Focus on Company Mergers

Integrate or Disintegrate; Organisational change in merged companies

"Strategy and operational decisions are important, but the defining bets are always made on people. If you have the right person leading the charge, good things happen."

Harvard Business Review

Companies merge with others to destroy competition, increase market share, grow geographical presence, acquire technology or product lines, increase IP coverage, or for straightforward financial engineering. Also to access people and new capabilities. Whatever the reason, the underlying motivation is always to increase shareholder value through exploiting synergy between the two companies. Synergy is a beast often heard but seldom seen and the promised benefits frequently fail to appear. Lamberhurst Consultants in the Business Improvement Practice have experience of many successful – and failed – company mergers and have identified some of the key organisational areas that must have executive focus if any merger is to achieve its objectives. This focus must be applied even prior to the merger, during the due diligence process, to ensure that the areas for change and consolidation can be identified very early in the process. Lamberhurst consultants are familiar with the disciplines that need to be followed and the pitfalls to be avoided in what can be a challenging time for a company.

Revenue Protection

In a merger situation it is vitally important to protect current revenue streams while change actions are being identified and started. Lamberhurst consultants know that an understanding of the company's market position, the positioning of its customer base and the strength of the new company's brand will determine effective action. The legal status of trademarks, product licences and other intellectual property may be called into question by the change in ownership. Many sales and supply contracts include review clauses that can activate on a change in ownership.

Human Capital and Communication. *What about benefits integration, pensions, severance terms etc – they are hugely costly if done badly?*

In any merger the biggest challenge is getting the people side right. It is vitally important that the merged work force is kept on side during the merger process and the subsequent organisational upheaval. Close friends and colleagues will leave and roles and responsibilities will change.

Lamberhurst Consultants know that overcoming fears through good and open communication and involving people in the process is essential to the overall success of any merger. Timely communication at the group and individual level is essential to ensure full understanding of the timetable for the restructuring, the merged organisation's new objectives, the new organisational structures (and the appointment process) and reporting procedures and the benefits of the new organisation to the remaining employees. Early communication of the new business values and principles is also helpful.

Departing employees must be treated with dignity and the remaining work force realigned and re-motivated. Change agents who thrive on these situations and see them, as an opportunity must be identified early on so that their attitudes and skills can be retained and leveraged during the merger process. Contractual obligations to employees need to be identified and regulations complied with. Perhaps most important, the organizational culture needs to re-engineered to reflect the new mission of the merged organizations. Also new capabilities need to be identified and selected for, or supplemented with strategic external recruitment

Why not all of the perceived benefits of company Mergers are successful implemented.

Culture-Different cultures exist in each individual business, its imperative that the change in corporate culture is managed into the new business, and not appear to be imposed. Better to take six months to integrate companies than have initial upheaval.

People-are the key to complete a successful merger, explain the reason for changes and manage through existing management structure initially.

Management systems methods- evaluate all aspect of the business taking the good aspects from each business, to the new merged venture all employees can then see that everybody can contribute to the success of the merger.

Communication-This is vital to the success - be as open as possible and if there are structural changes that are required try and effect these as soon as possible. In most cases employees expect change and as soon as this is affected they return to everyday business challenges.

Review original budget against actual at regular intervals- evaluate differences and discuss with existing management in areas where improvements can take place. Identify stretch targets.

Flexibility - Your perception of the new business and the actual are can be significantly different, be flexible in your approach and do not change aspects of the business until you have fully understood the principles involved.

Decision making – procrastination destroys value

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Processes and Controls

Successful change is only accomplished through a gradual and carefully planned activity – Big Bangs are seldom constructive! When separate organisations merge or consolidate, a major management task is to ensure that processes and controls are aligned across the new structure. The challenge is to keep the best operational practices from before the change and to realise the best practices after the change. It is often a good opportunity to roll out new and more cost effective processes but care is needed.

Quite often, processes are embedded in people and can be disrupted through redundancy or loss of focus (and possibly disaffection). It is most important to identify and preserve any key ingredients without which either party's business would flounder. Don't lose corporate memory – and remember legacy issues!

Lamberhurst Consultants have identified the resolution of conflicting internal operational procedures, incompatibility of IT systems, disrupted communications, differing financial and reporting systems and the availability of management information and controls as key areas where problems will occur.

We know that careful attention to these issues during the merger process establishes the foundation needed to realise the promised benefits.

Facilities and services – duplication, consolidation, upgrading.

Any merger will expect to achieve cost benefits from the consolidation of duplicate services. It will be painful to achieve these savings and early recognition of where these can be achieved is essential so that those affected can be removed from the company early on in the merger process.

Duplication

Duplicate resource at the corporate level, in the service organisations and at the operational divisions, both human and physical, will inevitably be revealed during a merger process. Its consolidation will encounter sometimes fierce resistance from managers and staff; they will defend their fiefdoms, they will resist change for fear of the unknown and redundancy.

Analysis of actual duplications needs to consider transactions where economies of scale by consolidation are available, the availability of professional skills and expertise, differing and incompatible systems and processes and the duplication of policies and controls. Those that best serve the new organization must be identified and rolled out. It is here that frequently an impartial or independent view is particularly valuable.

Consolidation

Consolidate functions where best in class can be sustained – minimising relocations. Many functions can be geographically dispersed but operate in a common management structure with common systems. The overall organisation structure needs to be established at the outset to allow the integration teams to work towards a common goal.

The most complex and costly challenge is IT – with different platforms, different systems, and different software. This diversity can be potentially a barrier to much consolidation. Careful planning with innovative solutions is required to avoid extreme expense or worse – expensive failure. Whatever the target of consolidation the solutions must be implemented thoughtfully to ensure that the promised benefits are achieved.

Upgrading

The merger will present the opportunity through timeliness, the achievement of a critical mass or the availability of investment funds to upgrade systems and facilities. Upgrades should be reviewed against stringent cost benefit guidelines – remember that the separate organisations functioned adequately prior to the merger.

The way to a successful merger is lined with pitfalls – it is as easy to destroy value, as it is to create it! It is vital to identify and preserve key ingredients without which either party's business would flounder. Don't lose corporate memory – and remember legacy issues! If you are contemplating this ultimately rewarding activity or recognise any of the traps that we have outlined then the Lamberhurst Consultancy Network has the skills, and the experience, to navigate you around and out of them and help you achieve the promised benefits.

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