The Art of M&A Integration
An Essential Element to Achieving Business Results

M&A activity is often biased toward closing the deal. Company executives review strategic implications, define expected results and analyze financial projections. Consultants and functional experts perform due diligence. Brokers and bankers model business synergy and valuation. The legal team works out contractual details. When the deal finally closes, the vast majority of these people move on to their next challenge – leaving a business unit manager and corporate staff functions to actually engage with the new group, ensure functionality between business systems and, most importantly, deliver on the promised results.

At this point, engagement with the new group will vary somewhere between two extremes:

- **Assimilation** – being force fit into the acquiring company – replicating their business processes and culture regardless of how well these fit the acquired group. For you Star Trek fans, assimilation was the Borg approach – physically altering captured species to remove all semblance of individuality. In their words - “Resistance is Futile.” In the business world, this takes the form of rote application of the integration checklist – converting ERP systems, financial reporting, HR policies and decision making authority to match the new owner’s corporate template. In the best case, these new systems and business processes disrupt the priorities and focus of the acquired company. They may also prove inefficient for the acquired business and require modification or abandonment – further delaying expected progress. In the worst case, they can be incompatible with the values and culture of the acquired company, causing significant loss of talent and jeopardizing the original objectives of the purchase.

- **Abdication** – the absence of a formal integration process – typical of less sophisticated acquirers and acquisitions which claim no anticipated changes in a “merger of equals”. Unfortunately, this initial independence is short lived as various corporate functions start expecting information in the format used by the acquiring company. Next, these same well intentioned staffers expect compliance with corporate policies and procedures. This will likely impact budget and hiring approvals and may extend to more critical business processes like customer terms or credit approval. While all these changes seem reasonable to the various staff groups - the cumulative effect on the acquired company is at least a diversion of resources to deal with non-value added administrative tasks and at worst a direct violation of their expectations and trust. The most destructive changes occur when organizational decisions and HR policies combine to impact reporting relationships, titles and compensation. Coupled with the more benign administrative issues and an information vacuum – the intended synergies of the acquisition are quickly forgotten – replaced by uncertainty about levels of authority, long term job security and outright mistrust.
The abdication approach always results in unanticipated, incremental erosion of autonomy at the acquired business. The frustration and mistrust this causes is more damaging than the shock effect of the assimilation approach. It is never wise to assume or communicate that business will continue as usual for the acquired company. The reality is that many things will change with an acquisition and this needs to be communicated and planned well before the deal is signed. Just functioning with a new corporate parent will entail change and all the elements which made the deal attractive in the first place will require adaptation. For example:

- Access to new markets, capital or technology will require functional collaboration.
- Complementary products or services will require rationalization and cross selling.
- Operational synergies will require consolidation to reduce costs.

Added to this mix, the acquiring company will almost always believe they can run the new business better than the incumbents. As a result, they are biased toward their own business processes and more likely to select people from their organization for leadership positions. Unless they understand this bias, value the strengths of the acquired company and remain committed to the acquisition objectives – they can destroy the very value they set out to acquire. There is no free lunch for either firm – both need to be willing to make adjustments to meet the merger’s objectives.

These challenges help to explain the poor statistics for acquisitions. Depending upon the source, studies have shown that somewhere between 50% and 80% of mergers are judged as failures and the majority of companies that engaged in M&A trailed behind industry average for shareholder returns. There are, however, a number of companies that generally “get it right.” Their success and my personal experience1 with several integration challenges have led to the following key elements of a success integration process:

- Common Objectives
- Early Integration Planning
- Resource Allocation
- Fast Decision Making
- Effective Communication
- Strong Working Relationships
- Expect Problems

1 - My personal acquisition experience has been with initial assessment, due diligence, leading the acquired organization and incorporating acquisitions into established business units. In most of these cases, the acquiring corporation took a relatively simple approach – buying based on product line expansion and leveraging a common distribution network. Additional synergies were anticipated with shared technology and manufacturing expertise but these were not formally planned or included in the economic justification.
Common Objectives

Nothing is more fundamental than having both organizations headed in the same direction. Ideally each corporation has clear objectives defined before beginning the acquisition process. These are typically established by the executive staff and become part of the internal justification for an M&A strategy. These objectives should be shared during face-to-face discussions within the limits of competitive and negotiating constraints. The sooner both parties clarify their intentions, the sooner constructive discussion can take place on whether the business models are accurate and how they will impact employees, customers and financial results. Rather than tipping one’s hand, the more likely outcome is an honest discussion of whether markets, competencies and cultures can be aligned to achieve superior results. Discovering major obstacles and building trust early in the process are critical to success after the merger.

Early Integration Planning

At this stage, the integration plan should be an extension of the common objectives – not a detailed checklist. The intent is to outline the level of autonomy for the new group and how major product line and organizational decisions will be handled. Items to consider include:

- How will decision making authority change – both for the acquired CEO and functional groups?
- What corporate policies and procedures are “must haves” and which are negotiable?
- Who will make product line integration decisions – especially where overlapping or complementary products are involved? On what basis?
- What functions and facilities are targets for consolidation? How will decisions be made? What is the corporate approach to executing such changes? Over what timeframe?

