

# Post M&A integration

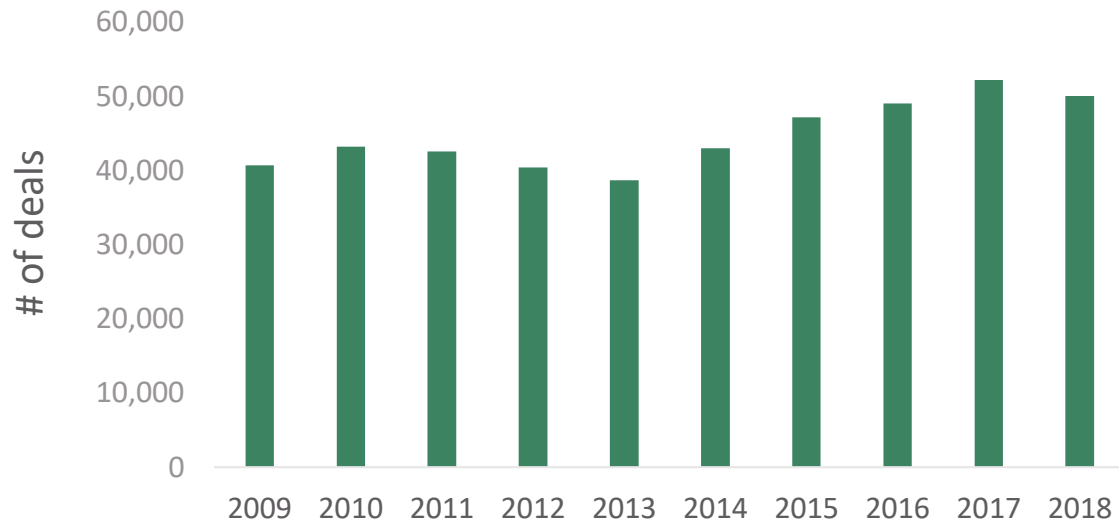
*Discussion document*

# High rates of M&A activity have not diminished high failure rates

Global M&A activity was approximately 50,000 deals in 2018, with total deal value approaching nearly \$4 trillion

As M&A continues to increase, post-merger and acquisition integration success lags behind

### Volume of Global M&A deals



Source: Institute for Mergers, Acquisitions, and Alliances (IMAA)



Source: L.E.K.



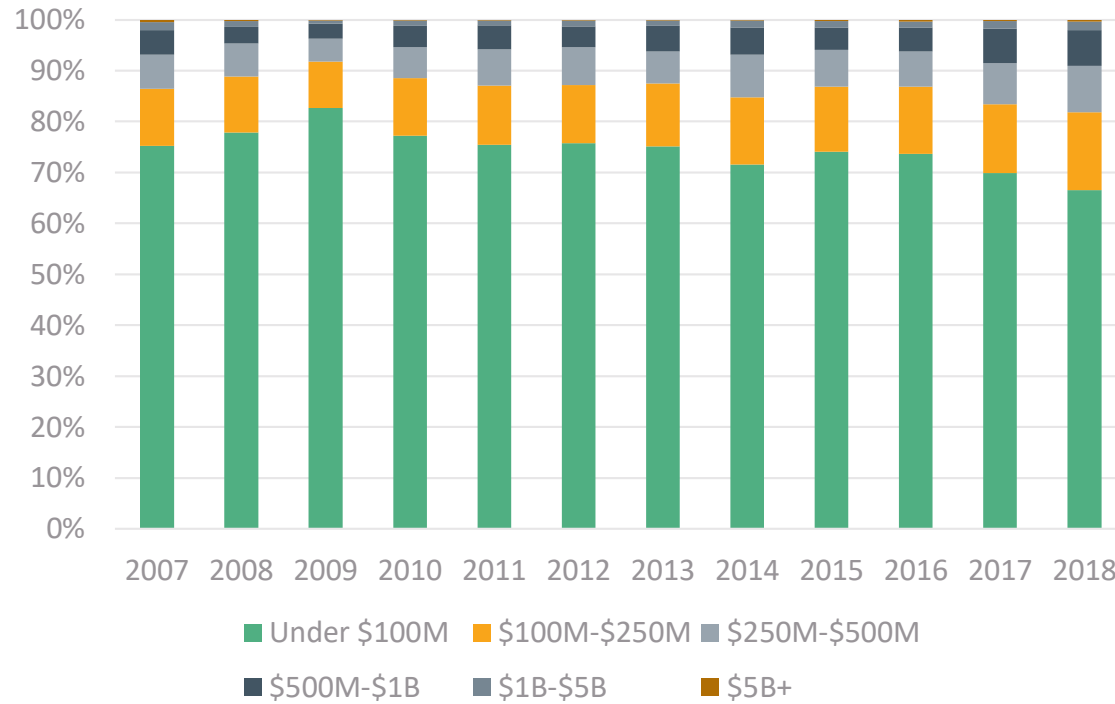
Sources:  
1. Harvard Business Review  
2. International Journal of Innovation and Applied Studies



