

# POST-MERGER MANAGEMENT



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## Value Creation in M&A Integration Projects

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## ABOUT THE AUTHORS

**Kirsten Meynerts-Stiller** founded Frankfurter Gruppe corporate development in 1998. Since then, she has consulted and supported many corporations in realizing demanding and complex change processes and post-merger integrations. She works on strategic, structure and process levels in a systemic combination with change dynamics and leadership issues.

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# PREFACE

## The idea behind the book

This book is intended for business integration managers. Its aim is to spread enthusiasm for one of the most challenging areas of entrepreneurial activity – the restructuring of two merged organizations to form a functioning, profitable business.

Merger integration competence covers all aspects of strategic planning, ranging from the management of complex organizational projects to the cultural work involved in change management and leadership development. The book offers practical answers to the many ‘how to’ questions relating to implementation while also explaining the broader M&A context in which integration projects are rooted, this being of crucial importance for assessing the chances of realizing synergy potential as well as evaluating the integration risks.

Merger integrations are very special projects: they pose an enormous challenge to the organization in general and the integration managers in particular. Generally speaking, they are fraught with over-inflated expectations of making rapid synergy gains; moreover, they are laden with pitfalls inherent to complex organizational change and charged with emotion as well as being influenced by socio-psychological dynamics.

This complicated situation poses risks, and it is no surprise that many merger integrations turn out to be botched jobs. It is not uncommon for managers to lose sight of the more modest targets and run through the integration process mechanically, without detecting the true nuggets among the new strategic business opportunities.

Up until now, many companies, including an increasing number of medium-sized businesses, have embarked on the ‘M&A adventure’ with insufficient preparation, often lured by the high level of standardization and the good consulting services available on the transaction side. From the transaction managers’ perspective, M&A appears to be a professionally handled and easily controllable management field.

But things look quite different on the integration side once the deal has been closed: here, it is not uncommon for companies to rely solely on the relevant business function expertise, without clearly defined project structures or any in-depth experience of integration processes. The technical and cultural mergers run side by side with only loose links between them. The cost of integration is often underestimated, and insufficient resources are made available. Although corporations and ‘serial acquirers’ have an advantage over ‘occasional buyers’ as far as the standardization of integration processes and project structuring are concerned, integration management is still not yet fully professionalized in many corporations. Occasionally, this process is taken one step too far. Excessive standardization and process orientation leaves little scope for tailoring the integration project to the individual situation.

This is what inspired us to provide business integration managers with a kind of instruction manual containing the basic essentials for the successful organization of merger integration projects.

The know-how available with regard to post-merger management is currently still diffuse. Although there is now a good deal of literature, including a few standard works, on the M&A phenomenon in general,<sup>1</sup> post-merger management focussing on successful integration work and all its organization-specific facets is not the central theme. Merger integration also lags way behind transaction-related M&A subject matter as a further training and seminar topic in university and executive education. Increasingly, however, international conferences are being devoted to this subject,<sup>2</sup> and, e.g. within the German Federal M&A Association (*Deutscher Bundesverband M&A*) there are expert groups specializing in merger integration work.

Individual case studies on particular aspects of integration<sup>3</sup>, e.g. the study of the merger between Daimler and Chrysler or between Dresdner Bank and

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<sup>1</sup>Müller-Stewens, Kunisch and Binder (2010), Jansen (2008) and Lucks (2013). An example from the English-speaking world: Davis (2012), Whitaker (2012), Galpin and Herndon (2007) and Lajoux (1997).

<sup>2</sup>Example: The Thought Leader Global Integration Conference held annually in Amsterdam since 2011.

<sup>3</sup>Example for the logistics industry: Bachmann (2008); for public bodies: Sommerrock (2009); for the IT industry: Popp (2013). Examples from literature illustrating individual aspects of integration for the field of HR: Scharfenkamp et al. (2002), Jaeger (2001), Geschwill (2000) and in greater detail: Krusche (2010); example for integration controlling: Bauch (2004); example for cultural due diligence Strähle (2004) and PMI cultural work: Palm (2012).

