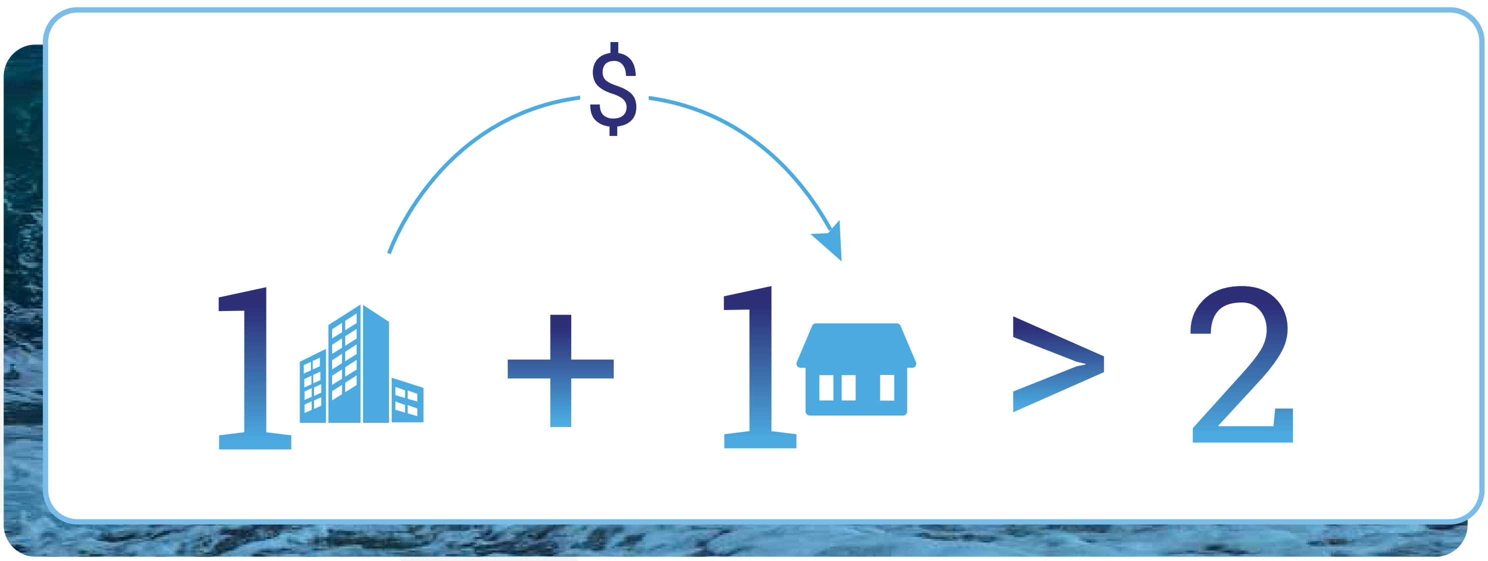
The Core Elements of a Successful Merger Integration Process

Although mergers give companies an opportunity to capitalize on their shared strengths and drastically improve performance, they're complex undertakings that require rigorous planning, the ability to capture revenue and cost synergies, and the integration of two separate company cultures. To make the merger integration (MI) process as smooth and productive as possible, companies have to establish dedicated transition teams, focus on cultural alignment, and make the most of each partner's unique capabilities.

Properly executed mergers help companies increase productivity, strengthen workforces, and move into new markets. When companies join forces, the point isn't just to increase their capacities in a linear way – as in, 1 + 1 = 2. The point is to unlock synergies that can catalyze more rapid growth than they ever would have been capable of separately: 1 + 1 > 2.

To make this ambition a reality, companies have to develop and implement a merger integration (MI) strategy that begins with comprehensive due diligence, builds into effective processes for synthesizing disparate workforces and operations, and ultimately adds value for both parties. Successful mergers are all about people – not only the combination of two compatible and mutually supportive workforces, but also the appropriate delegation of roles and responsibilities, the creation of dedicated teams that ensure the transition goes smoothly, and an explicit focus on developing a healthy shared culture.



Although mergers can have a powerful multiplier effect on companies' performance, the merger integration process can generate significant logistical obstacles that harm productivity and employee morale. This is the scenario that has to be avoided at all costs: 1 + 1 < 2. However, as long as companies conduct thorough due diligence, get people in the right places at the right times, and establish processes that streamline the transition, they'll be in a position to capitalize on their strengths, mitigate their weaknesses, and create a new company that goes beyond anything they could have accomplished on their own.

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Your Merger Integration Plan Should Be Synergy-Focused

The first step in any merger integration process is the initial due diligence phase in which companies identify how a merger can help them innovate and grow more quickly. But this is only the beginning – MI leaders also have to discover the specific areas where synergies are most likely to emerge and dedicate resources toward realizing those synergies.

Obstacles in Achieving Synergy

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According to a McKinsey study, the average gap between goal and result on revenue synergies is 20 percent, while "capturing the majority of synergies takes three to five years." Meanwhile, PwC reports that just 13 percent of companies see "very favorable" results in capturing revenue synergies – a proportion that falls to 10 percent for cost synergies. When Deloitte asked companies to list their top concerns in a new acquisition, capturing revenue synergies was the second-most-cited priority. Less than a quarter of the companies surveyed were successful in reaching at least 80 percent of their revenue synergy objectives.

