Executing Post-Merger Integrations

Delivering organizational value from M&A strategy.

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Fairfaber Strategy Papers

FairFaber develops strategy papers devoted to critical issues of organization management. The papers are part of our commitment in providing business executives with analysis and management thought to help them creating value for their organizations. For further information and management advisory contact our office or send an email to:

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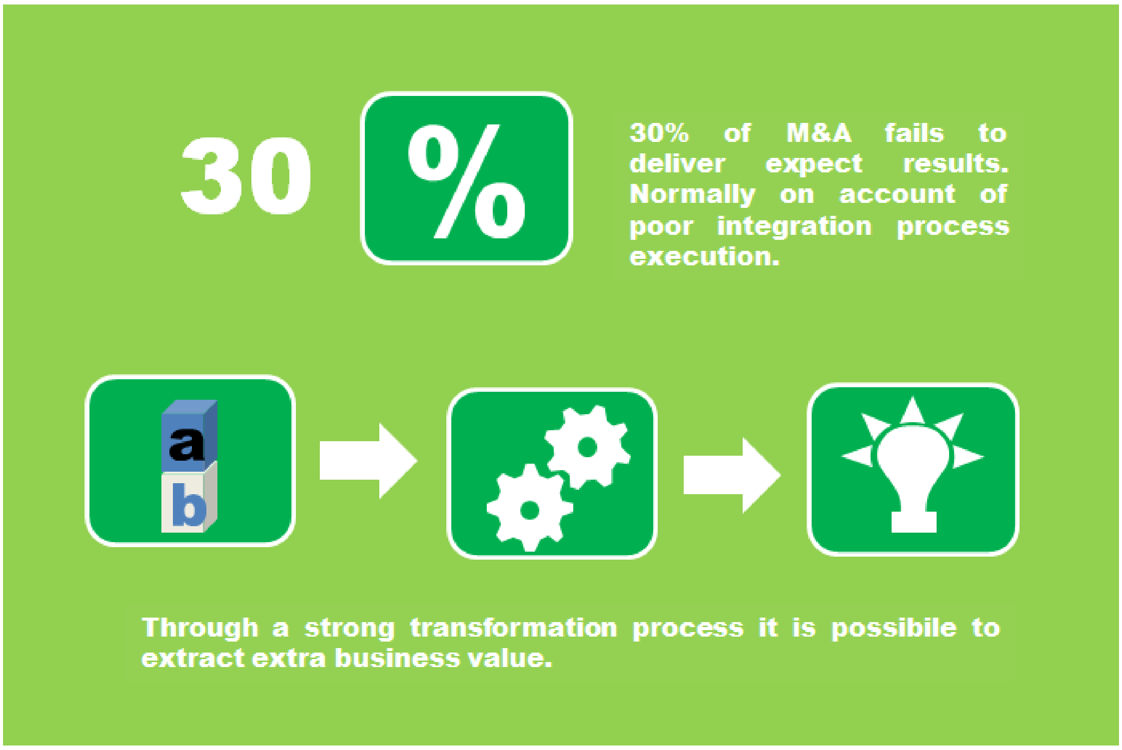
1. Integration actually means transformation.

Every single acquisition is a unique case in itself and must be managed with a specific tailored approach.

The challenges and tasks that managers face dealing with M&A projects are huge and present enormous risks. Post-mergers integrations are indeed very complex exercise and about a third of them fails to deliver expected value. In addition M&A are subject to any kind of pressure, every single step of the integration process, from renaming to management realignment and processes streamlining is watched in a concerned way by both employees and investors.

Every single acquisition is a unique case in itself and needs to be managed with a specific and tailored approach. This is because mergers are game changing programs aimed to get more value to the mere addition of the single components. In any M&A it is possible to identify combinational and transformational opportunities. Combination is the product of simple integration of previous organizations, while transformation implies creating new potential for growth and profits.



2. Synergies? Fine, but we want more

The most accurate due diligence will just find out 80% of all possible synergies and a very small percentage of potential value connected to organizational transformation. In fact due diligence are normally executed with a conservative approach and are fundamentally biased with a liabilities sensitive attitude of financial auditors.

