “It's too early in the deal to begin planning for integration, but we are confident that the new company will be stronger together than either company could be on its own. This combination will benefit everyone involved including our customers, shareholders, and employees alike. We will communicate more about the merger to our stakeholders as we have more information to share. Our plan to combine the two companies is essentially to ease the changes in. We will freeze the two organizations for at least a year and, once things settle down, we'll see what we have in the way of products, operations, systems, and people. Once our employees and customers get comfortable with each other and the new entity, we'll then start integrating the two businesses.”

Sound familiar? Announcements like this have appeared in the business media so frequently for the past few decades that mergers and acquisitions have become part of daily business. Even after the financial crisis of 2008, total global M&A deal volume reached US\$2,215 billion for 2013 (Mergermarket, 2014). Moreover, merger and acquisition activity is forecasted to increase as economic conditions and confidence in various regions around the globe improve (Ernst & Young, 2013). Deloitte's



third annual (2012) Corporate Development survey of 309 professionals involved in M&A at their companies—representing heads of corporate development/M&A, CFOs, CEOs/presidents, and board members—found predictions of an increase in both merger and acquisition and strategic alliance activity over the next two years. Nearly half the respondents (46 percent) expected an increase in mergers and acquisitions activity. The study also found that executives in the manufacturing sector are the most bullish on M&A prospects, with more than half responding that they expect an increase in strategic alliance transactions driven by investment in emerging markets (*Wall Street Journal*, September 15, 2013).

KEY PRINCIPLE

Even after the financial crisis of 2008, M&A volume is still at high levels and will continue to grow as economies and confidence in various regions around the globe improve.

BUYER BEWARE!

Ultimately, for a merger or acquisition to be considered a success, the NewCo (the term we will use throughout our discussions to designate newly formed entities resulting from M&A transactions) must increase shareholder value *faster* than if the companies were separate. However, in spite of continued high deal volumes, most M&As still fail to accomplish many of the strategic objectives so optimistically projected in the initial announcements.

Mergers and acquisitions often destroy shareholder wealth in the acquiring companies. A study by the National Bureau of Economic Research (NBER, 2014) of 12,023 transactions found that, over a twenty-year period, U.S. takeovers led to losses of more than \$200 billion for shareholders. Likewise, other research has found that M&As have a failure rate of between 50 and 85 percent. For example, a KPMG study found that 83 percent of these deals hadn't boosted shareholder returns; another study, by A. T. Kearney, found that total returns on M&A were negative (Heffernan, 2012). Likewise, in a 2012 study conducted by the Canadian Financial Executives Research Foundation (CFERF), only 20 percent of finance executives who had been involved in mergers or acquisitions during





the previous five years said their transactions were “very successful.” Survey respondents indicated that they determined the success of their transactions by measuring different metrics: 69 percent of respondents measured revenue growth; 63 percent of respondents measured achievement of specific synergies other than cost reduction; and 45 percent of respondents measured retention of key talent. However, executives are not deterred from future attempts at M&As. The vast majority (more than 80 percent) of the survey participants said they were at least “somewhat likely” to do another M&A in the next twenty-four months (*Wall Street Journal*, January 23, 2013).

Beyond the research, case examples demonstrate the high potential for failure of M&As. For example, on September 3, 2001, the day prior to Hewlett Packard’s announcement of its acquisition of Compaq, HP’s stock price was \$23.11. After the announcement HP’s stock dropped to \$18.87 and stayed pretty much at that same level for the following three years, selling at \$18.79 on September 21, 2004—down over 19 percent from its pre-acquisition selling price (Wheelen and Hunger, 2006). Likewise, following Quaker Oats Company’s 1994 acquisition of Snapple Beverage Corporation, one of the more ill-fated M&A deals in corporate history, Quaker Oats lost \$1.4 billion in just twenty-seven months. Quaker’s strength in supermarkets and mass distribution was a poor match with Snapple’s convenience-store market. The new owners of Snapple replaced a popular ad campaign with new marketing programs that immediately flopped. In addition, Wall Street considered Snapple’s purchase price to have been about \$1 billion too high. All these factors and more resulted in a \$1.6 million loss for every day that Quaker owned Snapple.

Cases such as the ones just discussed are sensational and garner a great deal of public attention. Yet smaller firms are not exempt from M&A problems. It is easy to assume that the managers of smaller firms with a flatter structure would have an easier path to M&A success. Yet there is considerable evidence that this is not the case. Poor M&A performance has also been documented for small- to mid-size industry consolidations including freight hauling (Prince, 2009); cleaning services, garden supplies, and lawn services (Gilbert, 1989); and scrap metal (Marley, 2008)

One of the most compelling statistics regarding the risk that management undertakes when doing mergers and acquisitions is that M&As rank above even business start-ups as the most risky business undertaking; with over 80 percent of M&As resulting in no or negative shareholder returns (Heffernan, 2012), while 75 percent of new businesses do not survive more than five years (Hogarth and



Karelaia, 2012). The high failure rate of M&As is not surprising. In fact, our most recent survey (Galpin and Herndon, 2014) found that not even a third (32 percent) of respondents believe that their company's "overall M&A capability and readiness level" is "good" or "outstanding," whereas over two-thirds (68 percent) of respondents see their firms' "overall M&A capability and readiness level" as "very poor," "poor," or simply "average."