# M&A statistics for the middle market

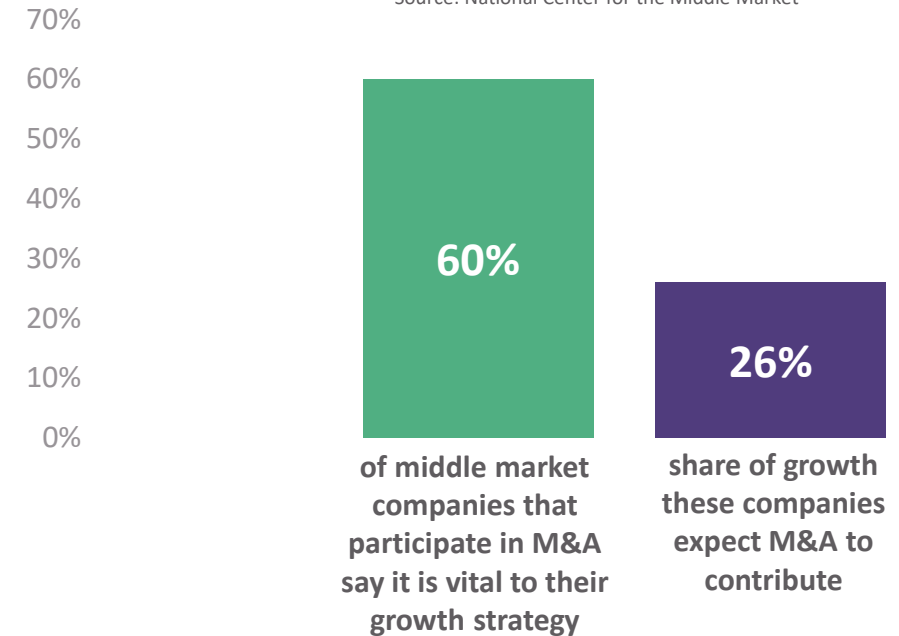
M&A activity by deal size

Source: Pitchbook



## Inorganic growth is critical in the middle market

Source: National Center for the Middle Market



**62%**  
of potential sellers are either actively engaged in an M&A transaction or open to one in 2019

Source: National Center for the Middle Market

**44%**  
of middle market companies cite integration of acquisitions as extremely or very challenging

Source: National Center for the Middle Market



# Common causes of M&A integration failure

Inadequate ability to evaluate acquisition targets and analyze value and risk factors

**61%**

of organizations aren't "very clear" on which acquisition target is best to pursue

**67%**

of organizations aren't "very clear" on what they should be paying for a target

Only **1 in 5 companies** meticulously identify potential synergy risks and dis-synergies

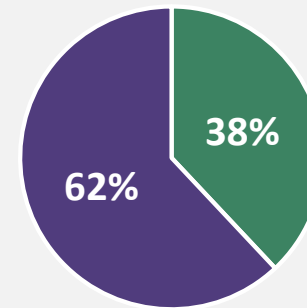
Source: Grant Thornton

**Fewer than 25% of** companies report they achieve 80% or more of their desired revenue synergies through M&A activity

Source: Deloitte

Lack of defined strategy and process for integration planning and execution

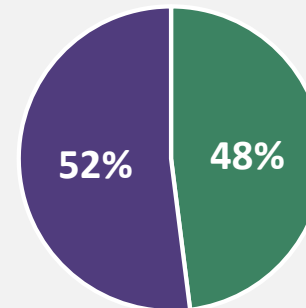
A majority of companies report that post-merger integration is not a standardized component of their M&A process



Source: BCG

■ Standardized ■ Not standardized

Over half of companies rate their ability to understand the strategic fit and specific value drivers of the potential target as less than "strong"



Source: Grant Thornton

■ Strong ■ Less than strong

Failure to harmonize people and culture

**58%**

of responding organizations reported they don't have a specific approach to assessing and integrating culture in a deal

**0%**

of responding organizations reported their cultural integration practices were effective

Source: AON



# Ensuring integration success

## Acquisition and Integration Focus



## Enablers of effective cultural and people integration

1. Engage in robust *cultural* due-diligence, and treat this as a mutual and collaborative assessment – versus something that is *done to* the company to be acquired.
2. Carefully evaluate how the culture and people of the acquired company enable and enhance the value to be gained from their customers, products, physical assets, and tangible IP.
3. Tailor integration strategy based on above evaluation (see preceding slide).
4. Actively explore, and ensure mutual understanding, of cultural differences – both during due diligence, and during integration.
5. Actively involve members of the acquired company in integration planning and execution.



Why place special  
emphasis on  
culture and people?

**“Culture eats strategy for breakfast”**

— Commonly attributed to management  
guru Peter Drucker



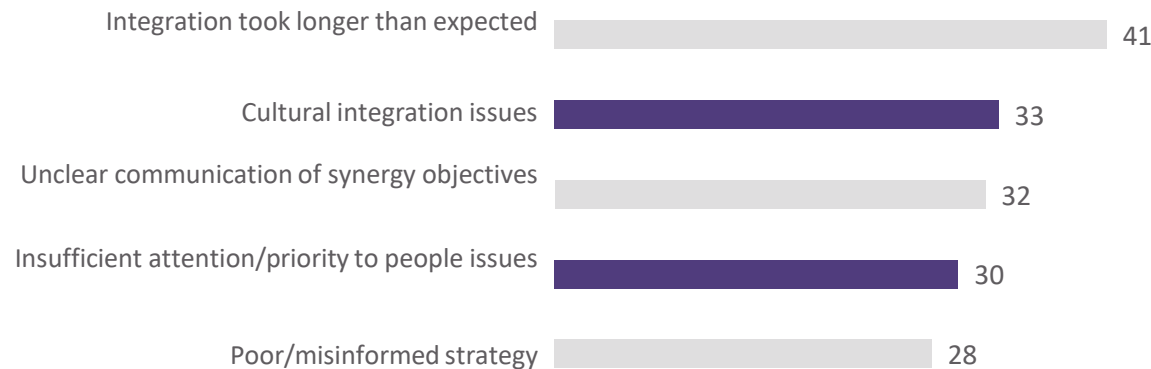
# People and cultural issues are major causes of acquisition integration failure

**Cultural and human capital issues are key causes of integration failure.**



**Consequences of unsuccessful cultural integration.**

## TOP 5 DRIVERS OF DEAL FAILURE



Source: Aon M&A Survey

**“Experts agree that the “softer issues” around M&As, like employee satisfaction, retention and corporate culture, tend to be the ones that either make or break a deal.”**