The goal to create synergies on operating costs is prominent in most cases. It is indeed normally possible to achieve saving on overhead, purchasing, IT, payroll, marketing, R&D, buildings, etc. In some critical situations integration programs look alike to business turnarounds focused on cost cutting. Since synergies are such a common result of M&A they have become to be assumed and hence feared by middle managers and employees which grow considerably concerned in view of organization integration programs. The risk to loose critical competences and skills to competitors is hence substantial and therefore companies have to act quickly and resolutely in order to prevent it. Open and honest communication, retention plans and targeted disclosures on future organization frameworks constitute essential actions needed to protect the most valued organization assets.

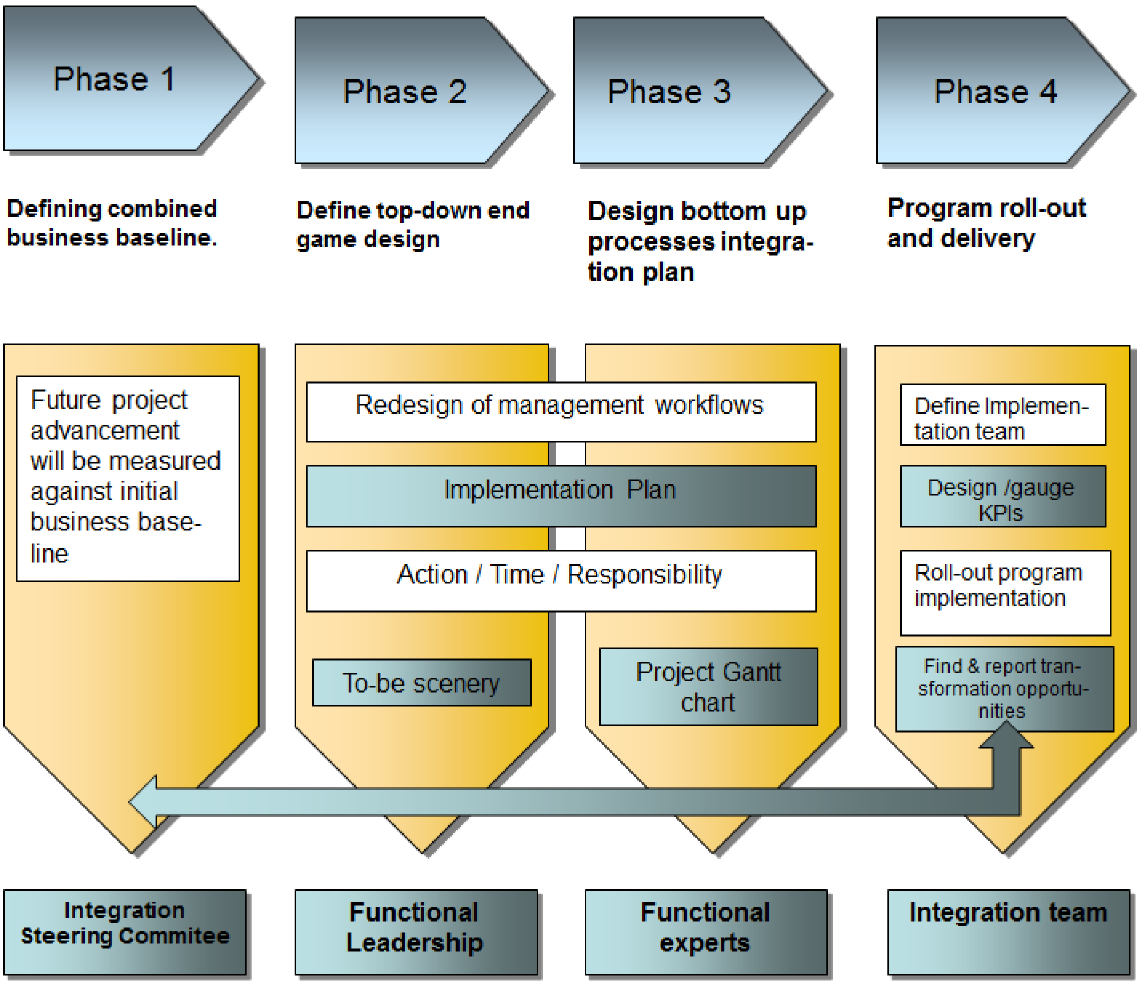
3. Organization transformation boosts post-merger performance

Transformation requires huge management efforts and business knowledge. It is in its very nature a completely different exercise than the execution of common combination programs. It has to conducted by high calibre professionals and demands a considerable portion of leadership's time. Even more importantly organization transformation implies risk taking and it makes the difference between high-flyers and more conventional leaders.