KEY PRINCIPLE

Mergers and acquisitions rank even above business start-ups as the most risky business endeavor.

FACTORS CONTRIBUTING TO POOR M&A RESULTS

Overall poor M&A results, such as those just described, may be attributed to a number of factors—poor strategic or cultural fit, incomplete or haphazard due diligence, paying too much, and/or ineffective integration efforts—but they all point to the same basic fact: *it is much easier to do a deal than to implement one.* The "real deal" is that integrating the people, processes, and systems of one business with another is inherently demanding, even for the most experienced acquirers, and the integration process must be managed exceedingly well if the effort is to succeed.

KEY PRINCIPLE

It is much easier to do a deal than to implement one.

Indeed, beyond all the statistics and optimistic press announcements, real organizations are being disrupted, real employees are being displaced, and real shareholders are being disappointed—not for lack of effort, but largely for lack of effective and efficient integration planning and execution. There is a compelling body of evidence: various researchers have found a clear set of factors to be consistently associated with either poor or successful M&A integration and results:



- Our most recent survey of 153 managers and executives from approximately thirty different industry sectors (Galpin and Herndon, 2014) found that with one exception—the effectiveness of communications on the day of initial deal announcement—the majority of respondents (between 52 percent and 77 percent) feel that their firms are “very poor,” “poor,” or only “average” with regard to seventeen key integration effectiveness measures, including *M&A communications; timely and effective decision making by executives; integration planning; Day 1 operations; employee onboarding; tracking deal or integration metrics; making structure and staffing decisions; successfully leading their organizations through change; and cultural assessment and integration.*

- A 2011 survey of 135 senior management from a sampling of large-capital and middle-market U.S. companies that had completed mergers or acquisitions between 2007 and 2010 found that *planning and execution* are key factors in successful integrations, and that “*people-related integration activities* are of great importance to delivering deal value” (PWC, 2011).

- A 2009 study, using a sample of over eight hundred cross-border acquisitions occurring from 1991 through 2004, found that *culture* was a key factor in the success or failure of deals (Chakrabarti, Gupta-Mukherjee, and Jayaraman, 2009).

- A sample of 254 employees from various industries who participated in at least one merger or acquisition found that *managerial behaviors and human capital practices* were key factors in their assimilation into and identification with the combined organization (Creasy, Stull, and Peck, 2010).

- A 2012 survey by the Canadian Financial Executives Research Foundation (CFERF), including seventy-eight respondents (72 percent working in finance, 10 percent working in Human Resources, 8 percent CEOs or COOs, and the rest working in other departments), found “companies that very successfully completed an M&A all paid unwavering attention to *human capital at all stages of the process*, while this was not the case for less successful transactions” (*Wall Street Journal*, January 23, 2013).

- A 2009 survey of almost ninety M&A professionals found that 92 percent of the respondents said their deals would “have substantially benefitted from a *greater cultural understanding prior to the merger*” while 70 percent acknowledged that “*too little*” effort focuses on culture during integration (McKinsey & Company, 2010).



As the data overwhelmingly suggest, organizations know the root causes of failed M&As. But, in our experience with numerous clients around the world, firms still do a poor job of managing the issues involved in achieving positive M&A outcomes. Even in companies where there has been painful personal experience of deals gone wrong, it is the rare executive who has led combining organizations through a successful integration effort. Sadly, in spite of overwhelming evidence of the importance of effective post-merger integration, organizations and executives continue to fail. This is not surprising, however. Overall, our most recent survey of 153 managers and executives from approximately thirty different industry sectors (Galpin and Herndon, 2014) found that not even one third (32 percent) of respondents believe that their company's overall M&A capability and readiness level is "good" or "outstanding," whereas over two-thirds (68 percent) of respondents see their firm's overall M&A capability and readiness level as "average" or worse. Moreover, fewer than one-third (32 percent) of respondents believe that their company's overall M&A capability has been "outstanding" or has improved substantially since they joined the company. Over two-thirds (68 percent) of respondents believe their firm's overall M&A capability level has only "improved somewhat," has "made no substantial improvement," or has even "declined or gotten worse."

The findings get much worse for deals that cross national borders. Only 4 percent of respondents felt that their company's integration challenges and results for global deals are "better" or "much better" than domestic deals, whereas 46 percent of respondents believed their firm's integration challenges and results for global deals are "much worse," "somewhat worse," or "about the same" as domestic deals. Some 50 percent of respondents either did not know or their firms did not do global deals.