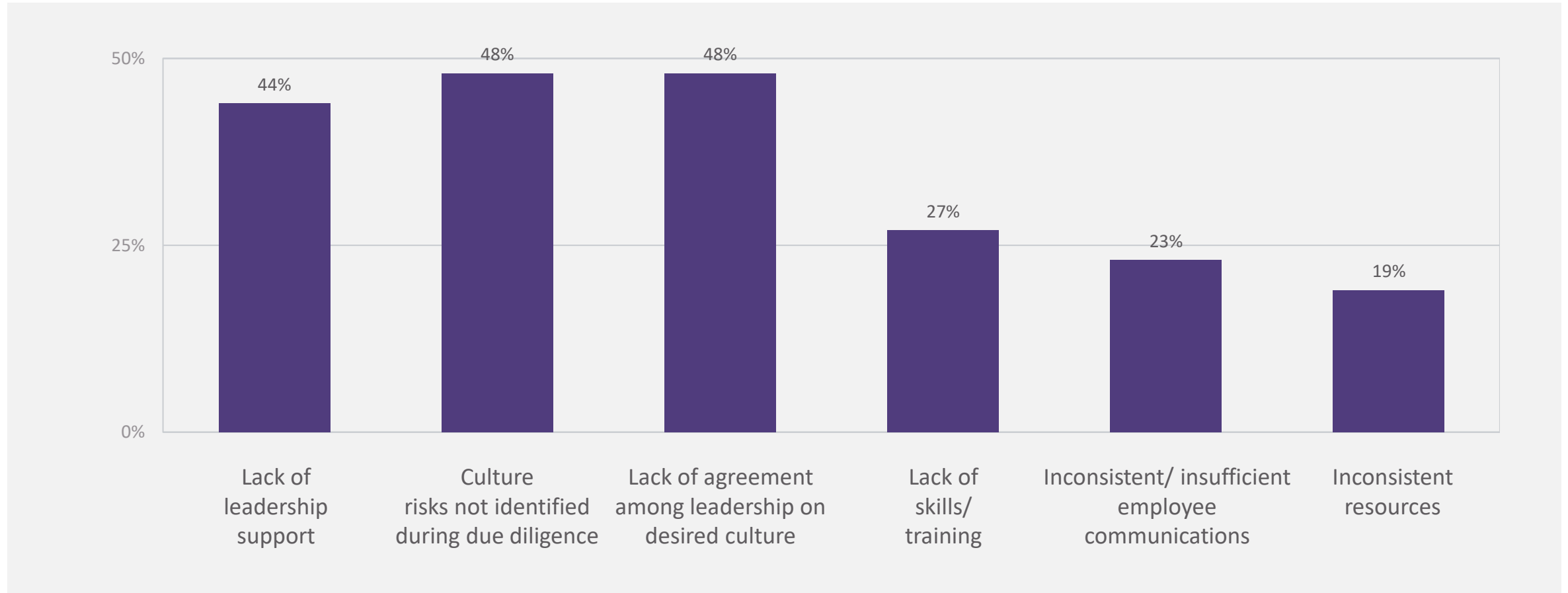
-Neil Hodge, Risk and Insurance Management Society

RANK	CONSEQUENCE	% OF RESPONDENTS
1	Organization distraction and loss of productivity	80%
2	Loss of key talent	78%
3	Failure to achieve critical milestones or synergies	77%
4	Decreased employee engagement	73%
5	Delayed integration	60%

Source: Aon M&A Survey



# Top reasons cited for unsuccessful cultural integration



Source: Aon M&A Survey






# Successful integration starts with an understanding of where value comes from in each acquisition

Source of Value	Physical Assets	Customers	Intellectual Property	Talent
<b>Keys to Realizing Value</b>	<p>Rationalize physical assets</p> <p><b>Integrate business processes and SOPs</b> as needed to enable rationalization of, and maximum return on, physical assets</p>	<p>Ensure internal integration focus does not distract from focus on customers</p> <p><b>Pay careful attention to salesforce integration to optimize management of common accounts and avoid loss of acquired company customers</b></p>	<p>Inventory acquired IP, identify opportunities to file for new patents, rationalize patent portfolios, determine how best to monetize new IP (out-license, cross-license, sell, etc.)</p> <p><b>Don't underestimate the extent to which extracting value from codified IP depends on acquired talent</b></p>	<p><b>Focus on retaining talent at acquired company</b></p> <p><b>Invest in change management and training to maximize collaboration between legacy and new talent</b></p>

**All sources of value in an acquisition depend, to some extent, on human capital, making a focus on cultural integration and people issues essential to success.**



# A clear understanding of value drivers also guides the degree (and pace) of integration



	Minimal Integration	Partial Integration	Full Integration
Assets	<ul style="list-style-type: none"> <li>Unique assets; minimal synergy with acquiring company assets</li> </ul>	<ul style="list-style-type: none"> <li>Some overlap and/or synergy with acquiring company assets</li> </ul>	<ul style="list-style-type: none"> <li>High overlap and/or synergy with acquiring company assets</li> </ul>
Approach to Integration	<ul style="list-style-type: none"> <li>Ring fence and guard acquired company autonomy and culture while providing additional resources needed to maximize value of acquired company assets</li> </ul>	<ul style="list-style-type: none"> <li>Systematically determine what needs to be integrated,</li> <li>Implement robust mechanisms to facilitate collaboration across organizational boundaries</li> <li>Invest heavily in soft skills training focused on collaboration</li> </ul>	<ul style="list-style-type: none"> <li>Conduct operational integration in a collaborative fashion that engages acquired talent and minimizes “us-them” dynamics and risk of talent flights</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>Minimal integration cost and disruption</li> <li>Protect unique attributes that made acquired company successful and valuable</li> </ul>	<ul style="list-style-type: none"> <li>If executed effectively, benefits of both minimal and full integration can be realized</li> </ul>	<ul style="list-style-type: none"> <li>Maximize realization of synergies</li> <li>Leverage unique attributes of acquired company to reinvigorate or enhance acquiring company</li> </ul>
Risks	<ul style="list-style-type: none"> <li>Confusion or conflict when new staff need to navigate the acquiring company</li> <li>Missed opportunities for synergy</li> </ul>	<ul style="list-style-type: none"> <li>Persistent conflict due to confusion over who makes what decisions, different SOPs, and ongoing cultural divisions</li> </ul>	<ul style="list-style-type: none"> <li>Loss of unique attributes that made acquired company successful and valuable</li> </ul>