Transformation put the business on a new territory, which normally didn't appear on the M&A radars right from the beginning. A frequent source of unexpected breakthrough performance is represented by the identification of specific target's organization capabilities which can be leveraged on a global scale and developed to constitute decisive competitive advantages. Those kind of strategic opportunities will certainly appear evident at the outcome but are often overlooked or not sufficiently seized.

4. A roadmap toward value creation

Fairfaber adopts a four steps integration process which ensures a disciplined and consistent roadmap to execute a successful structures and processes integration. While it is indeed possible to define more fragmented workflows, we believe that a four steps process is the most appropriate solution for a lean and unhampered integration roll-out. Sub processes might be identified and structured for each of the four main phase while maintaining a clean and lean project framework.



PHASE 1 – Defining the combined business baseline

This phase focuses on the overview of combined target's and acquirer's operating cost (payroll, IT, buildings, overhead, etc.). The more accurate the picture we get about every and any type of cost prior the integration, the more precise we will be in calculating achieved results in terms of synergies and process optimization. A detailed initial mapping is also expedient to execute a comprehensive integration plan, avoiding the risk of leaving some process out of the picture. While a superficial analysis of possible synergies will have already been completed during project validation or subsequently during the due diligence process, this phase is intended to roll-out a much sharper focus on cost and expenses.

PHASE 2 – Defining top-down end-game design.

In this phase acquirer's top-management, desirably together with target's top-management, defines a concept of future integrated company structure. The structure concept will then be used to drive the integration roll-out in the following phases. While it is important to allow a certain flexibility to the integration team even in the final steps, the availability of a document already factoring in at least a number of fundamental choices will avoid gross misunderstanding and missteps.

PHASE 3 – Design bottom-up process integration plan

Building on the integration concept designed in phase 2 a team of experts, representing principal organization functions, draws a detailed and actionable integration plan, comprehensive of structure design, workflows and implementation schedule, putting particular care to understand interdependencies. The phase's output is an extremely detailed master plan for integration roll-out.

PHASE 4 – Roll out and delivery

The integration roll-out is executed by a dedicated team led by an experienced professional owning a strong background in conducting post-merger integrations. The presence of a high calibre executive at the helm is fundamental to avert and compensate the loose of momentum which typically integrations undergo along the process, as top management get distracted by the routine and resistance to change grows within both side of the integration front. Speed and resolution cannot however hinder the attention toward possible additional value creation opportunities, to be realized through organization transformation initiatives, which whenever identified need to be analysed and reported to the top management.

5. Fairfaber project framework

Working on a number of integration projects Fairfaber has defined four key factors that came together to form a successful project framework.

Clear vision and project objectives

Clear vision and focused project objectives constitute the baseline for an effective roadmap. Both vision and objectives have to be articulated around a number of substantial milestones which will be monitored by means of relevant KPIs.

Enabled leaders

Change management programs cannot be mandated by CEO alone. What is really needed is the sound commitment of an extended leadership team. Leaders must visibly and authentically act as change agents. They must contrast the tendency to go back into old habits or to preserve former organizational clusters and culture legacies. A merely superficial leadership's commitment is a serious hindrance to any change programs.

Engaged organization

The most import task of company leadership is to engage the organization in the process. Here communication is key. Influential supporters and change agents on key roles have to constantly involved and provided with updated feedback as they are fundamental for an effective stakeholder engagement.

Project Management

The role of the Project Manager is to inform the top management about project development, set a detailed timetable and assure the respect of deadlines. Owning a consolidated experience on change management process the PL advised the top management on the most appropriate project strategy and manage project deviations.

6. Integration as a change management exercise

M&As bring a lot of change in the organization. Beside the technical aspects of combination / transformation actions we need to consider their political side. Human issues are frequently not taken sufficiently into consideration by managers, the reason is that though to be considered very important they are very difficult to manage, so executives concentrate on technical factors they feel they can control. However where there are people there are political issues and they have to be addressed lest they will undermine any progress obtained on pure technical aspects.