KEY PRINCIPLE

The completion of a deal does not ensure the success of the resulting organization.

DEAL STRATEGY—THEN AND NOW

Despite the risks and horror stories, mergers and acquisitions are here to stay. Driven by globalization and economic or strategic barriers to organic growth,





Exhibit 1.1 Deals Then and Now

	1980s and 90s	Now
Reasons	<ul style="list-style-type: none"> • Financial play 	<ul style="list-style-type: none"> • Operational leap
Risks	<ul style="list-style-type: none"> • Over-leveraging 	<ul style="list-style-type: none"> • Integration
Targets	<ul style="list-style-type: none"> • Diverse 	<ul style="list-style-type: none"> • Similar/Complementary
Prizes	<ul style="list-style-type: none"> • Hard assets 	<ul style="list-style-type: none"> • "The Eight Cs"
Mandate	<ul style="list-style-type: none"> • Stabilize 	<ul style="list-style-type: none"> • Exploit instability
Market	<ul style="list-style-type: none"> • Forgiving 	<ul style="list-style-type: none"> • Merciless

M&As have become the primary means by which many companies have chosen to grow. Largely because of these drivers, today's deals are fundamentally different from those that figured in previous waves of merger activity (see Exhibit 1.1).

In past decades, M&As tended to be primarily financial transactions aimed at gaining control of undervalued assets, which was then often resold or left to stand alone as an independent entity. The target was often a dissimilar industry, or a business line distinctly separate from the acquirer's main business. Price premiums were less common, integration was not a primary value driver, and as a result there was more room for mistakes. The main risk involved taking enough cost out of the business to ensure sufficient cash flow for debt service.

Today, the typical merger or acquisition is quite strategic and operational. Executives are buying an installed customer base as well as new and better distribution channels and geographic markets. They are buying organization competencies and an infusion of talent that leverage and extend strategic opportunities, and they are gaining control over competitors' products and services. They are also consolidating business units or industries in a down cycle, to increase revenue and share price. The differences don't stop there, however. Given the all-out race for globalization, not to mention the constant short-term pressure for earnings growth, desirable targets are fewer, demand for them is much greater, and price premiums are far more common. There are fewer margins for error in actually achieving the economic projections of the deal. Costs must still be driven out of the business, but now without any sacrifice of the ability to capture revenue-generating synergies. Moreover, in contrast to the past (when acquisitions



normally could be integrated over a longer period — perhaps three or four years or even longer), today, in order to realize projected targets, frequently the businesses must be merged as quickly as possible — often within six to twelve months after the close.

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M&As have become the primary means by which many companies have chosen to grow, with today's deals being fundamentally different from those occurring in previous waves of M&As.

STRATEGIC DEAL RATIONALE: THE EIGHT CS

Strategic reasons for deals vary from firm to firm and transaction to transaction. Moreover, deals are often predicated upon multiple rationales. Here are eight key strategic reasons that companies do deals. One or any combination of these may serve as motivation for a company to pursue a particular transaction:

- *Costs*: to realize efficiencies of scale across duplicate functions
- *Channels*: to gain new means of distribution, such as retail outlets, a direct sales force, or an internet presence
- *Content*: to obtain new products or services
- *Capabilities*: to gain new or augment current strengths, such as R&D, marketing, or technology
- *Customers*: to obtain access to new customer segments, including lower, middle, or upper market purchasers
- *Countries*: to gain entrée to various regions or countries in which they did not previously have a presence
- *Capital*: to obtain available cash or access to capital markets that a target firm may possess
- *Capacity*: to increase the available volume of operations





KEY PRINCIPLE

Any combination of the eight Cs for a strategic deal rationale requires a well-planned and well-executed integration of some or all of the firm's people, processes, and systems.

SERIAL ACQUISITIONS AS A GROWTH STRATEGY

For decades, firms have engaged in multiple acquisitions to execute their growth strategies. Therefore managers and employees, instead of having to survive only one or two M&A transactions in their careers, must now be ready to routinely help integrate new businesses as a matter of course, one right after another, and often with multiple transactions occurring simultaneously. For example, during the 1990s, some of the most active acquirers—such as Cisco, General Electric, Microsoft, and several others—engaged in extensive acquisition programs in which they each acquired more than fifty companies (Laamanen and Keil, 2008). In his discussion of serial acquirers in the banking industry, Streeter (2007) states, “There is no official definition of the term, but a good rule of thumb could be companies that have done five deals since 2002. There are 23 such companies currently active (two others were acquired themselves). Collectively they accounted for 167, or 12.8 percent, of the 1,305 bank and thrift deals done since 2002” (p. 38).