# Five principles to guide agile acquisition integration

1

Maximize collaboration between Corporate Development and the Integration Team.

Prioritize the human dimension of integration over organizational structure, SOPs, and technology.

2

Fully embed change management principles and activities in all aspect of integration.

Engage new and legacy staff as coauthors of integration to maximize buy-in and commitment.

3

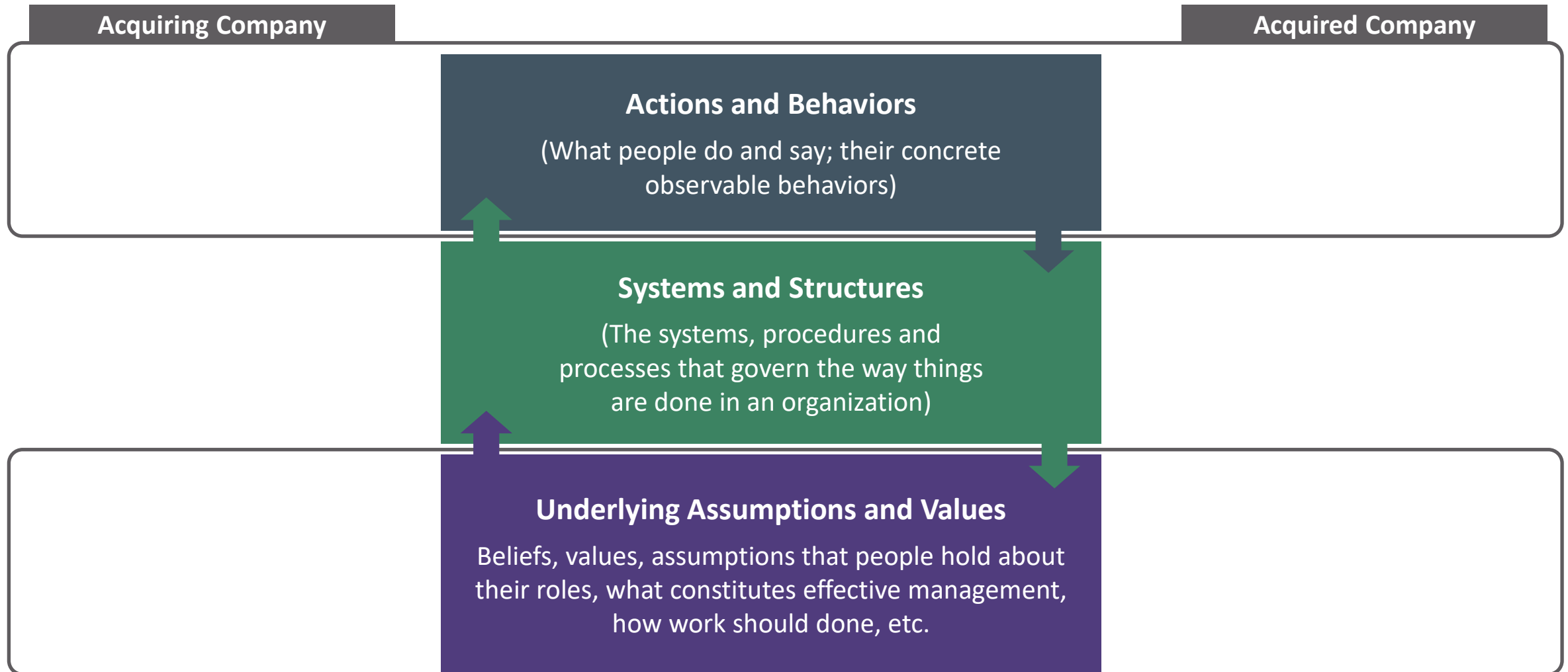
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Employ integration “sprints” — short duration, high-impact projects that enable learning and course correction.

