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The next generation of M&As

According to the Ernst & Young Capital Confidence Barometer there is strong consensus among UK business that M&A volumes will increase. 75% expect global deal volumes to rise over the next 12 months. In fact the media and analyst predictions already abound over Microsoft's acquisition of Nokia, Vodafone's sale of its US mobile phone business to Verizon and the Publicis and Omnicom hook up that promises to launch a colossal media giant.

Behind every one of these deals, regardless of sector, scale or personalities, is a position on what is going to create value in the future. Vodafone clearly thinks the US mobile phone business has limited upside for them. Verizon sees it differently. Publicis and Omnicom are clearly banking on scale and global reach as what will matter to clients in the future. Not everyone can be right.

One lesson that I hope will be reflected in the next generation of M&As is that these essential 'bet the ranch' strategic convictions must not get lost and diluted in the course of the integration process.

While the data about around value creation for M&As isn't heartening, it's not always down to poor deal logic but more often due to integration strategies not being built around the critical insights that paved the way for the deal.

The following article captures some important dos and don'ts for delivering both a successful integration and the vision for your deal.

Avoiding the M&A integration blues

Organizations typically underestimate both the complexity and duration of the integration process. After the hectic pace and excitement of the deal, the integration process can feel like a dull thankless task by comparison. Frequently organizations find themselves back footed by residual integration issues years after their merger has been officially "completed".

One common pitfall is to plan your approach from a purely tactical perspective – i.e. we need to harmonise terms and conditions, create a shared distribution/ IT systems, design common reporting systems, agree an integrated operational model, determine job titles and a new corporate structure etc. These are undoubtedly important activities.

However the tick box mentality can detract from the overarching need to take a systems approach to integration. Integration leads need to think about the organization as a whole; culture, history, brand, leadership style, why employees choose to work for you, the brand promise to customers and inter relationships between these organizational building blocks, rather than fixing individual processes or structural elements.

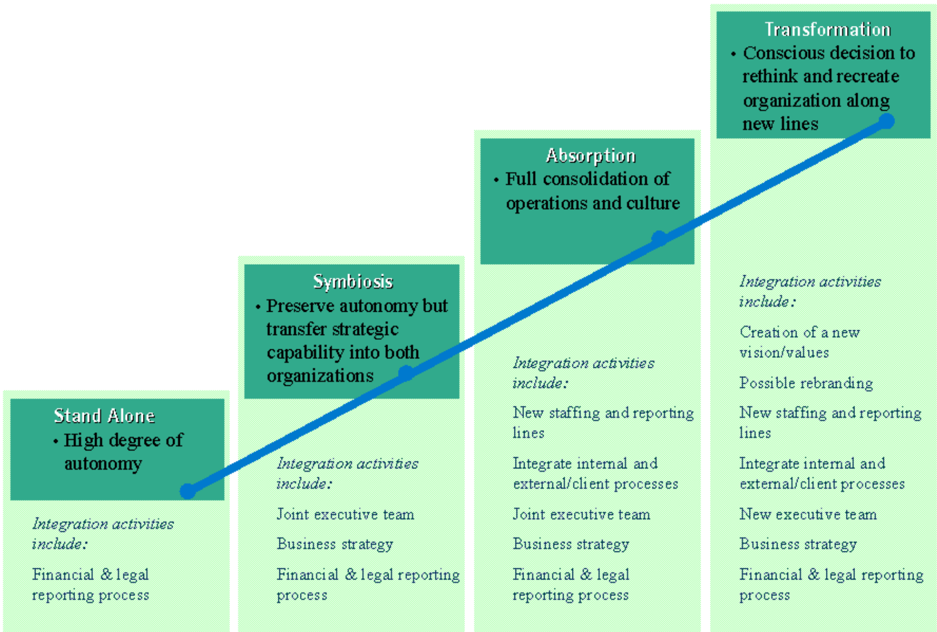
Some pointers for navigating your integration activities from this perspective are as follows:

1. Hold onto your original strategic intent

The strategic intent for the merger or acquisition should be the foundation for your integration plan. While this may appear obvious, it can become obscured by the sheer raft of integration activity required. Secondly there can be a temptation for leaders to soften the drivers behind a deal to avoid embarrassing the acquired company or to side step being labelled as the aggressor.

