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The Perfect Post Merger Integration

How to prepare and execute the Post Merger Integration (PMI) of an acquisition.

The successful merger of two companies is a great challenge, even for experienced managers. This article gives you an overview in the form of an annotated checklist of the key issues that need to be considered.

Introduction

For many companies, mergers and acquisitions are an important part of their strategy to achieve growth and higher profitability. To turn the desired benefits and synergies from planning into reality, an optimally planned and executed integration is crucial. A successful PMI can be subdivided into three different time phases: the preparation phase, the transaction phase and the actual post-merger integration, until the start of "normal operations" as an integrated company.

1. Preparation phase

The reality and numerous studies show that at least 50% of mergers and acquisitions of companies fail. Synergies are not leveraged at all, or it takes much longer than expected to leverage them. The productivity losses of day-to-day business are often enormous and the planned value increases are only really achieved in a fraction of the transactions. With good preparation, the chances of success are dramatically increased. On the one hand, this involves the strategic logic for the M&A strategy (Mergers & Acquisitions). On the other hand, the resources, competencies and plans for the later value creation in PMI must already be thought through and established.

M&A-Strategy

- What is the overall strategy of the company and why are M&A's an important contribution to its execution?
- What defines an ideal purchase object/merger partner?
- What are the key synergies and benefits expected from M&A's?
- What strategy should the newly created entity have?
- What budget (e.g. for purchase price, transaction costs, integration costs) is available for the full implementation of the M&A strategy?
- What is the target return-on-investment and how will the success of the strategy and individual measures for its implementation be measured?

The perfect PMI

1. Preparation phase
2. Transaction phase
3. PMI

Preparation of the PMI

- What key synergies and benefits are being sought and by what means should they be achieved by when?
- Which resources (e.g. executives, internal experts, consultants) are available for the implementation of PMI?
- Which key people in top management support the transaction and are these people also prepared to support and drive the transaction and integration, if resistance and setbacks arise?
- Which predetermined breaking points are expected during the integration? What should be given special attention? Typical problem areas where "blind spots" exist are the great differences or peculiarities of the two units in the areas of business, culture, strategy and organization.
- Which core areas of business activities will be most affected by integration activities?
- How will progress and success in integration be measured?
- What is the rough timetable for integration and leveraging of synergies?

Comment

A critical mistake, which is made in the phase before the transaction, is to underestimate what can already be prepared in the PMI area, before a concrete purchase object or partner is identified. Many of the key questions described above can already be addressed without the need for in-depth information about the other side. Especially with the help of the outside view of an independent consultant, a diagnosis and analysis of one's own company and its M&A strategy can provide essential contributions and insights, especially to avoid "blind spots" and expensive misjudgements.

Secondly, the intended synergies should be checked for plausibility already in this phase. The key questions here are: Have such synergies (and also to the planned extent) already been realized by this company in the past in acquisitions? Have synergies to the planned already been realized by any company in a similar transaction? Here it is crucial to use external and independent benchmarks to prevent a transaction from being triggered by overly optimistic assumptions about synergies.

Experience shows that only in this preparatory phase is there a chance to stop a flawed acquisition strategy. Once a transaction is underway and top management is eagerly awaiting a glorious deal, it is almost hopeless to stop the train. It is precisely this dynamism and the lack of investment in an unbiased and independent examination of the strategic and commercial logic of the transaction which, in the opinion of this author, is the main reason for the lack of value creation in most transactions and integrations. Here, especially, the CFO and his/her team can play a decisive role as constructive critic and guardian of commercial reason.

2. Transaction phase

Due Diligence, i.e. the examination of hard and soft facts of the purchase object/merger partner in the course of negotiations, is not only a key step in the execution of the transaction, but is also decisive when it comes to the professional preparation of PMI.

Due Dilligence
The following overview shows key areas of Due Diligence and which questions should be particularly focused on in the context of planning a PMI.