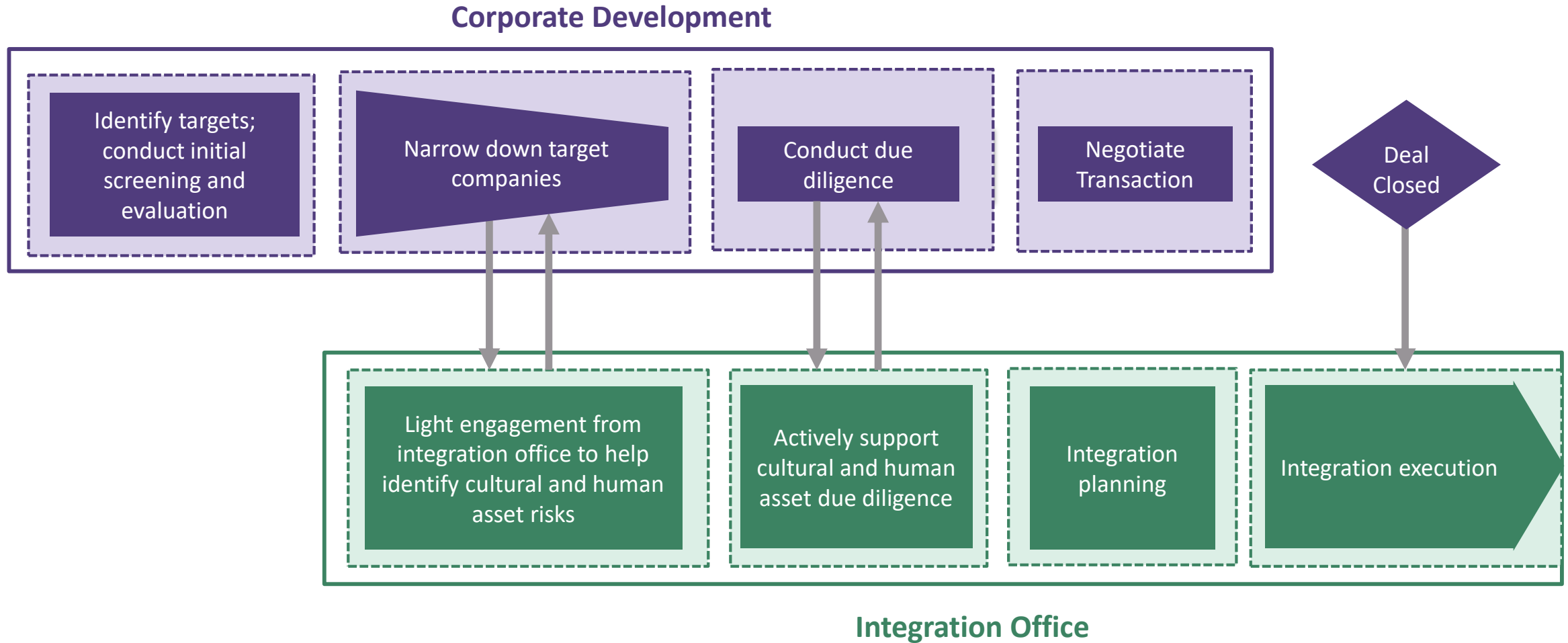
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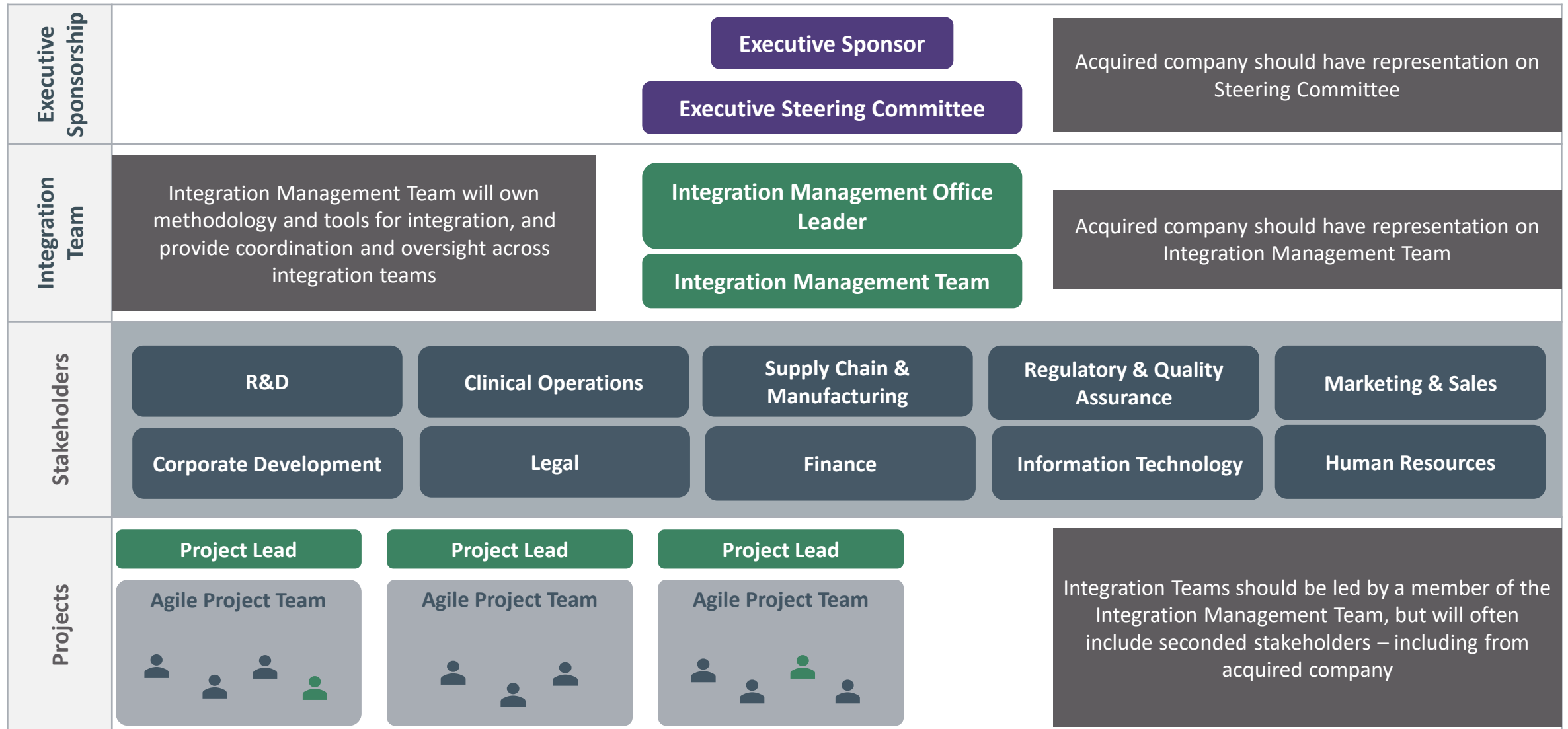
# Mapping cultural differences, and the complex interplay of dimensions of organizational culture