In their study of serial acquirers, Laamanen and Keil (2008) identified 611 public U.S. acquirers operating in seven industry sectors that had carried out at least four acquisitions over a ten-year period. They further split their sample down into 173 “frequent acquirers” (those who conducted over ten acquisitions over a ten-year period) and 438 “less frequent acquirers” (those who conducted four to nine acquisitions over a ten-year period). The researchers found that a high rate of acquisitions is *negatively* related to performance. They also found that the serial acquirers who have developed the capability to manage acquisitions performed better than those who had not developed that capability. According to their findings, serial acquirers perform best when they supplement their deal-making skill with a well-developed and repeatable deal integration capability.



KEY PRINCIPLE

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INTEGRATIONS EXIST ON A CONTINUUM

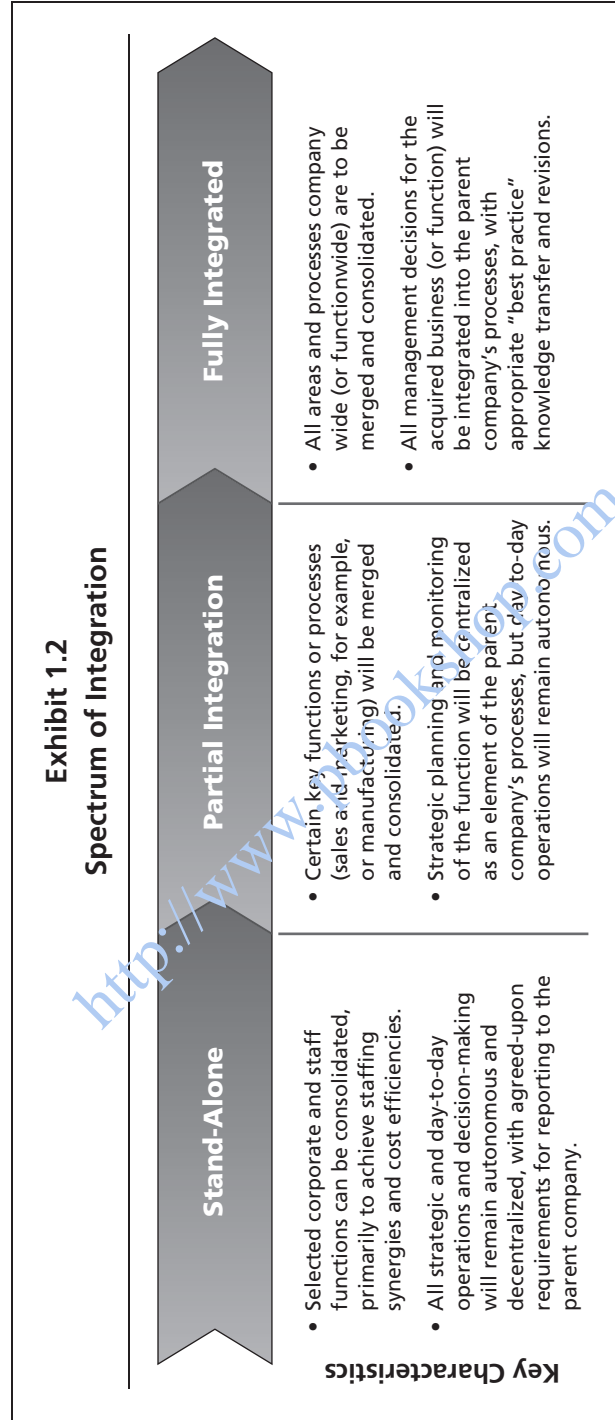
In our M&A work, we are frequently asked what degree of integration is needed to achieve the projected results for a particular type of deal (such as a joint venture or a small outright acquisition) or for a particular size and scale of transaction (such as the acquisition of a major global division of another company). The answer is almost always “It depends,” because, unfortunately, few general principles are robust enough to be meaningful. Consider that for every full integration, we find another combination that is more effective if partially integrated, and that for every “bolt-on acquisition” of an autonomous business division that it is assumed will be left as a stand-alone unit, we find a part of the entity that should be fully integrated. Most experienced acquirers find that the determination of the desired level of integration depends less on the industry, the business cycle, the scale, or the type of transaction than on the specific strategic intent of the transaction, the specific context and complexity of the target, and the risks or obstacles to integration that must be successfully managed. Therefore, unlike the incorrect assumption many people make — that merged or acquired companies are always fully absorbed into the other entity — M&A integration exists along a continuum; from stand-alone, to partially integrated, to fully integrated (see Exhibit 1.2).

To achieve the maximum value from each of the transactions we have worked on, the first step in moving toward a new operating model was to determine the level of integration required along the continuum presented in Exhibit 1.2. This determination, along a spectrum of possible levels of integration, set the stage for the subsequent business integration planning and implementation activities that occurred throughout each combination. Further, while the transactions had many legal forms, the *process* of integration assessment and transition employed was very much the same — what varied between the deals was the *degree* of integration.