- How does the current strategy and market position of the target fit with your own in detail? How does the strategy process work? What is the level of formalization and quality of the planning and budgeting processes, as well as the business plans? Which strategic partnerships, alliances and joint ventures exist, how are they regulated and what does this mean for integration? Who are the key customers and what does this mean for integration? Who are the key suppliers and what does this mean for integration? How do marketing and sales policies and systems fit together? How do warranty and customer service handling and systems fit together?
- What are the target company's core competencies? Where are operational strengths and weaknesses, as well as synergy and rationalization potentials?
- What performance results were achieved by the target company in the individual areas? Are they in an appropriate ratio (ROI) to the inputs and services provided, as well as the risk taken? What can be deduced from this about the productivity of the organization? Which key figures are used to manage the company and measure its success? How does this approach fit in with the company's own key figures and management approach? How are liquidity and debt capital managed and what do these differences mean for integration? What is the investment and maintenance policy?
- What are the main accounting policies and what accounting practices are followed by the target company?
- What are the relationships with the trade union, works council and workforce, who are the important players and where and under what conditions can cooperation or resistance be expected? Which company agreements exist?
- What are the main differences in the handling of tax matters and relations with the tax authorities?

- How do the insurance policies and the handling of risk and insurance matters of the two companies fit together? What challenges are to be expected in the integration process?
- How will intellectual property be handled? How do the trademark and patent portfolios etc. fit together? What licenses etc. have been granted and where is the target a licensee? Which critical areas are there so far and which are to be expected when comparing the integration with your own company?
- What legal obligations and legal disputes or official measures exist or threaten to exist and what impact can be expected from this on the integration? What special contracts and obligations exist, e.g. for the sale of companies or parts of companies, from mergers and acquisitions already carried out, standstill or non-competition agreements, non-disclosure agreements, special contracts and agreements between managers and employees and the company, special or unusual agreements with important customers or suppliers?
- How are key areas of compliance handled, such as anti-corruption, competition, antitrust and environmental regulations, as well as stock corporation and stock exchange law?
- Which IT systems are in place and where are the greatest challenges in integration? How is IT handled organizationally? What investment needs and cost savings can be expected in IT?
- Which management information systems exist and where are the biggest challenges in integration to be expected?
- In which areas are there significant differences in performance management, promotion, remuneration and reward systems? How high are employee fluctuation and sickness rates? How are dismissals and layoffs handled? How is the company pension system handled?
- Who are the key employees and what are their strengths, weaknesses and past performance?
- How is the corporate culture, i.e. the way decisions (especially at management and top management level) are assessed, made and implemented and how people work, interact and communicate with each other, compared to your own corporate culture? What impact does this have on the timing and complexity of the integration? How is corporate governance handled?
- In which areas are there significant differences in the structure and procedures, formalization of work organization and processes? How high is the productivity of staff departments and service functions? What are the organization's experiences with reorganizations and change management and how were such processes handled in the past?

Comment

During the Due Diligence phase, not only is important information gathered for the preparation of the integration plan and for the rapid implementation of the PMI, but ideally the first relationships between the top managers of the two companies are already established or deepened during this phase. It is crucial that those responsible for the integration do not stand on the sidelines, but play an active role in the Due Diligence process. The Due Diligence also provides an initial comprehensive picture of which internal and external stakeholders need to be involved in communication during the PMI.

Preparation of the PMI

Integration Strategy

- Clarifying the extent of integration: merger, integration of an acquisition or partial integration?
- Definition of the target state and rough time schedule of the integration, so that one can plan backwards starting from these, but also knows when the integration is completed.
- Formulation of the integration strategy, especially with regard to the primary (e.g. R&D, production, marketing, sales, logistics) and secondary (e.g. finance & accounting, HR, IT, etc.) value-added functions of the company.
- What key synergies and benefits are being sought and by which means should they be achieved and by when?
    - What should the business model look like (markets, customers, products, channels)?
    - What should the operating model look like (organization, processes, systems)?
    - Which functions should be integrated?
    - Where should synergies be used to increase performance and results, where should costs be reduced?
    - Which are the most important value drivers of the transaction?
- Creation of a financial model of the integrated company, evaluation of synergies and scenario analysis.
- Estimation of the time schedule for the transaction, so that the integration team can prepare for it.