# Early engagement of the Integration Team by Corporate Development is a key enabler of success



# Illustrative governance model for internal Integration Management team

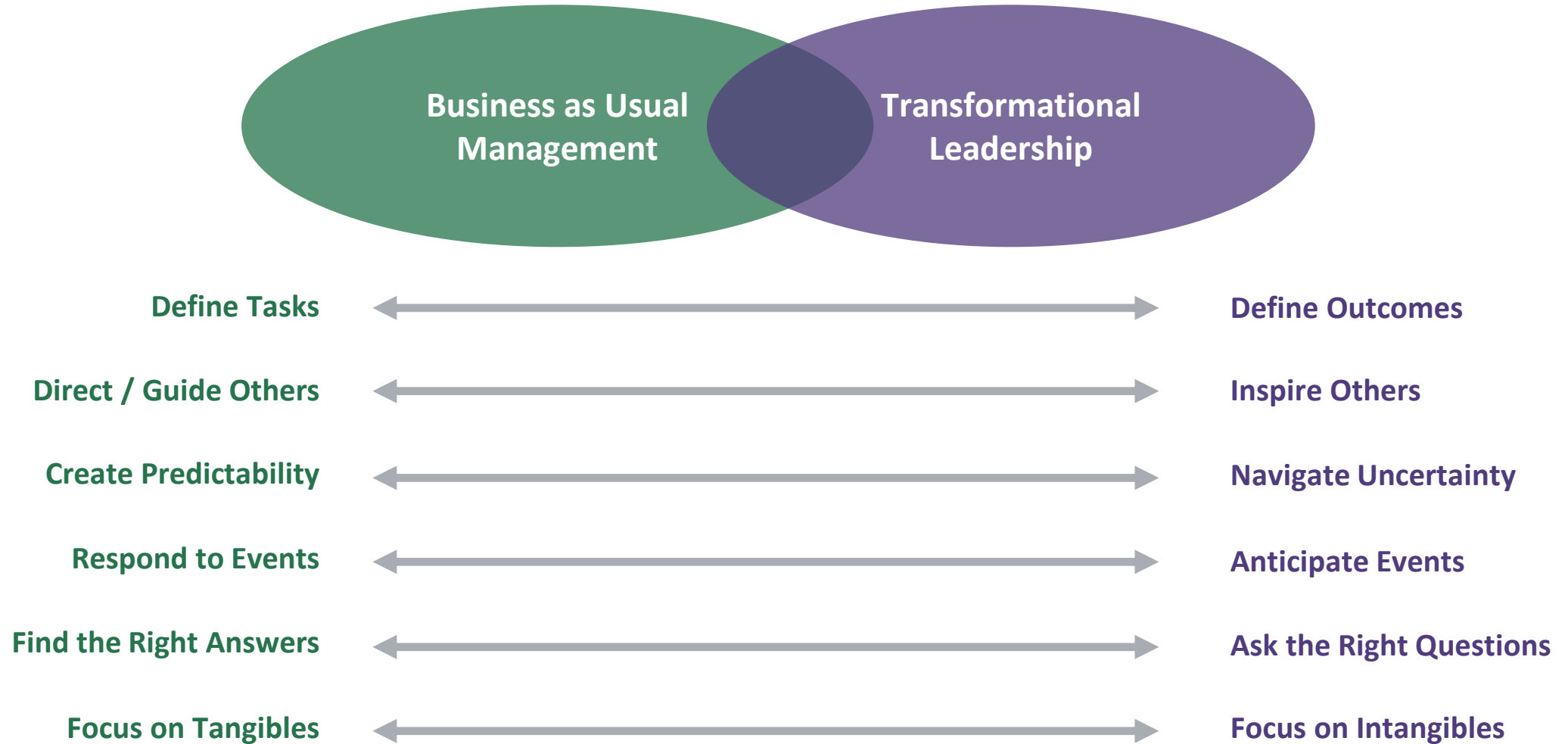


# Options for location of acquisition integration team

Corporate Development	Alliance Management	Organizational Development
<ul style="list-style-type: none"><li>■ Ideally positioned to ensure alignment of strategic intent and integration execution, and associated knowledge transfer</li><li>■ Competencies required to successfully manage transactions are very different from those required to manage successful integrations (especially soft skills)</li><li>■ Some tension between shorter transaction cycle times and longer integration timeframes</li></ul>	<ul style="list-style-type: none"><li>■ Ideally positioned to ensure success of alliances as a way to “rent before buying”</li><li>■ Possess many of the soft skills required for successful integration</li><li>■ May or may not possess skills for complex, multi-workstream program and project management</li><li>■ Though increasingly common, many companies still do not have a formal alliance management organization</li></ul>	<ul style="list-style-type: none"><li>■ Possess many competencies essential to successful integration (organizational design, change management, incentive system design, organizational culture)</li><li>■ Ideally positioned to align acquisition integration with other (often related) restructuring or transformation initiatives</li><li>■ Skills for complex, multi-workstream program and project management (key to integration success) are very different than typical competency profile</li></ul>



