
ACQUISITION
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FIVE ELEMENTS
OF THE PERFECT EQUITY
PITCH DECK
OPTIONALITY IN EXIT
STRATEGIES
95 QUESTIONS
DURING DUE DILIGENCE
'BEHIND THE SCENES'
IN M&A
KEY CONCEPTS IN AGREEMENTS BETWEEN
INDEPENDENT SPONSORS AND INVESTORS
WITH JAMES DAVID WILLIAMS

CONTENTS

Tap and Go to Content

Navigating the Complexities of Post-Acquisition Integration:

A STRATEGIC IMPERATIVE

With **Steve Nunn, Intista**

Following every add-on acquisition, acquirers move to a new phase of value realization - integration. This critical juncture presents a myriad of challenges for buyers, from managing new ownership dynamics to addressing employee uncertainty, company politics, and differing business cultures. The expectation to maintain "business as usual" amidst this complexity can be overwhelming to leadership and employees alike. However, acquirers can proactively prepare by establishing, well before the official announcement:

- a governance structure
- an unambiguous process
- a plan for sustained communications

In this article, we delve into the art of simplifying M&A integrations, unlocking value, and ensuring a smoother post-acquisition journey.

Integrations are rarely straightforward

The Deal Team will find, negotiate, and put together an acquisition with a vision of value that is to be created after the businesses are combined. The desired operational model is defined in spreadsheets and other documents, along with milestones to be achieved during this initiative. The **integration of the acquiring and acquired businesses is where the digital vision is turned into reality** - and it is rarely straightforward.

An add-on acquisition is not "just buying another business". Similarly, an integration is not just combining two or more businesses. Acquisition integration is the **thoughtful alignment of disparate people, processes, operations, technologies, and business cultures in the pursuit of added value**. After an acquisition, we own what used to be someone else's business. The handshake at the close of the deal does not automatically transform our purchase. The Closing is not the end of the transformation, but the beginning of the public phase of it.

Imagine a business you own is reorganizing a department within it. There will inevitably be disruption during this reorganization. Now *reorganize* every department in your business – at the same time, while maintaining business as usual. *This* is what happens during an integration, and it is the mandate of the Integration Team to navigate and deliver.

The underestimated challenges ahead

The success of mergers and acquisitions has been measured* since the 1970s. However, the data has not been measuring transactions; it has been measuring the integration of acquired businesses. Over the decades, integrations have consistently been found to have a success rate of approximately 30%. (By comparison, Intista's success rate at M&A integration is 90%). There is no magic bullet solution to this problem, and there is much discussion about reasons for this in the M&A community and academia.

The challenge of M&A integration is to unify the people, operations, technologies, and company cultures in every team in every location - while sustaining business as usual.

How to simplify the complexity of integrations

There are many facets to being successful with post-acquisition integration. However, the three most effective ways that can simplify your M&A integrations are:

Governance – the creation of a temporary hierarchy of teams that will oversee, plan, and deliver the integration.

Process – the use of a clearly understood appropriate methodology that the integration teams can adhere to.

Communication – a consistent, planned, sincere communication plan to all stakeholders.

Governance

The governance in an integration is a temporary organizational structure that includes an integration team hierarchy.

The above diagram shows the roles of the people involved. In the smallest integrations the Onboarding, Communications, and Integration Management Office (IMO) roles may be fulfilled by a single person. Contrastingly, in larger integrations the Onboarding role may require many teams of HR, Training, and other specialists to fulfill the demands of the integration at hand.

Preparation is critical, so some of the teams are staffed during the confidential phase before the transaction is completed. While the Deal Team pushes for completion of the transaction, the Integration Team is planning and preparing to deliver their Must Do tasks on the day of the announcement.

To successfully leverage this hierarchy, you should empower employees to make appropriate decisions themselves, and not defer unnecessary decision-making to someone up in the hierarchy. With a clear understanding of what decisions can be made at what level, "lowest-level decision making" will enhance employee capabilities, improve their morale, and sustain the forward momentum of the integration.

The Acquisition Integration Manager is a member of the IMO and the most essential person in the governance hierarchy. He/she should be a pragmatic organizer, communicator, and facilitator with the ability to shepherd integration to success. He/she could be an employee or an external advisor who has the ability and bandwidth to lead an integration. Choose carefully who will lead your integration. Ask yourself, do they have the diplomatic skills, flexibility, and drive to make your acquisition a success?

