Lessons post M&A

Jarrod McDonald, Max Coulthard and *Paul de Lange* look at four post merger and acquisition integration issues in six Australian organisations

Mergers and acquisitions are booming. Globalisation and the breakdown in trade barriers make a merger or acquisition a tempting growth strategy for an organisation looking to meet the demands of internationalisation.

A merger and acquisition (M&A) can fast-track the capabilities of a company, help it expand its product range and brand offerings, increase supply and distribution chains and achieve economies of scale, while at the same time reducing overheads and accruing personnel with experience in executive positions – outcomes that may take much longer to achieve with a slower organic or internal growth.

On the world scene, M&A activity increased by more than 32 per cent to US$2.5 trillion in the first nine months of 2006 over the same period in 2005, and in Australia by 55.8 per cent for the first nine months of 2006 to US$111 billion. Activity in 2007 looks set to break even that record.

Yet, despite M&A popularity, researchers suggest that approximately half of all M&As have proven unsuccessful. An Australian study by KPMG in 2003 found for the first time that shareholder value was increased as a result of a M&A more frequently than it was reduced. It was established that 34 per cent of deals enhanced shareholder value, 32 per cent reduced value and 34 per cent had no effect. This was a significant improvement from the first survey in 1999 when 53 per cent of M&As reduced shareholder value.

Given the ever-increasing value of M&A activity both within Australia and overseas, it seemed timely to review the use of mergers and acquisitions to achieve organisational growth. We conducted a study of six Australian organisations to explore four post M&A agreement integration issues previously highlighted in literature as important: strategic planning, corporate culture, employee retention and the role of leadership.

We found that successful integration requires five key factors:

1. Acceptance of the new corporate vision and mission
2. A complementary structure
3. A clear integration timetable
4. Initiation and completion of cultural due diligence
5. The implementation of a process to manage cultural differences

Further findings indicate a number of the organisations had instigated strategies to retain key personnel in order to prevent knowledge drain post M&A. Overall the study showed that in order to achieve M&A business objectives, integration leaders need to focus on:

1. Innovative problem solving
2. Effective communication with personnel
3. Relationship building

The literature identified that a clear strategic rationale was required for post M&A integration success. The study found it was important that pre-integration planning incorporated detailed post-merger integration requirements in order to speed up the integration process; ensure a smooth transition to an effective corporate culture; and have the right team in place to lead the new organisation forward.

In the study, all organisations agreed that integration planning was important in developing a clear mission and vision for the new entity and ensuring integration objectives were in place. It was found that companies that took a proactive approach to M&A targeting, were more likely to have an integration team and clear integration planning in place. These companies were also found to be focused on supply chain development strategies. On the other hand those companies that tended to be reactive to M&A approaches were more likely to use a separate integration team of in-house specialists, with a strategic focus on diversification and no clear integration planning process in place.

Potential leaders should be able to listen effectively, not jump at making judgements, be good communicators, open minded, fairly entrepreneurial, with strong business planning skills and definitely risk takers.

Those companies involved in acquiring business that led to a diversification strategy were found to be more likely to recruit high achievers from within the relevant business divisions and bring in industry experts external to the company to assist in integration planning.

It was also found that integration levels were dependent on the strategic objectives being set for the new entity. On some occasions little integration was required because the aim was to foster existing business approaches and in these cases the best approach was seen as separate strategic business units, often with existing senior executives who could foster their own culture. In this study, when full or significant integration was considered important, strong cultural integration was considered necessary. This usually meant replacing key personnel in the new entity with those from the acquiring firm.

Lack of corporate culture integration has been identified in literature as a major reason for M&A failure. This study found centralised companies were more likely to transfer their culture onto the new entity while decentralised companies were more likely to tolerate cultural differences. Interviewees highlighted how prospective acquisitions were evaluated on the basis of the cultural fit within their existing business, while mergers were seen as an opportunity to shape a new culture. Whatever path of integration was followed, this study showed that conducting a cultural due diligence and managing cultural differences were critical to the successful integration of M&As.