# Integration leaders need to embody transformational leadership





# Mindsets for integration leaders

## EMPATHY



*Seek first to understand before seeking to be understood.*

## EMBRACE AMBIGUITY



*The sure, straight path is the often the long, wrong path.*

## THERE IS NO TRY



*Results speak louder than intentions or efforts.*

## FAIL AND LEARN



*I fail, therefore I am.*

## OPTIMISM



*Small things come to those who naysay.*

## CREATIVE CONFIDENCE



*If at first you don't succeed, celebrate what you learned, and forge ahead.*

Inspired, in part, by Tom Kelly's work on human-centered design



# Collaboration is essential to manage the inevitable challenges of integration

Inevitable Challenges	Common Response	Better Response
Differences — in perspectives, experiences, ways of operating	Debate about what is right or wrong, good or bad	Embrace, explore and learn from differences
Problems — delays, missed targets, unanticipated difficulties, etc.	Seek to assign blame to others, and defensively resist being blamed	Jointly analyze contributing factors and focus on problem-solving
Change — in market environment, strategies, priorities, technology	React defensively — reduce engagement with and reliance on new colleagues	Jointly explore how to manage uncertainty and respond to change
Complexity — integration across multiple workstreams involving multiple stakeholders, all while continuing to run the business	Reduce engagement and collaboration in an effort to avoid complexity; seek unilateral control	Treat complexity as a shared challenge to be jointly managed



# How leading companies leverage differences as a source of learning and innovation

Four practices that differentiate companies where differences (e.g., in goals, competencies, cultures) are a significant source of learning and innovation, versus a significant source of conflict and inefficiency.

**Differences are a Significant Source of Learning and Innovation at Our Company**

**Differences are a Significant Source of Conflict and Inefficiency at Our Company**

**Difference**

		Differences are a Significant Source of Learning and Innovation at Our Company	Differences are a Significant Source of Conflict and Inefficiency at Our Company	Difference
1	Have “robust” mechanisms to facilitate collaboration across internal organizational boundaries	34%	2%	17X
2	Employ formal incentives to a “great” extent to recognize and reward efforts to balance competing priorities across different functions and business units	48%	10%	5X
3	Invest “a great deal” in software (or other technology) specifically to facilitate collaboration across internal organizational boundaries	57%	4%	14X
4	Invest “a great deal” in training specifically to facilitate collaboration across internal organizational boundaries	46%	3%	15X

Source: Vantage Partners study comprising data from 750 individuals at 500+ companies



# About Vantage Partners

Vantage Partners helps accelerate the pace of innovation, sharpen execution, and drive revenue growth at companies worldwide

Achieve alignment where it matters most: between strategies and marketplace opportunities; across the extended value chain; and between goals, priorities, and incentives across different internal groups

Enhance companies' ability to leverage external capabilities and assets, balance collaboration and competition, and respond to disruptive threats and opportunities

## AREAS OF EXPERTISE

Organic and Inorganic Growth Strategies

Alliances and Cross-Industry Partnerships

Outsourcing Strategy and Supply Chain Management

Marketing and Pricing Strategies

Customer-Centricity and Sales Execution

Organizational Design and Change Management

Training and Skill Development



# Notes on change management and integration



# Two theories of change management

## Theory I

- Change is episodic
- Change management is an expert discipline needed by change leaders
- First, required changes are defined; then change management occurs
- Change is led from the top, and implemented below
- Change management comprises activities separate and apart from running the business

## Theory II

- Change is continuous
- Leading and navigating change are universally required competencies
- Charting a new path and engagement in “change management” need to happen in parallel
- Change is simultaneously defined, and executed, at all levels of the enterprise
- Change management is best done in a manner that is fully integrated with running the business



# Change management framework



**Burning Platform:** The reason why we need to change and cannot remain in the current state  
**WHY** does change need to occur?  
**WHY** is the current state not desirable or sustainable?