Selecting the right people to do the integration is part of the equation. Making rapid forward progress is not straightforward, so a common understanding achieved through training is important. Choose the integration training options that suit your schedule and budget, as they can be delivered self-paced online, live-remote, or in-person in the classroom.

Process

Small and mid-size businesses behave, perform, and respond differently to large businesses. Accordingly, their integrations are different in nature:

- A large business integration usually focuses on "How can we improve revenues, efficiencies, profitability or share price?"

- A smaller business integration usually focuses on "How can we set ourselves up for future growth?"

Integrations have a very large number of interdependencies between teams or departments, as it is commonplace for a project to require the input and resources of numerous teams. For example, replacing a payroll system will include (at least) the HR, Finance, and IT functions. In a small business, this group would typically include a few people from each function. However, in a large business many teams representing different areas of the business would all have to be included and coordinated with. Hence, the complexity of larger integrations is exponentially greater than smaller integrations.

The methodology you apply for your integration should be appropriate to the size of the *acquired* business (not the size of the acquiring business). Ensure you select the framework best suited to your business:

- Larger integrations generally need a more robust, thorough process that can manage complex dependencies and interactions. These integrations often seek financial synergies to achieve deal value as the primary objective

- Smaller integrations can use a more flexible process that allows them to adapt to market changes and discoveries found after the transaction is completed. These integrations often seek the ability to grow and scale as the primary objective.

An example flexible process:

Communication

The open secret to integration success is to communicate - almost over communicate. However, it is still under-utilized, poorly planned, and rarely sustained. Successful integration communication planning involves addressing these seven areas: Why, Who, What, What in Detail, How, Deliver and Keep Delivering.

Much effort is appropriately put into the announcement of an acquisition. Acquirers should plan who they must talk to and address the questions that each of these audiences may have. It isn't possible to communicate with all stakeholders at the same time, so different audiences will have different priorities assigned to them.

Too often we hear of a successful acquisition announcement, only to be followed by a lack of communication afterwards. Acquisitions of smaller businesses are often greeted with a silver lining of optimism ("Hey, I can finally get a new laptop!"). However, as the burden of integration activities affects operations, and the efficiencies of being a larger business have not yet kicked in, morale can hit a low. This is the second most important time for communication (after the announcement). Sustained, candid communication will address this morale low point and demonstrate that you, the new owners, care about the wellbeing of the employees, thus reducing a productivity drop.

Given the chance to do their last deal again

58% of acquirers would have communicated integration progress more clearly to their stakeholders

Source: EY *The right combination. Managing integration for deal success*, 2014

Image: Nik Shuliahin

Company culture is often cited as a root cause for success or failure of an integration. Two-way communication is a key tool that can prevent failure due to this. Communication creates understanding, which is a foundation for employee engagement. Note that two-way communication is not just for leaders: all employees need to listen and learn, before acting.

Lastly, what employees want to hear, and what leadership wants to say, will change over time. Your communication plan needs to address the changing nature of the business and the progress (or lack of progress) of the integration, as time passes.

Summary

Simplifying post-acquisition integration hinges on three critical facets. It starts with the creation of a temporary hierarchy of teams to oversee, plan, and deliver the integration. The size of this team varies, with the most critical person being the Acquisition Integration Manager: a key member of the Integration Management Office (IMO), who is a pragmatic organizer and communicator, capable of shepherding the integration to success.

The IMO should implement a clearly understood methodology that everyone can adhere to.

Communication should be consistent, planned, sincere, candid, and sustained through the life of the integration. The compelling announcement of an acquisition is part, not all, of a communication plan.

*Joshi, M., Sanchez, C., & Mudde, P. (2020). Improving the M&A success rate: Identity may be the key. *Journal of Business Strategy*, 41(1), 50–57. https://doi.org/10.1108/JBS-08-2017-0115

Dr Kelvin Mukolo Kayombo, (2019), *Critical Assessment of Performance of Mergers and Acquisitions*, *The International Journal of Business Management and Technology*, Volume 3 Issue 1 January - February 2019

If you have any questions about this article, or if you want to discuss it further, please contact us at sales@intista.com

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