Considering the stark discrepancies between where companies are and where they would like to be on their ability to identify and leverage synergies, it's clear that they need to try new strategies for doing so. For example, as with so much of the MI process, people are the key drivers of performance.

40%

PwC found that companies that involve integration teams early in the process are 40 percent more likely to see favorable results.

According to Deloitte, two of the top three "most critical success factors" are the existence of dedicated teams for integration and revenue synergy planning and execution. realizing those synergies.

Deloitte also reports that top-performing companies have clearly defined innovation priorities, which are then "used as key inputs for growth plans." When companies put the right MI plans in place and use specialized teams to carry out those plans, they'll be capable of seizing the synergies that their unique relationships have to offer.

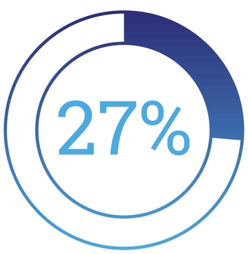
Cultural Alignment is Essential

The term "workplace culture" is often used to describe superficial characteristics like dress codes and workspaces, but it's much more fundamental than that. Culture encompasses everything from your company's values and mission to standards of behavior to how employees communicate and collaborate with one another. It's also the element that often comes under the most strain during the MI process, which is why companies have to make smooth cultural transitions a top priority.

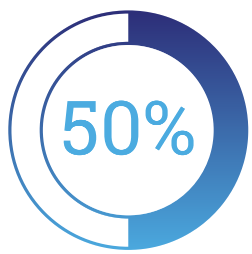
According to McKinsey, 95 percent of executives "describe cultural fit as critical to the success of integration," while a quarter say a lack of cultural alignment is the main reason their MI process failed. Deloitte summarizes the consequences of failing to address cultural issues: "integration delays due to cultural inhibitors, a decline in productivity and innovation, or increased employee turnover." The possibility of increased turnover is a particularly salient concern when it comes to the maintenance of a healthy post-merger culture – according to PwC, the proportion of companies that report "significant success" in retaining employees fellmore than five-fold between 2010 and 2019.

At the very beginning of the MI process, companies have to assess cultural fit. Next, it's vital to formulate an integration strategy with each company's unique cultural traits in mind. Companies need to have a thorough understanding of what sets them apart before they can outline the values and goals that bring them together. According to Gallup, just **27 percent of employees "strongly believe in their company's values**, and less than half strongly agree that they know what their organization stands for and what makes it different." This problem can be especially acute with a post-merger workforce when companies don't communicate their shared values early and often.

Just **50 percent of companies say culture is part of their change management program**. To make their MI processes as effective as they can be, this is an oversight companies have to address.



Just 27 percent of employees "strongly believe in their company's values (Gallup)



50 percent of companies say culture is a part of their change management program (Gallup)

Every Element of the Process Should Be People-Focused

From capturing synergies to developing a healthy culture, people are at the center of the MI process at every stage. A 2021 survey conducted by Bain & Company found that the top-cited MI challenge is "finding people with the right depth and breadth of experience." Other challenges include coordination, delegating the authority to make decisions, setting up team structures, and several other issues related to people management.

But companies can't just focus on building and organizing the right teams – they also have to make sure employees are engaged and happy. According to Gallup, just one-third of American employees say they're engaged at work. Some of the core elements of engagement include: when employees appreciate the company's mission and purpose, understand what's expected of them at work, and have opportunities to do what they do best. With those facts in mind, here are a few ways your MI process can be people-focused:

1. **Use Third-Party Resources** who can bring specialized expertise and an outsider's perspective to your transition. These specialists understand how to identify synergies that might be hard to spot for company leaders, as well as the importance of ensuring cultural fit and integration.

2. **Build your culture around the workplace of today and tomorrow.** The COVID-19 pandemic won't last forever, but it has permanently reshaped assumptions about where and how we work – for example, Gartner reports that 68 percent of executive teams are "reevaluating how the company culture reflects the new normal of remote or hybrid work." Remote work can be particularly useful for companies in the process of a merger, as it decreases overhead and allows teams to work together no matter where they are. However, companies have to recognize that remote work can also lead to a sense of disconnection and alienation, which is why they should schedule unstructured meetings, hold virtual events, and facilitate connections between new colleagues.

3. Establish dedicated teams for the MI process.

Recall that the mergers in which integration teams were involved early in the process were 40 percent more likely to capture revenue and cost synergies. Not only are these teams frequently involved too late – in many cases, companies don't create them at all. This is a major mistake, as MI teams (especially if they consist of the third-party experts we discussed above) can streamline the integration process by bringing employees into alignment around a coherent company vision, identifying strengths and weaknesses, and keeping the focus on performance and growth. While executives should always be intimately involved in the MI process, dedicated transition teams free up time and energy to focus on every component of running the company.

At a time when PE deal volume is exploding and levels of dry powder are at all-time highs, we're only going to see more mergers in the coming months and years. When companies focus on the elements of a successful MI process outlined above, they'll be in a strong position to complete the integration process with minimal disruptions and secure long-term innovation and growth.