In addition to discrete transactions, we have also worked with various “serial acquirers” to help them build their standardized processes for use across multiple



Exhibit 1.2 Spectrum of Integration





transactions. Determining the appropriate degree of integration across a wide spectrum of possible operating models required for maximum value creation, on a transaction-by-transaction basis, is a key component of each of these companies' standard integration processes.

KEY PRINCIPLE

The first step in moving toward a new operating model is to determine the level of integration required based on the strategic intent of the deal.

Beyond our experience, it is well recognized across the M&A research literature that there are different levels of integration, which produce a continuum of post-acquisition operating models. The concept of the degree of integration during M&As goes back to Thompson's (1967) pioneering work on organizations. Later, Shrivastava (1986) found that "diverse motives complicate post-merger integration because each motive requires a different extent of integration. For example, if the motive behind a merger is only to increase the overall size of the firm, as often happens with conglomerate acquisitions, such as ITT's acquisitions in the 1960s and 1970s, simple accounting integration may be sufficient. But if the motive is to derive synergies in marketing (as in the case of Coca-Cola and Wine Spectrum), or production (as in the case of Du Pont and Conoco), deeper integration may be needed" (Shrivastava, 1986, p. 66). Each transaction is very specific, so generalizations about the degree of integration are not possible. "The different types [degrees] of post-merger integration described are neither required nor recommended in every merger situation. Nonintegration of the acquired business can be satisfactory in some situations, over-integration can be expensive, and under-integration can be unproductive. Therefore, it is important to determine the optimal degree of integration for each situation" (Shrivastava, 1986, p. 73).

M&A researchers have sought to classify the continuum that comprises business combinations. For example, units of either acquiring, acquired, or merged firms may be (1) managed autonomously, (2) fully assimilated by those of the other firm, (3) blended together, (4) required to coordinate with units with which





they have no history or contact, or even (5) liquidated or spun off (Schweiger and Walsh, 1990). Napier (1989) introduces the continuum of extension, collaboration, and redesign. He states,

Extension mergers are cases where the acquiring firm essentially leaves the acquired firm alone, changing little or none of its management or operations. Collaborative mergers occur when two firms join to generate gains to both or to one, through blending of operations, assets or cultures, or through an exchange of technology or other expertise. There are two types of collaborative mergers: synergy and exchange. Synergy mergers exist when two firms blend or compromise on major operational and managerial functions. This can include the firm's name, headquarters location, and functional and staff operations. Exchange mergers involve an exchange or transfer of knowledge, technology or other talent from one firm to the other. Finally, redesign mergers imply the widespread adoption of policies and practices of one firm by the other. (Napier, 1989, pp. 277)

Beyond classifying the spectrum of M&A integration, other researchers have focused on how decisions are made regarding the level of integration. For example, Pablo (1994) solicited the views of executives involved in fifty-six acquisitive organizations to examine how task, cultural, and political characteristics of acquisitions influence decisions about levels of integration. Although task-related characteristics entered most heavily into managers' integration decision models, cultural and political factors were also important. Pablo therefore contends that organizational integration decisions for the NewCo must be viewed from multiple perspectives. This view is consistent with our experience.

KEY PRINCIPLE

M&A research supports the need to identify the required level of integration on a deal-by-deal basis.



In addition to the research literature on mergers and acquisitions, various case examples of business combinations reveal wide diversity in the manner in which acquirers and target companies transition their brands, leadership, and processes. For example, some combinations create *conscious separation*, such as “the approach followed by Unilever and L’Oréal respectively with regard to Ben & Jerry’s and The Body Shop suggests that the uniqueness of an acquired organization can justify an exception to a standardized post-merger integration template. Unilever, a successful practitioner of assimilation, acquired Ben & Jerry’s in 2002 and has made a set of formal commitments to maintain its independence and unique identity. To find reference to Unilever, one has to search very hard on Ben & Jerry’s website. The same is true for The Body Shop, acquired by L’Oréal in 2006, and still operates as an independent company” (Bouchikhi and Kimberly, 2011, p. 22).

In other instances, companies seek *collaboration*. “For example, the Norfolk & Southern Railway merger of two relatively equally sized railroad firms with complementary routes represents an example of a synergy merger. The new firm attempted to create synergy by (1) combining names (changed to Norfolk & Southern), (2) locating its headquarters in a neutral city (Norfolk, VA), (3) balancing the Board membership with representatives from each company, and (4) cross-training key managers. The resulting synergy forced changes in personnel practices, e.g. transfers, and in the structure of each organization” (Napier, 1989, pp. 279). Finally,

acquisitions come in different shapes and sizes. Sometimes, the acquisition is a portfolio or asset purchase that adds volume to a particular business without adding people. Sometimes, it is a consolidating acquisition in which a company is purchased and then consolidated into an existing GE Capital business. That happened when GE Capital Vendor Financial Services bought Chase Manhattan Bank’s leasing business. Sometimes, the acquisition moves into fresh territory, spawning an entirely new GE Capital business. GE Capital made such a “platform,” or strategic, acquisition when it bought the Travelers Corporation’s Mortgage Services business. And finally, sometimes, the acquisition is a hybrid, parts of which fit into one or more existing businesses while other parts stand alone or become joint ventures. (Ashkenas, DeMonaco, and Francis, 1998, pp. 166–167)





KEY PRINCIPLE

Numerous M&A case examples demonstrate the need to determine the desired level of integration on a transaction-by-transaction basis.

