

Fusing at full speed: tips on managing

Management feature



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Speed is essential to successful integration. But speed isn't everything. Only 25 to 50% of deals create shareholder value, often because those managing the integration process don't know how to make trade-offs between speed and careful planning. To keep the value of a merger from evaporating, leaders need to manage the integration process actively, and steer a course that leads the new organisation to its stated strategic goals as swiftly as possible.

In some of the major acquisitions we witnessed this decade, the success stories all shared one striking characteristic: they were driven by leaders who had taken the time to consider the strategic rationale behind the deal, and to subsequently integrate it into the overall integration plan. In the June–July issue of this publication we explained that the rationale behind a merger lies on a continuum, from deals that “play by the rules” of merger transaction and integration to those that literally transform the rules.

We explained why getting your rationale right is crucial to an integration's success and identified six such underlying principles that had actually led to history-making successes: merging to grow scale, to build adjacencies, to broaden scope, to redefine the business, to redefine the industry, or to establish a platform for future success.

It is only once executives have considered the particular challenges posed by the strategic rationale behind their merger that they can move ahead with actively managing the three phases of integration. And this is also where speed has to kick in.

Phase 1 sets the stage by articulating the vision and naming key leaders. Phase 2 designs the new company's organisation and operating plans. Finally, phase 3 makes

the integration happen by aggressively implementing plans that bring the vision to life.

PHASE 1: SET THE STAGE

The leader or leaders of the merger should articulate a compelling strategic vision for their combined companies and identify their top leadership team before announcing their intention to merge. This will comfort and mobilise constituents by answering the four big questions on everyone's mind, right away:

- Where are we going?
- Who will lead us there?
- What are the obstacles along the way?
- How might this merger impact all our stakeholders, individually and collectively?

PHASE 2: DESIGN THE NEW COMPANY

After announcing the intent-to-merge and appointing a leadership team, the corner office needs to involve the rest of the organisation. Step one: Divide managers between those driving the transition process and those running the base business. Make each of these teams accountable for achieving specific goals—such as increasing percent of target customers retained or the proportion of materials bought using re-negotiated volume contracts—so that they remain vigilant on all fronts during this period of uncertainty. Step two: Design the organisation and operating plans to realise the value and achieve the vision.

PHASE 3: MAKE IT HAPPEN

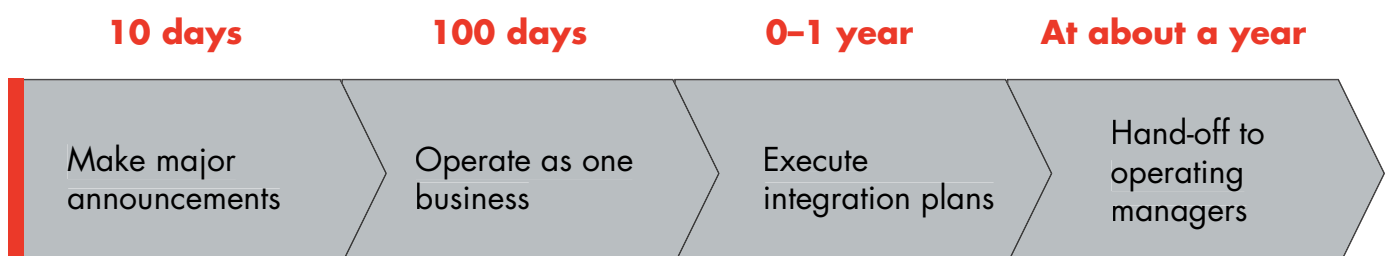
Once the two organisations sign the deal, the new company can begin to tackle the challenge of actually merging. Employee productivity will depend on how quickly you



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Figure 1: Phases of integration

Make it happen



your integration in real time

move through this period of uncertainty, as one veteran acquirer¹ observes, “People are normally productive for 5.7 hours in an eight-hour business day, but any change of control takes place and their productivity falls to less than an hour.”

Here is an optimal timeline for integration:

Day one dawns with an overwhelming to-do-list. Hundreds of basic tasks—from registering legal details to changing invoices to editing the receptionists’ welcome scripts—must be checked off urgently just to maintain business as usual.

Day 10 is the point by which all major announcements will have been made. If there will be only one headquarters, say so. If factories or other facilities will close, identify how many. Don’t shy away from bad news—people would rather hear the worst than remain in suspense.

Day 100 is key. By now, the new company should be operating as one and well on its way to seeing value from the two-to-three high priority sources. Within 90 days of an acquisition by Cisco, the integration team had put together management systems, consolidated suppliers, made outsourcing decisions, slapped a Cisco label on the acquired company’s products, and channelled new research and development projects into Cisco’s pipeline.

Beyond 100 days: much of the value of mergers and acquisitions appears after the first 100 days. Managers need to turn their attention to opportunities—such as re-optimizing their IT architecture or designing a distribution channel to reach under-served customers—which they may not have anticipated when they conceived the deal. At the same time, transition teams may still be working—and must stick to their aggressive schedules.

After one year, most integration activities should trail off and the managers in charge of day-to-day operations should take on full responsibility for delivering results.

Chief executives face few challenges more risky than integrating two businesses, and employees face few situations more stressful than mergers. Surviving and succeeding in this monumental task requires that leaders map a swift path to integration, one that reflects the merger’s strategic intent. Only in this way can leaders guide their companies quickly through the inevitable uncertainty, avoid productivity paralysis, and capture the value that prompted the deal.

¹ Dennis Carey, “Lessons from Master Acquirers: A CEO Roundtable on Making Mergers Succeed.” Harvard Business Review 78 (May 2000): p 153

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The year behind us was fraught with challenges and adversity, across all industries and across the globe. Two full years after 9-11, businesses everywhere are still grappling to recover from the fallout. Yet trying as these turbulent times may seem, the year 2003 was also marked by a discrete pattern of recovery.

In its quietest, most subtle manifestations, we have witnessed slow but steady recovery at pulse points of the global economy. Early symptoms of recovery have bubbled up in the stock market, within private enterprises, and even in specific economies where real hope has already replaced hopelessness. On our own radar screen—through our work and on-going research—we have picked up undeniable signs of tangible growth. Slow but steady, we feel recovery is truly everywhere.

In this holiday season, we at Bain & Company would like to extend our warmest greetings to our network of partners, friends, clients, and their families. We wish you all a healthy and fruitful New Year 2004, and sustained growth for many more to come.