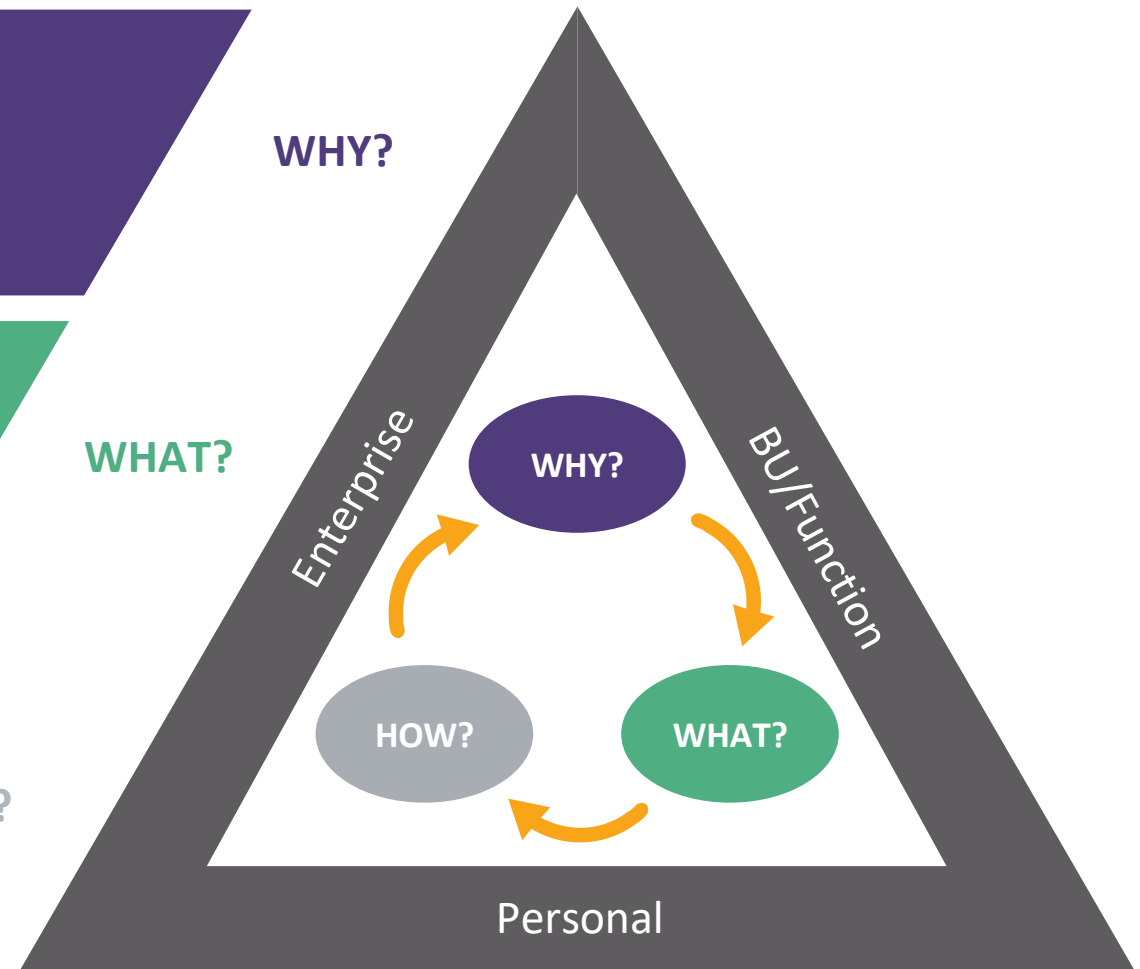


**Compelling Vision:**  
The future state or destination  
**WHAT** is our destination?  
**WHAT** benefits will the change deliver?

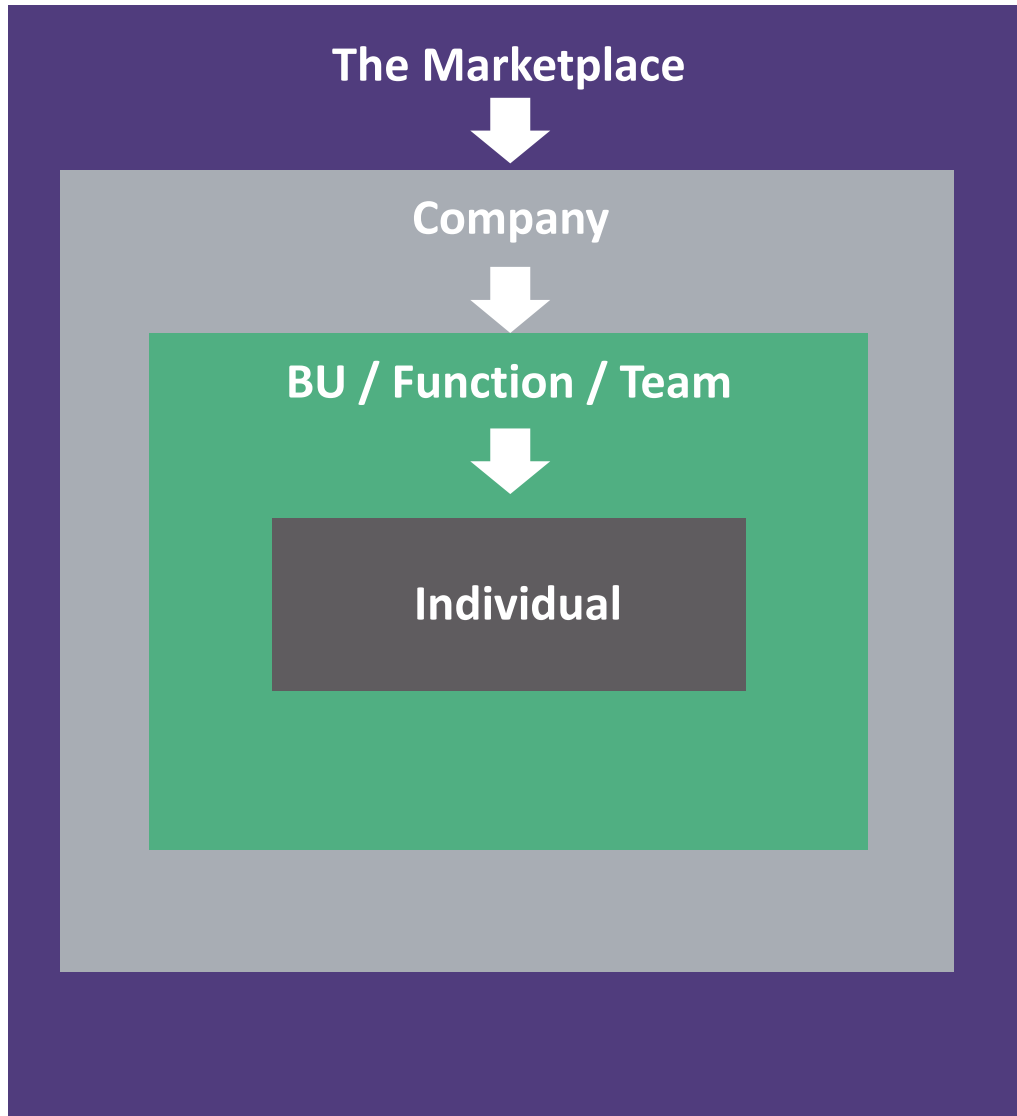


**Clear Roadmap:** The way in which we will navigate to a better future  
**HOW** will we navigate from here to there?  
**HOW** will we sustain the change?

HOW?



# Communicating the context for change



- How have customer needs and demands changed?
- What are our competitors doing?
- How will changes in technology affect us?
- How will regulatory changes affect us?

- How is our company responding to marketplace changes?

- What needs to change within our business unit, function, or team?
- How does change at our site relate to larger changes at our company?

- How do our people need to change?
- How can we help them?





[www.vantagepartners.com](http://www.vantagepartners.com)