TEN KEY RECOMMENDATIONS FOR MAXIMIZING DEAL VALUE

To create successful mergers or acquisitions, ten key recommendations should be applied. Following them is no guarantee of success, but they will significantly increase the odds of not only realizing but also maximizing the value of your deals:

- Conduct due-diligence analyses in the financial and human-capital-related areas.
- Determine the required or desired degree of integration.
- Speed up decisions instead of focusing on precision.
- Get support and commitment from senior managers.
- Clearly define an approach to integration.
- Select a highly respected and capable integration leader.
- Select dedicated, capable people for the integration core team and task forces.
- Use best practices.
- Set measurable goals and objectives.
- Provide continuous communication and gather feedback.

Conduct Traditional and Nontraditional Due Diligence

Due diligence is a key ingredient both of successful negotiation and of post-deal integration. Most companies do a decent job of traditional financial due-diligence analysis but a dismal job of nontraditional human capital and cultural due diligence. Due diligence in the area of human capital and culture can provide a picture of where two companies converge or diverge on such aspects as leadership, communication, training, performance management, and so on. Instead of learning about such aspects of a partner or target company after the fact, you can learn a great deal during the due-diligence process. In this way, the integration manager



and others involved in the integration process can start gaining valuable information right from the start and do a better job of determining where the integration focus should be and where resources should be applied.

Determine the Required or Desired Degree of Integration

Will the integration be full? Partial? Limited? This determination helps greatly in letting people know how complex the integration will be and how much work will be required. Fully integrating two companies' processes, people, and systems requires a lot more effort and organization than only partial or limited integration.

Make Speedy (But Not Reckless) Decisions

A focus on speed rather than on precision not only facilitates faster integration but also enables people to refocus more promptly on work, customers, and results. Moreover, reaching decisions quickly about pay, benefits, structure, staffing, reporting, and so on will give people faster resolution of their "me issues" and, again, enable them to refocus more quickly on their work.

Get Support and Commitment from Senior Managers

Too often we have seen senior managers, while appropriately delegating integration management and tasks, inappropriately delegating their own roles in an integration. Senior managers should not and must not delegate decision making on items that involve large capital expenditures, or where an impasse has been reached at lower levels of the integration decision-making process. Moreover, the best change-management tool available is senior managers' "face time" with middle managers and employees. Face-to-face meetings provide opportunities for real-time, two-way information dissemination, feedback, questions, and answers.

Apply a Clearly Defined Approach

A clearly defined approach facilitates faster decision making and organizes the entire integration effort. Using an integration manager, a core team, and integration task forces will provide the infrastructure and resources needed in getting a huge job—integrating processes, people, and systems—done more quickly and more smoothly. Without a defined approach that includes clear deliverables, due dates, milestones, information flows, and so on, each function of the enterprise will





be working on a different schedule and producing deliverables that vary widely in terms of quality and content.

Appoint Capable M&A Leadership

The integration leader should be an excellent project manager with a broad view of the enterprise and good people skills. This is the person who will make or break the integration, overseeing its decision-making process, the achievement of milestones and deliverables, and the quality of the reporting process. Choose this leader wisely.

Utilize an M&A Core Team and Task Forces

Integration is not a part-time job; therefore many of the people serving on the core team and the task forces, especially the leaders of these groups, will have to delegate their day-to-day responsibilities in order to focus on the integration effort. If they fail to do so, the effort will bog down, and deliverables (such as integration plans) will be damaged.

Apply Best Practices

Learning from others' mistakes is a great way to avoid making your own. Likewise, learning from others' best practices and integration successes can shorten your own learning curve.

Adhere to Measurable Goals and Objectives

Measurable goals and objectives let people know what a successful integration will look like and how long it should take. Synergy targets, integration time frames, specific deliverables, and due dates all drive a faster, smoother integration.

Provide Continuous Communication and Gather Feedback

All the people involved in the integration effort should be given continuous communication and feedback, which will help them understand the progress that is being made. Gathering feedback from the organization also helps in identifying areas that need even more attention as the effort progresses. Constant communication and feedback are the oil that lubricates a well-run integration machine.



