How Post-Merger Integration Can Make or Break an M&A Transaction

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Why do mergers & acquisitions (M&As) fail so often? Studies show that the M&A failure rate is alarmingly high. However, by focusing on three main areas of integration—people, operations and technology—companies are dramatically increasing their M&A success rates and creating ongoing shareholder value in the process. It's time to maximize your future value with effective post-merger integration.

In many ways, corporate mergers and acquisitions (M&A) are like marriages. All things considered, an M&A transaction is a union of two independent parties—entities that have their own histories, personalities and long-standing habits. Developing a fluid, cohesive relationship while honouring these differences takes work—more work than is usually anticipated. Perhaps this is why the M&A failure rate sits at about 70-90 percent—with many of these transactions tending to destroy shareholder value rather than create it.

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The reason for this high failure rate can be broadly attributed to the fact that most M&A transactions are too often short-sighted—participants are more focused on whether a company is valued at the right price rather than exploring

how certain intangible X factors, such as people and culture, can impact value creation in the future. As a result, you get a transaction that looks great on paper but doesn't reflect the unique needs of the businesses involved—or the qualitative nuances of two distinct organizational cultures—often leading to devastating results.
Recognizing that a successful M&A transaction is not complete when the deal is signed, a growing number of organizations are boosting their post-merger integration (PMI) efforts—going so far as to build a comprehensive PMI strategy before a bid is even made. By focusing on three main areas of integration—people, operations and technology—companies are dramatically increasing their M&A success rates and creating ongoing shareholder value in the process.

Learning from past failures

To establish a sound PMI strategy, the root causes of M&A failure must first be identified. While there are myriad ways M&As can destroy value, three elements tend to be more critical than others:

1. **Failure to capture synergies**

Typically, M&A transactions fail to capture synergies in one (or more) key areas including:

- technology adoption, where there is a reliance on misaligned or nonexistent technology solutions that fail to meet the needs of the newly combined company
- procurement efforts, when the hard work of aligning policies, processes and purchases fail to create additional value
- customer reaction, by failing to accurately predict how customers will respond to changes presented by the transaction

2. **Failure to align culture**

A major cultural mismatch between the two entities can substantially impact the long-term success of the deal. Stark differences in management approaches (e.g., collective vs. hierarchical), working styles (e.g., collaborative vs. siloed) and work-life balance expectations can make it difficult to create a cohesive combined company which maximizes human capital synergies.

3. **Failure to implement effective project governance**

When two entities are combined, there must be a realistic integration timeline and careful consideration how the business will combine different project management processes, accountability frameworks and decision protocols. Without effective alignment of governance frameworks and clearly defining new roles and responsibilities, an organization can ultimately suffer from allocative inefficiencies, lack of reporting clarity, and inconsistent execution of projects.

Driving forces of M&A success

An effective PMI strategy seeks to avoid common M&A pitfalls by proactively identifying and addressing potential threats. Before the transaction even begins, a PMI-focused organization will devise a plan to address:

- **the people—**a successful PMI strategy hinges on the idea that people matter—and uncovers ways to align and empower the human capital of the two adjoining entities. This may involve establishing a thorough communications plan to help employees embrace the opportunities presented by the new merger or acquisition; offering coaching sessions to orientate employees and solicit their feedback; or employing counselling services to uncover less-obvious ways to maximize employee engagement. The goal of the people-focused component of a PMI strategy should be to prioritize dialogue over one-way communication, and make the M&A process as transparent as possible for employees.

- **the operations—**two merging companies are rarely, if ever, perfectly cut-out puzzle pieces. As such, the new entity will likely require new business and governance strategies to create cohesion—and a powerful integration plan designed to spur organizational alignment specific to the type of M&A transaction. In addition to developing a Day One strategy, the new entity may spend Day Two and beyond focusing on reducing expenses and engaging in process mapping to close the most obvious control gaps. Moreover, the organization will concentrate on addressing the next batch of "low-hanging fruit"—searching for new ways to operate with higher productivity and cost-efficiency—until the new entity is running like a well-oiled machine.

- **the technology—**while building a new technology infrastructure is unquestionably a costly endeavour up-front, it's nevertheless a critical step in ensuring PMI success. An ideal platform is one that connects all core functions allowing the new entity to optimize its performance, fearlessly embrace technology innovation and ensure competitive differentiation, both today and for years to come.

Continuous value creation

If there's one lesson to glean from M&A failures of the past, it's that valuation forecasts are often a best-case scenario. To ensure consistent value creation, newly combined companies need to continually uncover ways to drive synergies, maintain a consistent and productive culture, and leverage new technological advancements. By giving focus to PMI—and refusing to rest on their laurels—the newly combined company will be well-positioned to weather disruption and come out stronger on the other side.

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