Having templates with flexible frameworks was considered useful in managing the integration process; allowing executives to maintain their focus on existing business, without losing track of integration requirements. Interviewees believed the overall well-being of the company could be endangered if key personnel were allowed to be distracted by an M&A, as they could potentially neglect customers and their competition strategies.

High staff turnover at senior levels was also established in literature as one of the challenges for M&A integration. This study found that several organisations did replace senior managers, often to control and coordinate the integration process, resolve financial problems and instigate cultural change. This did not happen as much in decentralised business units. It was also recognised that retention of key people throughout the organisation was necessary, but that rewards offered did not always have to be of a monetary nature.

Additionally, a number of leadership skills were identified in literature as important for M&A integration. This study confirmed previous studies and suggested leaders must be flexible in meeting the different needs of each merger or acquisition. It was found that

So... who participated?

A B C D

Company A

Multi national beverage company

Australian Stock Exchange (ASX) listed

Company B

Global information technology company

NASDAQ listed

Company C

Global consulting firm – clients from all industry sectors

Global partnership

Company D

Manufacturing company – Australia, NZ, Asia and the US

ASX listed

Participant A

Manager Group Strategies

Has been with the organisation and in the industry for the past six years. Before this Participant A had worked at one of the 'Big Four' accounting firms and in a large law firm as an accountant. His role for the past two and a half years has been Manager Group Strategies, responsible for business development and strategy. He described his role as covering all facets of M&A strategy, including driving the M&A process. Participant A reflected on his experience in his current role and focused on the processes and criteria of M&A operations in Company A.

Participant B

President/CEO Asia Pacific

Has worked for the company for three years, having experience in the industry for four. In 2001 Participant B was managing director of a consulting firm which merged with a US-based software company and subsequently became CEO of the newly-merged organisation, a position she currently holds. Participant B's primary focus was on the 2001 merger and the resulting challenges in integration this M&A provided.

Participant C

Senior Manager

Has been a senior manager for three years in a large consulting firm of a worldwide organisation, having worked in the firm for more than six years and has completed a MBA. Participant C previously worked for a year in the US, advising private equity funds on acquisitions and has subsequently worked on several corporate and private equity acquisitions in Australia. Participant C provided insight on M&A's from his perspective of having advised a number of clients both in the US and Australia, with a focus on Australian companies.

Participant D

Senior Business Analyst

Works in a corporate finance group, a part of the corporate area which has responsibilities for M&As. Participant D has been working for the company and the industry for over two and a half years. Participant D reflected on his M&A experience within Company D.

E F

Company E

Transport and logistics provider

ASX listed

Company F

Diversified manufacturing and service company

New York Stock Exchange listed

Participant E

Chief Financial Officer

Is also a board member of an ASX-listed business. Participant E has been in the position and with the company for seven years and holds a Masters of Finance degree. He has 30 years of varied experience in the transport and resource industry. During this period he has observed and participated in numerous M&A and was able to provide unique insight into his company's transaction.

Participant F

General Manager Australian Division

Spent the last six months as CEO of a large Australian division of a high-profile acquisition organisation in the US. Participant F had a strong track record of M&A involvement. At the time of the interview the division he managed was currently being acquired. He had previous M&A experience in senior management roles in Australia and Canada as both the acquirer and the acquired. This participant reflected on the totality of his M&A experience, while providing a unique perspective from both sides of an M&A deal.

internal leaders must espouse the common vision and mission of their integrated company, be entrepreneurial, devise innovative solutions to cope with integration challenges and communicate at every step what is happening including their expected outcomes.

Results outlined here are part of a larger Australian study into M&As. Other issues identified in this part of the study worth further investigation include: differences between cross cultural and domestic M&As, challenges aligning integrated corporate cultures and performance, and the impact of different structures on M&A integration. Given the small sample in this study, the findings need to be viewed with caution. Successful integration of M&As may be achieved in many different ways. Even so, this study does highlight a range of important issues that those contemplating a merger or acquisition should consider, and some potential strategies to assist in achieving successful M&A integration.