This ambiguity creates perilous ground any integration plan as there is an inevitable reliance on the dispersed judgment of local leaders to put the plan into action. Local leaders and managers across the business must be clear about the rationale for the merger — whether this is to acquire specialist talent, add a new business stream, access prestigious clients or create economies of scale. Unless these organizational outcomes are explicit, it is easy to pursue an integration without fully realizing the strategic intent on which a deal should be measured.

The diagram below illustrates a continuum of integration activity



The strategic intent behind a 'Stand Alone' or 'Symbiosis' acquisition or merger may be to acquire geographic presence or a particular client. There may be little need to integrate structures, teams or operations beyond some shared reporting and leadership positions.

More substantial integration challenge arises when the strategic intent dictates that the expertise, products, practices and talent of the two companies need to be combined to deliver the end value of the merger.

The most resource intensive integration approach is driven by the strategic decision to create a truly new entity such as Diageo (created when Grand Metropolitan and Guinness merged back in 1997).

2. Separate the leadership and the integration teams

A prudent step is to create a dedicated integration team, but also to ensure this isn't a reconfiguration of the executives who led the deal. Firstly, this allows renewed energy to be brought into the process. Secondly, it allows the original team to look at the overall integration process, ensuring the strategic outcomes remain the focus and provide this broader challenge back to the Integration team.

This separation of the teams also ensures that not a 100% of senior energy is consumed by the integration challenge. A common customer complaint during these times is that organizations become too internally focused and lose customer goodwill and market standing.

3. Manage your symbolic integration activities

How the integration team functions and the initial changes it institutes are often seen by employees as the first symbols of what the newly merged organization will be like to work in. From the employee perspective, these early integration activities are disproportionately important and influence retention decisions. In fact, the culture of the new organization begins to take shape during this initial integration process, intentionally or not.

4. Balance your integration plan

Effective integration plans need to be balanced; both process and tasks with the broader systems issues:

Integration tasks

- Organisational structure
- Reporting processes
- Technology infrastructure
- Financial processes
- Performance management systems
- Pay and conditions
- Operational / client processes
- Office locations

Systems activities

- Vision and values
- An integrated leadership approach
- Shaping the future culture
- Employee communication
- Customer relationships
- Retaining top talent
- Brand
- Integration success milestones

5. Accelerate your leadership integration

A newly formed joint leadership team will take months to work through the 'storm, form and norm' team development process. Unfortunately, this is exactly the time when the integrating organization needs strong, unified visible leadership the most. Providing externally driven team building support or facilitation will accelerate this process.

6. Keep measuring your employee integration experience

A useful tool for gauging the impact (and employee experience) of the integration process is to initiate a form of regular employee polling or feedback. Many organizations undertake this on a monthly basis providing a useful two-way communication channel for employees using electronic focus groups or survey tools. These deliver real-time feedback for the integration team and leaders and ensure that the 'softer' employee, cultural or customer issues remain on the agenda.

7. Conduct a post integration audit

Often, organizations declare a fixed window of time for integration activities during which the majority of the process, structural or technological changes can be implemented. Many of these residual issues are around people or cultural issues, which by their nature cannot be quickly resolved. Conducting a post-integration audit 12 months after the merger can help to identify any of these outstanding issues, and prevent longer-term damage.

8. Capture your integration know-how

As the integration process draw to a close it is easy to move on without capturing and codifying the learning. Integration periods can be times of enormous organizational creativity and learning. Running some integration insights session to capture what we would and would not do again from the key integration players, ensures the integration expertise remains within the organization.

Developing and implementing the integration process is a long haul challenge for organisations. Adopting a systems approach will help anticipate issues that go beyond a particular function or task and provide a framework for the new organisation.

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