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DEVELOP A SUSTAINED M&A CAPABILITY

Many companies do multiple deals but treat them as single, on/off events. Nevertheless, given the high frequency of merger and acquisition activity today and into the foreseeable future, organizations would do well to embed into their workforces the capability to conduct multiple efficient and effective integration efforts. Managers often wonder why they make the same mistakes, deal after deal, never realizing that if they installed the tools, processes, and techniques described throughout the chapters that follow, they would provide the organization with a road map for future acquisitions. This is not to say that every deal is the same, but a valuable “how to” process manual can be produced if managers define *and document* the organization’s M&A processes by detailing the following M&A elements:

- Steps
- Activities
- Tasks
- Tools and templates
- Time frames
- Samples of deliverables
- Various parties involved along the way (for example, senior managers, the legal and finance departments, the human resources department, external consultants, and so on)
- Their roles at each step

This kind of company-specific M&A process manual will help to drive an efficient, effective process each time the organization embarks on a deal. For example, Dow Chemical, GE Capital, and Lyondell Petrochemical all have defined





and documented M&A processes. Each of these companies conducts multiple deals (in the case of GE Capital, sometimes as many as dozens per year), and each has a set approach to M&A due diligence and integration, identifying all the tasks, parties involved, roles, and deliverables throughout a deal flow.

In addition to documenting the company's M&A process, it is very helpful to train people in effective use of the materials, thereby also building a strong M&A competency for the organization. The training does not have to be long and involved; it can be as short as an awareness session orienting participants to the contents of the company's M&A documentation. Through this kind of training, all the people who will be involved in a deal can learn about their roles, the roles of others, and what the deliverables will be throughout the deal process.

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A company-specific M&A process manual will help to drive an efficient, effective process each time the organization embarks on a deal.

BE SURE TO AVOID THE KILLER PHRASES

Remember the news announcement presented at the beginning of this chapter? Here it is once more:

... Among other transactions, another mega-merger was announced today—this morning, industry leader *Your Company* announced an initial agreement to merge with industry giant *Their Corporation*. During a joint press conference, the two companies' CEOs described the combination as "a true merger of equals."

The two went on to state, "It's too early in the deal to begin planning for integration, but we are confident that the new company will be stronger together than either company could be on its own. This combination will benefit everyone involved including our customers, shareholders, and employees alike. We will communicate more about the merger to our stakeholders as we have more information to share. Our plan to combine the two companies is essentially to ease the changes in. We will freeze the two organizations for at least a year and, once things



settle down, we'll see what we have in the way of products, operations, systems, and people. Once our employees and customers get comfortable with each other and the new entity, we'll then start integrating the two businesses."

Unfortunately, the contents of this announcement typify the type of statements made by numerous CEOs of two combining companies. The unfortunate characteristic is that the announcement is riddled with "killer phrases." Let's take a look at some of these phrases in more detail and their detrimental impacts on efforts to combine two companies.

The phrase "a merger of equals" is a common integration killer. With very rare exceptions, there is no such thing as a merger of equals. Even when the assets contributed and the size of the workforces and revenues are virtually the same, it is still not a merger of equals; just naming one of the two companies' CEOs the head of the new entity sends signals about who is in charge. The greatest damage done by use of the phrase "a merger of equals" is the creation of a perception that decisions will be made in an egalitarian way. This perception is a misperception, however. It can only slow the integration down and cause infighting between the two organizations as they attempt to integrate their people, processes, and systems. Someone needs to make the call when an impasse is reached, to give direction in such areas as the pay and benefits programs that will be used by the NewCo organization, which information system will be used, which business processes will be used, and so on. This someone is usually found among the top executives and, eventually, may even have to be the CEO of the NewCo organization, not a consensus-driven decision-making body.

"It's too early in the deal to begin planning for integration" is also a killer phrase. It is never too early to start planning for integration. In fact, the earlier the better, because once the deal closes, employees in both firms will want to know answers to questions about organization structure and staffing, systems, policies, and processes. Customers will want answers, too, for questions about how their service experience may change. Waiting until you are sure the deal will close to start planning for integration leaves little precious time to design the NewCo and develop answers to employee and customer questions. Even if the deal doesn't close, the sunk cost of starting integration early is time, effort, and money well spent, by helping prepare the organization for future integration planning efforts as they occur.





“Take your time, and ease the changes in” is another integration killer. Managers often feel the pressure when the organization pushes back on the speed of integration. But this pushback is only a natural reaction to the changes taking place. As in any other kind of change process, people will try to hang on to the status quo—and, as in any other kind of change process, the longer management takes to make the changes, the longer the organization will retain an inward focus, and the longer organizational productivity will drop. Merger integration can be fast and painful, or it can be slow and painful. It is better to get the changes made quickly.

