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Does Your M&A Integration Playbook Need Updating?

With M&A activity — and prices — near all-time highs, CFOs and their boards must be ready with robust integration plans.

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This is the second in a series of columns based on a new book from EY Transaction Advisory Services, The Stress Test Every Business Needs. The first column dealt with portfolio reviews.

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While M&A is a key tool for growth and innovation, it is also increasingly expensive and complex. In the most recent EY Capital Confidence Barometer, a whopping 62% of U.S. executives said deals often fail to capture expected synergies.

At the same time, boards of directors are requesting more detailed integration road maps as part of their transaction approval process. They want to know the source of synergies, a timeline to capture value with accountability, the funding, and how the process will minimize distractions in the core business.

As this increasing pressure combines with the trend toward more cross-sector deals, it raises the question: Is your current integration playbook fit for purpose?

Robust integration strategies and implementation plans focus on five essential elements.

1. Why: Vision and integration strategy

A shared view of the overall value proposition facilitates seamless handoffs among the corporate development team, the integration team, and business leaders responsible for execution. Dealmakers need strategic clarity and the expected level of integration to help ensure they don't make undesirable compromises during implementation.

Aligning the acquirer's executive team to a set of guiding principles, getting the target's executives on board, and preparing for day one execution are all ways to help propel the vision and integration strategy.

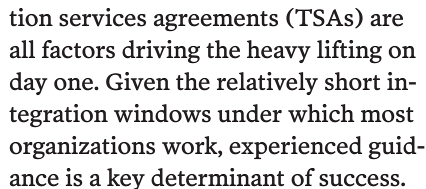
2. What: Organizational design and operating model

Do not merely integrate if you can transform. Integrations can provide a basis for beginning a more fundamental transformation of the acquiring company. However, transformation must be a deliberate decision and the acquirer needs to look as much at itself as it does at the target.

Start with culture. Clashes can emerge without a common understanding of "how things get done." Management style, communication style, approaches to innovation, tolerance for risk taking, and a broader range of cultural markers all make up an organization's unique DNA. Misreading the machinery that keeps the culture in "drive mode" can lead to conflicting incentives for the workforce, employee pushback, and even an integration slowdown.

Once you understand what drives the organization, build your strategy to evolve it. Map out a new operating model and organizational structure. From there, create robust talent retention and acquisition strategies, on-boarding, and policies and procedures that will anticipate tensions and promote the culture you aspire to achieve.

The number of employees, the countries where operations are located, the disparity among the two companies' major information systems, and to what extent the acquired company is a carved-out business requiring transi-



tion services agreements (TSAs) are all factors driving the heavy lifting on day one. Given the relatively short integration windows under which most organizations work, experienced guidance is a key determinant of success.

3. **Who: Integration management office and governance**

Culture does not transform with mere words; actions are what count, and words without actions are worse than no words at all.

Leaders from all sides must demonstrate continuous commitment to the integration process through visibility at steering committee meetings, participation in critical decisions, and frequent and open communications with their people.

Integrations often succeed or fail because of chemistry among people, their actions (or inactions), and the workforce's support of leadership.

Select key leaders early, and don't be afraid to course-correct if needed. Talent from both sides should fill clearly defined roles with explicit decision rights.

Perhaps most importantly, make bold, tone-setting changes. Promote someone in the target company, or implement a "ceremonial dismissal" or dismissal of a counterproductive faction leader.

4. **How: Change management and communications**

The complexity of a transaction will dictate the extent and frequency of your communications. In most acquisitions, a relatively small number of people are "in the know." The vast majority will be hungry for information and vulnerable to transmitting or hearing rumors.

Influence while you inform through a highly strategic, continuous, well-coordinated communications campaign. Create a deployment strategy for your campaign, including who should deliver what messages — and don't forget your suppliers.

Embrace the impact you can have with regular, clear, and motivating communications. Align messages to each stakeholder group — your people need this to evolve and your partners need this to continue seamless delivery of services.

5. **How much: value creation and synergies**

Revenue synergies may be more central to the value proposition for a transaction than cost synergies; however, they may require significant investment and a longer lead time to realize. Lack of comprehensive due diligence efforts may result in unexpected costs.

An example is insufficient due diligence on IT assets, specifically their condition, design complexity, transferability of licenses, and infrastructure stability. Companies often underestimate, or don't take sufficient time to model, the cost of achieving synergies.

To navigate this, establish a rigorous synergy program with clear accountability that balances revenue and cost synergies. Demand analytical rigor for planned synergies, including how they'll be captured.

Leverage cost-reduction and cost-avoidance opportunities to help achieve synergies in the short-term. Lastly, develop a robust plan for the investments required to achieve the targets, especially for growth, and include a realistic schedule of capital expenditures.

It's been said that more than 10,000 actions are required to orchestrate an integration. As transactions grow in complexity, so will synergy capture and day one readiness. But working with the right partners on a well-defined strategy can be a key component of transaction success.

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This article is adapted from the new EY Transactions Advisory Services book The Stress Test Every Business Needs, by Jeffrey R. Greene with Steve Krouskos, Julie Hood, Harsha Basnayake, and William Casey. The book has more than 20 other senior EY contributors, including Brian Salsberg.

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