SURVEY RESULTS

Integration Planning

- Participant E: "There is nothing more important" than integration planning.
- Participant A: Timing is crucial. A key challenge in any M&A is to work out when you actually start planning for the integration. "Initially this requires just walking around and talking – you can't impose your beliefs. You need to communicate very openly from the start about beliefs and the way your business operates."
- Participant D: Facilitate the integration process via the transfer of vision and mission. A recent acquisition was operating as a division of Company D with their own management team. To transfer Company D's vision and mission they went and visited every operation site (of the acquired company) and spoke to all employees. "We said this is what we are about and this is what we want to do." The company tried to share with the acquired business their organisational values rather than directly imposing them.
- Company E: The integration plan is based around five areas: people, property, assets, purchasing and information technology. In each area cost savings can be made.
- Participant C: Keeping the business unit separate or not depends on the reasons for the M&A. "Are your sources of value in synergies? Or have you bought a

business unit that is successful and doesn't need to be integrated? It might be that the company culture you are buying is the key ingredient to the success of the company."

- Participant B: "You can keep them as a strategic business unit when there is very little overlap. As you start to get more and more overlap, it is very important for them to integrate."
- Participant F: Integration is a complex undertaking. Use high quality people with the capacity to bring about integration quickly. "You don't still want to be dealing in 12 months time with some of the integration issues."

Cultural due diligence pre M&A should determine whether any difference in culture is so significant that it is not going to work.

Corporate Culture

- Company D: Do pre-M&A cultural due diligence. "First determine whether any difference in culture is so significant that it is not going to work."
- Participant B: When acquiring companies with differing cultures, the biggest issue is the lack of awareness of what each other's culture is. Use communication to overcome this cultural gap. Speak face-to-face to staff so they can hear the management view clearly and voice their concerns.
- Company E: Some cultural differences can be an asset when integrated into an evolving culture. "We've been able to get people who have not only embraced our culture but enhanced it."
- Participant E: "Once you get below the surface [talking about those below senior management] you find most people are enthusiastic and passionate about their business. If they're not, they're found out pretty quick and they go and do something else."
- Company A: Look for companies that will fit and thrive within your current culture.

Employee Retention

- Company B: Does not place or remove organisational staff members into key positions in the acquired company. Based on experience they believe it is "unfair to walk in and bring a whole new team because you get immediate resistance."
- Participant C: Place key personnel into the acquired organisation. "Having people hit the ground running, understanding the whole process is very important."
- Company A: Use a buddy system with the financial controller and managing director of the acquisition being paired with Company A employees.
- Participant E: There can be disconnection between the senior management and the workforce. "In most cases we've left the senior guys of the acquired entity behind because of this disconnect and instead provided support." Look for managers prepared to take on accountability.
- Participant C: "Develop retention plans and be very, very specific about enacting them."

Leadership Skills

- Participant B: Leaders should be relationship driven, able to listen effectively, not quick to make judgements, open minded, fairly entrepreneurial, risk takers and have strong business planning skills.
- Participant C: Leaders need clarity. "There are so many things going on you can get distracted from your main task. We use tools such as the 100 day plan to focus on the most important tasks ...This ensures we remember why we did the deal, what's driving the value, the specific actions required and the people who are accountable."
- Participant C: People experienced in managed change are valuable in leading the integration program.
- Participant F: Different leadership is required for an institutional and a trade buy. Institutional investors are looking for a going concern, so the management team for them is vitally important. If the buyer is a trade buyer it is almost the opposite. They are looking to buy the contracts, buy the relationships and buy the trade, not the leadership.

Jarrod McDonald and Max Coulthard are from the Department of Management, Monash University

Paul de Lange is an Associate Professor in the School of Accounting and Law, RMIT University

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