Another killer is the phrase “We’ll tell them something only when there’s something to tell.” This is the wrong approach. We have seen companies go for months without sending any kind of merger-related communications because there was “nothing to tell.” All the time, they could have been letting their people know about the integration process and the progress being made. Instead, the workforces of these organizations filled the dead air with rumors, falsehoods, and speculation.

Even worse, killer phrases drive killer actions. Unfortunately, when managers use killer phrases, believe them, and act on their beliefs, they create the nemesis of positive integration. Instead of using such phrases, managers should spearhead quick, effective efforts to integrate the two organizations. Using the tools, templates, and techniques described throughout this text will facilitate a process that efficiently and effectively achieves the goal that motivates deals in the first place: value creation for the new company, its customers, and its shareholders.

KEY PRINCIPLE

“Killer phrases” drive “killer actions.”

CHAPTER SUMMARY

- Driven by globalization and economic or strategic barriers to organic growth, M&As have become the primary means by which many companies choose to grow.
- Even after the financial crisis of 2008, M&A volume is still at high levels and will continue to grow as economies and confidence in various regions around the globe improve.



- Most research has found that M&As have a failure rate of between 50 and 85 percent.
- Numerous case examples demonstrate the high potential for failure of M&As.
- Mergers and acquisitions rank above business start-ups as the most risky business endeavor.
- The real deal is that integrating the people, processes, and systems of one business with another is inherently demanding, even for the most experienced acquirers, and the integration process must be managed exceedingly well if the effort is to succeed.
- Data overwhelmingly suggests that organizations know the root causes of failed M&As, but firms still do a poor job of managing the issues involved in achieving positive M&A outcomes.
- We have identified eight key strategic reasons companies do deals—the eight Cs.
- Managers and employees no longer need to survive only one or two M&A transactions in their careers; they now must be ready to routinely help integrate new businesses as a matter of course, one right after another, and often with multiple transactions occurring simultaneously.
- We have found that serial acquirers perform best when they supplement their deal-making skill with a well-developed and repeatable deal integration capability.
- Unlike the incorrect assumption many people make—that merged or acquired companies are always fully absorbed into the other entity—M&A integration exists along a continuum; from stand-alone, to partially integrated, to fully integrated.
- The first step in moving toward a new operating model is to determine the level of integration required, based on the strategic intent of the deal.
- Following the ten key recommendations for maximizing deal value significantly increases the odds of deal success.
- A company-specific M&A process manual will help to drive an efficient, effective process each time the organization embarks on a deal.
- Be sure to avoid the killer phrases.





DISCUSSION QUESTIONS

1. Does your organization see its M&A activity increasing, decreasing, or staying the same over the next few years?
2. Does your firm have a clear M&A strategy (such as areas where M&A would augment the firm's capabilities, the types of partner firms that should be targeted, the volume of M&A that firm will pursue)?
3. Which of the eight Cs are key reasons your firm pursues deals?
4. Would you classify your firm as a serial acquirer? Why or why not?
5. How would you rate the general success of the transactions your firm has completed? Why?
6. Does your firm do a good job of identifying the level of integration that is required to achieve the maximum value for each deal? Why or why not?
7. What aspects of M&A integration does your firm excel at? What integration aspects does it need to improve upon?
8. How does your firm pay attention to and manage the cultural and human capital aspects of transactions, throughout each deal?
9. Does your company's management use the killer phrases highlighted in this chapter? Is so, which ones? How do they typically impact the effectiveness of your deals?

RAPID ASSESSMENT TOOL

Realizing Deal Value: Rapid Assessment

Completing the following scorecard will provide a quick, high-level view of how your firm strategically approaches transactions, and how well your organization performs M&A integrations.

Steps to complete the assessment:

1. Rate each item on a scale of 0 (poor) to 10 (excellent).
2. Make notes for each item to explain the rationale for the numerical rating.
3. Add all ten scores to get a TOTAL SCORE (maximum score = 100).

Rating scale:

0–20 = Poor (significant improvement needed)

21–40 = Below Average (improvement needed in several areas)

41–60 = Average (identify areas of weakness and adjust)

61–80 = Above Average (identify areas that can still be improved)

81–100 = Excellent (continuously review and refine each component as the firm's M&A efforts evolve)

Component	Rating (0 = poor, 10 = excellent)	Notes/ Rationale
1. We have a clearly articulated M&A strategy.		
2. We know the areas where M&A would augment the firm's capabilities.		
3. We know the types of partner firms that should be targeted.		
4. We know the volume of M&A that we will pursue.		
5. We have successfully used M&As as a key part of our growth strategy.		
6. We do a good job of identifying the level of integration that is required to achieve the maximum value for each deal.		
7. We have been successful at integrating our transactions to gain maximum value from each one.		
8. We do a good job of <i>assessing</i> the human capital and cultural fit of target firms during each deal.		
9. We do a good job of <i>integrating</i> the cultural and human capital aspects during each deal.		
10. We avoid using the killer phrases.		
TOTAL SCORE		