Here we list the 3 key elements of successful change:

Establish a sense of urgency

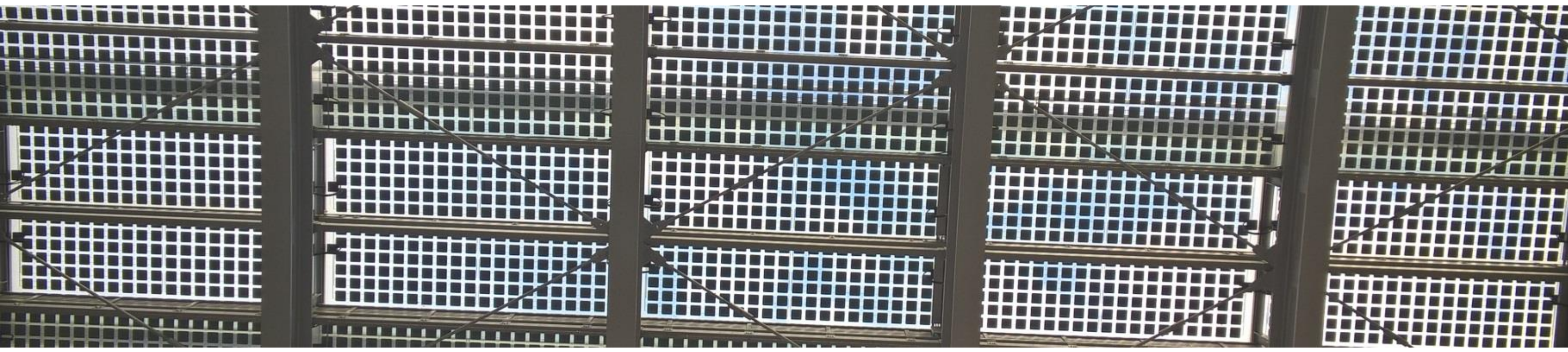
Many executives who have gone through M&A integration comment that if they were to run it over again they would speed up the process. It is fundamental to generate a sense of urgency to get momentum in view of the massive change demand. The slower the change process the more people tend to resist change.

Develop and communicate the vision

Few things are more detrimental to an M&A project than the lack of a shared vision from both entities. Both companies need to focus their energies in the same direction. Once a shared vision is defined it need to be communicate to the newly formed organization. Messages have to be constantly reinforced by means of different channels and media. Meetings, memos, newsletters, formal and informal interactions. Also the sense of urgency has to be communicated vividly and repeatedly. There is not a thing as overcommunication.

Consolidate gains and produce more change.

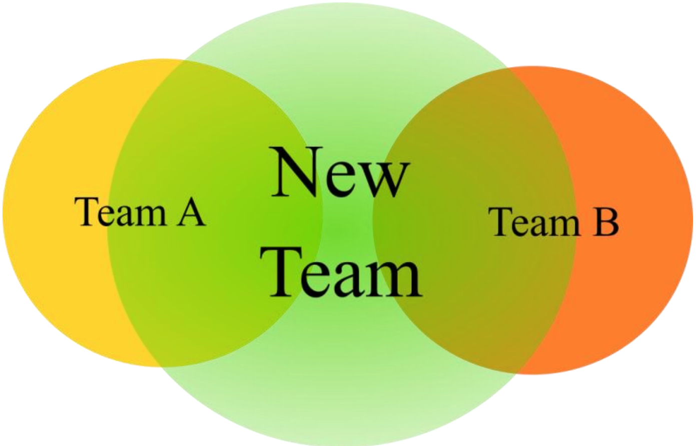
A good way to promote change is to break the process into discrete steps and address each step thoroughly before moving to the next. Although all the emphasis put on speed it has never to be done at the expenses of effectiveness.



Develop common values and a shared identity

In any integration process is fundamental to be able to build up common values and a new shared corporate identity. The sum of the different parts will indeed constitute a new and different entity.

It is important to avoid the conquerors/conquered syndrome focusing the project on new venture which will be supported by all parties in order to be successful.



Fairfaber sustains the more technical project phases with a consistent organization action aimed to involve all relevant stakeholders. The process is supported with interviews to influencers and area focus group in order to build up a solid commitment, get different opinions and inputs, understand critical points.

Integration projects need a "sense making" approach based on focus teambuilding activities and workshops.

About FairFaber

FairFaber provides comprehensive HR management services to any size of business. Our ambition is to provide clients with innovative and reliable Organization management processes. We execute project management assignments and provide advisory services concerning all domains of organization management. We are proud to ensure long-term reliability, strict confidentiality and the highest ethics standards. We collaborate with corporate Head Office managing global off-shore structures.

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