Managing post-Merger and Acquisition Implementation

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The track record for success in M&A remains stubbornly poor, in particular when shareholder value is the yardstick. There are many potential causes of failure but a necessary condition for success in creating value is the post-deal implementation approach.

MANAGING POST-M&A IMPLEMENTATION

> *"The key differences between acquisition success and failure lie in understanding and better managing the processes by which acquisitions/decisions are made and by which they are integrated."*
>
> HASPESLAGH AND JEMISON

Curiously, in the light of this, many management teams invest heavily in the pre-deal strategic analysis and assemble a battery of expensive advisors for the negotiation and consummation of the transaction yet consider that implementation is "a job for the line". This is an assertion worth examination in view of the experience to date.

Understanding Sources of Value

In their authoritative work on the topic, 'Managing Acquisitions' based on in-depth research and analysis of M&A successes and failures, Phillipe Haspeslagh and David Jemison point out that not all acquisitions are the same. The source of value creation will vary according to which type of acquisition is made. (We will refer to acquisition only from now on since even where technically it is a merger, or to assuage political/market/employee sensitivity the deal is referred to as such, the integration process issues apply in either case).

Haspeslagh and Jemison argue persuasively that the integration process should also reflect the acquisition type. Since the source of value in the combined entity, whether resource sharing; access to new capabilities; synergistic combination or economy of scale, will also be different so therefore will the steps necessary to realise the value. Yet how are "line management" able to recognise that these different implementation steps are required or be able to apply them successfully?

Line managers are rarely party to the full decision process associated with the acquisition for reasons of confidentiality. Unless particular attention is paid, and effort made, to communicate widely and thoroughly to both sets of managers in the two organisations affected about the expected sources of value, they will remain largely ignorant of its purpose. What communication does occur is often intended to pacify and reduce concern over job security. It is resolutely upbeat and general in nature rather than providing detailed objectives or targets upon which line managers could act in a routine manner to deliver the value sought from the deal.

Even if the source of value is explicitly recognised and communicated it is not clear how line managers will able to extract it without help. Value is released through some set of resource sharing, skill transfer or newly created combination capability that neither organisation possesses alone. In the latter case it cannot enhance the chances of success to expect managers with the accountability for the success of the existing operations to create a new entity, of which neither they nor anyone else in the leadership of either company has prior experience. In the cases of resource sharing and skill transfer, presumably one set of line managers have the necessary expertise but the challenge becomes how to overcome the formidable cultural and political obstacles that any acquisition integration faces. Finally, in all cases, there is the issue of time and resource availability.

Finding the Right Resources

Organisations routinely underestimate the resources required to complete major change efforts. In most cases the penalty for this is missed opportunity and the embarrassment of missed deadlines. In the case of acquisition there is also the ticking clock of premium recovery and often the critical gaze of the investment community to add to the need for effective implementation. The acquirer cannot afford to waste time or effort.

The resources are required to fulfil several key roles and tasks:

- Design the implementation approach and programme. From the above one can deduce that this is impossible without an understanding of the intended sources of value.
- Launch the integration process. The early stages will be critical to the eventual success so getting this part right should be among the highest priorities for senior management, yet this is precisely the point at which many hand — or more accurately throw — the baton to the 'line'.
- Carry out integration tasks such as designing new processes or key transition plans such as HR or IT.
- Support transitional governance bodies and processes.
- Manage critical communications programmes to internal and external constituencies.
- Co-ordinate all of the above.

There are two choices in procuring resources to meet these needs: from within and from without. It should be obvious that significant internal resources will have to contribute to complete these activities; but are internal resources alone sufficient?

There are several potential shortfalls:

- Quantity/availability: Simply having enough hands to complete the anticipated work within a target time.
- Expertise/experience: Unless they have been through the process before, with the same objectives and similar protagonists (in terms of the two organisations being integrated) it is unlikely that sufficient expertise will exist throughout the management hierarchy.
- Political neutrality/influence: Every individual in both the acquiring and acquired organisation will have

and be perceived to have an agenda that will rarely align perfectly with the integration objectives. Obstacles that naturally arise during the integration process become bottlenecks due to the absence of either communication routes through which they can be raised, or mechanisms to have them resolved at the appropriate level.

A careful use of skilled external resources can overcome these limitations. This does not mean that line managers have no role. It is axiomatic that the outcome of a successful post-acquisition process is that line managers are in place working effectively in the newly created entity. However, to rely on line management alone to design the new entity and transform themselves into it, all the while holding down the day job, is surely an unrealistic expectation and a risk not worth taking in what is already a high-stakes, high-risk game.

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