Commerzbank, are of special interest, as they provide valuable insights into the challenges posed by large-scale integration projects.<sup>4</sup> Empirical analyses, often carried out by the big consulting firms, are frequently limited to assessing deal performance and identifying the key factors in success or failure. The risk study by Gerds/Schewe goes one step further, using its findings to compile practical tips on how to organize due diligence with a view to making merger integration as successful as possible (Gerds & Schewe, 2009).

It is nevertheless important to note that every merger is *unique*. As integration consultants and authors of this practice-based manual, we are hence unable to provide a universal guide to all conceivable integration constellations. Based on our own observations and those of our fellow consultants as well as an analysis of the existing literature, it is, however, possible to identify certain factors in the planning, organization and methodology that have greater bearing than others on the success of merger integration projects.

In this book, we aim to pool the merger integration know-how already available, close at least the most important gaps in the skill and knowledge base, demonstrate how integration can succeed, and provide a candid overview of everything that needs to be done. The challenge of the book format lies in having to depict the synchronicity and interdependence of numerous events and activities in a sequential manner.

The increasing company demand on the consultancy market for professionalization in post-merger management stems from the pressure to minimize the risk of failure in implementing mergers in the light of increasing transaction frequency. This phenomenon is comparable to the process that has led to change management being viewed in a different way and gaining widespread acceptance as an essential component and success factor in organizational and change projects. Back in the 1980s and 1990s, companies faced massive internal pressure for change in order to improve the efficiency potential of their own organizational structures, processes and IT systems. It was only by professionalizing internal change processes within the framework of change management, which has since become a generally recognized practice, that companies were able to achieve this efficiency internally.

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<sup>4</sup>For the merger between Allianz and Dresdner Bank, see Große Peclum, Krebber and Lips (2012); for the merger between Daimler and Chrysler, see Grube and Töpfer (2002).

Professional post-merger management competence is following this trend on account of the increasing necessity to achieve and maintain significant synergy effects in merging organizations.

This book is aimed at a wide range of target groups within businesses:

- *Project managers*: Leading project managers and integration managers are generally nominated on the basis of their specialist role. Alternatively, experienced organizational project managers are made available by the key departments, such as HR or Organization Development. Many corporations pool all their integration experience in central PMI communities and specialist departments. These experts are often consulted for support and advice with the operative implementation of the integration at local level.
- *Project participants*: Responsibility for the implementation of a sub-project lies mainly in the hands of specialist staff and executives from middle management. For many, a forthcoming merger means extra pressure on top of their normal workload, often with little practical integration experience.
- *Decision-makers responsible for mergers*: The top-level management staff and the head of department responsible for the deal in question generally have experience in handling transactions and have already assisted with or been in charge of a number of acquisitions. In their case, an in-depth understanding of integration dynamics and how to shape them can provide valuable information for the transaction phase; in particular, it facilitates a realistic assessment of the volume of resources needed for integration (and requiring costing), as well as raising awareness of the need for management staff to stay focussed on the integration project over its entire duration – generally a matter of several years.

Our readers will have to grapple with some quite challenging perspectives. The increasing complexities of organizational reality cannot be blocked out or trivialized, system theory approaches can facilitate a better understanding of the dynamics involved and greater proficiency in managing permanent conflicts of interest when conducting merger integration can help to put minds at rest.

At the same time, this book serves the very pragmatic purpose of providing concrete tools that have already proved their worth over the course of numerous integration processes.

We would like to thank all those who have taken part in our merger integration seminars as well as our consulting project contacts, who have assisted us in enhancing and perfecting many of the approaches discussed here. Our thanks also go to Christoph Stiller for his help in compiling the manuscript and charts.

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*Neu-Isenburg, April 2019*