Many people discount the ability to start integration planning prior to closure. While I agree this would be awkward during negotiations, it is certainly doable during initial assessment and due diligence working sessions. At that point, it serves as another test of compatibility and sets appropriate expectations for the integration process.

Resource Allocation

Once a reasonably thorough integration plan has been drafted – teams need to be defined for major integration tasks. These people will be accountable for detailed planning and execution. As team members are assigned, determine how the additional workload will affect the core business. Don’t just layer on new responsibility and then wonder why other priorities are falling behind. Unless you have an extraordinary amount of excess capacity, you must consciously adjust other deliverables or add resources (corporate or temporary) to get things done.
Consider assigning a full time integration manager. This position typically reports to the new business unit GM and serves as the program manager and organizational buffer for the integration process. Their role is to:

- Facilitate and manage integration activities
- Help the acquired business understand the acquiring company
- Help the acquiring company understand the acquired business

They are not accountable for the business results but for the successful creation and execution of the integration plan. They are expected to have their finger on the pulse of the new group in terms of organizational dynamics and interpersonal relationships – flagging issues before they escalate and intervening directly to ensure appropriate communication and fast decision making. In order to be effective, they must have in-depth knowledge of the acquiring company – including major business processes and access to the executive staff. Their impact on the integration process includes accelerating the pace of change, creating required structure, forging social connections and engineering short term successes that support longer term business results.

**Fast Decision Making**

Every text or article you read will emphasize fast decision making. Based on personal experience, it’s appropriate. All acquisitions create a huge amount of stress and disruption in both organizations. People are both mourning the loss of their old culture and wondering whether they’ll have a job next week. To the extent that restructuring decisions are left in limbo, people's imagination and the informal network will fill in the blanks – usually with worst case assumptions. This toxic environment breeds discontent and provides time and motivation for people to examine career alternatives. Once people initiate a job search, they are likely to find attractive alternatives and wind up leaving even if the original source of discontent has been resolved.

The solution is to minimize the period of uncertainty. Make restructuring decisions and assign organizational roles before the merger announcement if possible or within days if not. In addition, make all anticipated changes at one time. Multiple waves of change prevent the organization from stabilizing. Successive refinements to business processes and organizational structure cause the new group to conclude that (1) leaders at the acquiring company don’t know what they’re doing and (2) nothing is sacred so why put energy into any new organization or business process.

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Effective Communication

Along with being fast - be outspoken and specific about what changes are coming, why they are necessary and how they will affect employees. People care about the business, its strategy and the integrity of their leaders – but they are most interested in how these factors will impact them personally. Everyone wants to be treated fairly and with respect. Part of this respect is both trusting people with unpleasant information and listening to their ideas on how to meet new objectives and implement required changes. Use multiple forums to gather feedback and communicate objectives and actions. These should include everything from all employee briefings to small team feedback sessions. Take every opportunity to explain what is going on, get honest feedback and solicit alternative ideas.

Strong Working Relationships

Returning to science fiction – you often hear people in an acquired business refer to their new parent company as “The Mother Ship” – part of the same organization but physically and emotionally distant. It must be part of our tribal heritage that we identify so strongly with a small, local group. This should not be seen as subversive but merely a result of familiarity and human nature. The sooner you can build relationships between peers in both companies, the better you can deal with the inevitable problems that arise with a new organizational structure. Nothing beats in-person meetings to establish these relationships. People need to get to know each other in both working meetings and in purely social settings. This goes a long way toward promoting cooperation and preventing misinterpretation of emails. Get the corporate executives and functional staff out to visit the new acquisition and get key team members back to headquarters early in the game and on a regular basis over at least the first year. Beyond introductions, get the teams working together as soon as practical. “...the faster people from both companies are given opportunities to work together on important business issues, the faster integration will occur.”

Expect Problems

As John Lennon once said, “Life is what happens to you while you’re making other plans.” No matter how well you plan, communicate and execute – things will go wrong. The disruption in priorities and programs caused by the acquisition will undoubtedly lead to some unanticipated consequences. The best approach is to be sure metrics exist to get an early warning of problems – such as order fulfillment rates falling off or customer complaints rising. Add new avenues to gather information from employees and regularly solicit their feedback. When you recognize a problem, act decisively to correct it. This is well summarized as, “Successful acquirers don’t dwell on the past. They admit their mistakes, correct them, and move on, communicating openly about their actions. They don’t hesitate to make the tough calls, and they pick the right people to lead their businesses...”

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As with most management practices, acquisition integration is more about common sense than rocket science. None of the principles outlined here should come as a surprise. Yet some or most of them are easy to overlook in the heat of battle. When your customers are screaming about quality and the CEO is demanding higher returns, it’s easy to forget lunch with the newly acquired management team. On the other hand, if you’ve done the ground work early in the relationship to established objectives, plans and teams and you act quickly to make decisions and build relationships, you’ll have far more bandwidth to deal with any crises as they occur throughout the integration process.

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