Analysis and Risk Management

- Consolidation of the internal knowledge about requirements, opportunities and risks of the integration, by consolidating the documented knowledge and interviews with the own managers and staff units that have integration experience or play an important role in the success of the integration.
- Evaluation of the information from the Due Diligence and, if necessary, supplementing this information with own inquiries and external interviews.
- Analysis of the complexity and main risks of the integration. In which key areas are the greatest integration challenges to be expected? Studies and practical experience show that the greatest challenges in integration typically arise in the following areas: Human resources (especially management culture, remuneration and performance management systems), sales (especially area and customer allocation and reward systems), information technology (especially ERP), marketing (especially different approaches to market communication) and accounting and finance (especially balance sheet policy and control parameters) and last but not least, in the filling and cooperation of top management positions.
- Identification and quantification of (possibly underestimated) investment needs in integration or operations.
- Identification of all key employees, suppliers and customers and ensuring that a clear action plan exists to motivate and retain them.
- Are there other stakeholders to be considered, such as works councils, trade unions, environmental activists and civil society organizations?
- Which regulatory obstacles and challenges (e.g. merger control, competition law, employee protection, environmental protection, other law, taxes) are to be expected for integration and what will be the strategy to overcome them?

- Summary in a risk analysis and development of measures for risk minimization and prevention, or for optimal risk management when a risk occurs ("Plan B and C", fallback strategies).

Structuring and Organization

- Development of a detailed integration plan, so that a clear action plan, as well as the necessary management resources and financial means are available to achieve the integration and the desired synergies without loss of time.
- Development of a detailed plan where and how the synergies are to be achieved and how progress and success will be measured.
- Development of the timetable for the integration and division into phases with goals and milestones.
- Development of a project management organization including budget and decision-making structure for the implementation of the integration (IMO - Integration Management Office). A key task of the IMO and its staff is to ensure the overall coordination and timely implementation of the integration, as well as to solve interface problems and conflicts between the functional areas and to escalate them as appropriate.
- In practice, the role of a Chief Integration Officer (CIO), i.e. de facto a project manager with overall responsibility for the success of the integration, has proven itself. Naming this person responsible with a "C-Level" title indicating board responsibility makes sense, because without the power of the board and its strong and active support, the integration will not succeed.
- The introduction of functional focus teams under the leadership and responsibility of senior managers, who take responsibility for the integration of key functions (e.g. Operations and Production, Finance & Accounting, HR, IT, Legal/Compliance, Sales, Marketing, Management and Leadership System), has also proven helpful. These functional teams are then supported in their tasks by IMO staff.
- It must also be clarified according to which criteria the key employees of the new organization are to be selected and how and in what form the separation of employees who have no future in the new organization is to take place.
- The integration activities will be structured into individual sub-projects. Typically, this results in a considerable number of sub-projects and it is crucial to introduce clear prioritization from the beginning. This must then be continuously checked during implementation.
- Identification of which management and other resources are available to accelerate the integration and how to ensure that these resources are actually released and made available for the integration project. Typically, key roles in integration projects will be given to managers who have experience and a track record of success. In practical terms, this means identifying the managers who are important for integration and ensuring that they are realistically relieved of their other responsibilities by means of substitution arrangements, deputies, external support or other measures so that these managers are freed up for their integration tasks. It should be noted that successful integration managers not only need to understand a lot about the business itself, but also need experience in managing the delicate cultural, procedural and organizational aspects of the integration process.
- Clarify where responsibilities and reporting relationships are assigned for each integration activity and its results.

- Given the complexity of most integration plans, it is advisable to use project management software that allows for the structured capture and management of information, activities and schedules.
- A proven approach is to develop an "Integration Handbook" in which all essential aspects of integration planning and implementation are clearly summarized. This serves as a basis and reference point for the entire integration work and can also serve as a "living document" for the documentation of the main challenges and results. A further advantage of an Integration Handbook is that it enables the documentation of knowledge and "lessons learned" and can be reused in further transactions in order to use the learning curve and to proceed even more effectively and efficiently.

Communication and Change Management

- An essential task of IMO and top management is to ensure coordinated communication of the integration.
- What should the internal and external communication plan for the integration look like?
- Communication planning based on a communication matrix that analyzes and illustrates who is informed by whom, with what communication goals, what core messages, by what means and with what intensity and frequency.
- How should managers and employees be optimally involved in the integration process? Nobody wants to be run over by changes. No factor increases the commitment of employees as much as if they feel that they have taken the change into their own hands.

Controlling and Performance Measurement

- Define clear integration goals and metrics for their achievement and progress towards their achievement, and also clarify who will collect these metrics, when and how.
- Ensure that the achievement of all integration goals is of high benefit to the organization and its key decision makers (organizational and personal, objective and subjective).

Comment

An important time-saving in the preparation and planning of the integration can be achieved by setting up an independent and confidential analysis team (the concept of the "Clean Team"), which has access to confidential information of both sides even before the transaction comes into effect (closing), during the negotiations and on this basis prepares initial analyses and recommendations for the approach to the integration, in particular for the exploitation of synergies. Of course, all parties involved must agree on this approach. Confidentiality is supported by the selection of the right members of this team, mostly former top managers from the industry and independent consultants, and strict legal control and guidance. The results of the work of this analysis team are only passed on to the actual integration team when the transaction comes into effect.

A critical error is to believe that with the signing of the contract, or at the latest when the transaction comes into effect, the strenuous and exciting part is over and can now be returned to the daily routine. Now the difficult part ("blood, sweat, toil and tears") is just beginning. Unfortunately, many top managers take their leave of responsibility at this point and leave the supposed "detail work" to an integration team that is underequipped in terms of personnel and power and was often only brought on board at the last moment.

3. Post Merger Integration

The transaction is in place, the synergies have been identified and the plan to leverage them is prepared. The challenge now is to act decisively and have maximum control over the integration process to ensure that the agreed integration measures are implemented in all key areas in the best possible way.

The central challenge is to continue to run the day-to-day business of the two companies successfully while at the same time successfully shouldering the additional workload of the integration.

PMI ties up important management resources (usually the best managers), but at the same time these are also urgently needed for the day-to-day business. In many companies this area of conflict is not actively managed, but it is assumed (whether spoken or unspoken) that participation in the integration project takes place in "magic time", so to speak, i.e. the non-existent time between 12:00 p.m. and 00:00 a.m., i.e. in addition to and alongside daily business.

This is a serious mistake, which is usually associated with burn-out and failure. A realistic planning of management resources, a corresponding adjustment of the agreed objectives and the provision of internal or external supporting resources are indispensable if the chances of success are to be professionally optimized and not simply based on the "principle of hope".

This would be like planning a car trip through a remote desert, but not taking enough fuel for the trip because you hope that, miraculously, a gas station will suddenly appear. A professional manager takes enough fuel with him and does not hope for a miracle.

- Key activities for the first 100 days
    - Creation of a common vision, strategy and the appropriate business and operating model, from which the logic for further decisions in the organization can be clearly derived, and which also serve as the basis for communication in all directions.
    - Clear creation of urgency, a "case for action". It must be clear to everyone why actions should be taken now.
    - Clarification of the composition and staffing of the new top management team and the cornerstones of the new organizational structure.
    - Identification, securing and motivation of key employees, suppliers and customers.
    - Clarifying and communicating how performance, results and success in the new organization will be measured, how performance will be rewarded and what performance culture will be pursued.
    - Reviewing and securing key technologies.
    - Review of key objectives, assumptions and measures to create value and leverage synergies and make adjustments where necessary.
- Further central integration measures
    - Implementation of key measures to ensure the value creation of the acquisition based on the synergy plan and other functional integration

plans. Paying special attention to cross-functional interrelationships and dependencies.

- Experience has shown that three functional areas are of particular importance for the timing and success of the integration because they normally have very strong interrelationships with the operational areas and have a massive impact on their productivity and opportunities for change. Special attention must therefore be paid to these three areas: human resources and all related rules and guidelines, information technology and systems, finance, especially performance measurement, reporting and controlling.
- IT integration is particularly important. A representative study from 2011 indicates that up to 50% of the potential synergies of an integration depend directly or indirectly on the success of the IT integration. It is therefore important to take IT integration particularly seriously and to ensure that sufficient expertise and resources are available to quickly achieve high-quality results.
- If required, creation of teams with special tasks to solve special problems. These teams can get to work quickly and in a goal-oriented manner and are dissolved again after the problem has been solved.
- Taking into account that an integration does not only take place on the rational, but also on the emotional and symbolic level and creating or supporting the necessary dramaturgy to make the integration process successful, also on the emotional and symbolic level.
- Rapid implementation of cultural integration based on a good understanding of the different cultures and taking into account the factual, emotional and symbolic requirements of successful cultural integration.
- Rapid, structured and fair assessment and selection of key employees for the new organization and fair and appreciative separation of employees who have no future in the new organization.
- Creation and implementation of a training plan so that the integration and the integrated working methods can be quickly and extensively introduced into the company.
- Quick solution of critical problems and situations. If necessary, controlled escalation and resolution of problem issues before they endanger the overall process.
- Regular surveys of the mood and reactions of key interest groups, e.g. through employee and customer surveys and the resulting reactions and measures.
- Continuous and intensive communication with all interest groups.
- Ongoing measurement and review of the integration progress in order to be able to react promptly to deviations. It is crucial that even the smallest deviations are reacted to promptly and decisively. This sends out a signal to all those involved that the company is keeping a tight rein on the situation and that it will not tolerate any carelessness.
- Ongoing monitoring and review and, if necessary, adjustment of the risk analysis and the measures for risk minimization and prevention, or the optimal risk management if a risk occurs.
- Ongoing measurement of the business performance of the current business and the liquidity of the entire organization in order to be able to react quickly and appropriately to deviations, especially those resulting from the integration process.

- Ongoing monitoring and assessment of whether new insights, focuses and priorities need to be set.
- Creation of a symbolic and real end point for the integration, which establishes the transition to normal operations.

Comment
A critical mistake made in the implementation of integration is to get lost in the complexity and details of the challenge and to lose sight of the essentials and thus the possibility of a speedy integration.

Depending on the starting situation and general conditions, the most important integration tasks should be completed within three to six months after closing. This does not mean that after these 3-6 months there are no more tasks to be solved that result from the transaction and integration, only that these tasks should then, based on the framework, guidelines and preliminary decisions of the first 3-6 months, increasingly take on the character of day-to-day business and no longer have the character of an exceptional situation.

Creating the foundations and cornerstones for success in the first 3-6 months is so important because afterwards the probability of success of the integration decreases rapidly. Managers and employees suffer from integration fatigue and lose focus on the integration, have to concentrate on new, usually critical market challenges and retreat or get completely lost in the integration project.

The success of an integration depends very much on its dynamics and the rapid achievement of results. That is why it is so important that decisions are made quickly and pragmatically, but at the same time that there is no massive loss of quality. This balancing act can only succeed if experienced integration managers are at work. It is also important to realize that there will be victories and defeats on the road to success. Integration and change are not linear processes, but are paved with ups and downs and setbacks. Those that can't stand the heat, should stay out of the kitchen.

About Dr. Michael Hirt

Dr. Michael Hirt, LPSF (Harvard), MBA (INSEAD), is President & CEO of HIRT&FRIENDS, a global management consultancy (*2001) that helps its clients to achieve and master profitable growth through exceptional, measurable improvements in individual & organizational effectiveness and results.

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Previously Hirt was with BCG, a leading global advisor on business strategy, the Austrian state industry holding group and privatization agency ÖIAG, and HSBC Investment Bank in London.

In addition to his management consulting practice, Hirt takes on a maximum of 5 **executive coaching** clients at the same time, typically board members, managing directors and division heads whose work is of critical importance for the success of their organization. He also offers highly effective online coaching and consulting via video conferences, telephone and e-mail.

Hirt is Director of the **Austrian Institute for Management Innovation** and Director North America & Australia of the **International Corporate Finance Network**, ICFN.

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