



Maximizing Operations During Mergers & Acquisitions

While most mergers and acquisitions are driven by strategic objectives such as increasing market share, improving marketplace positioning, capitalizing on product synergy, or strengthening competitive clout, there is almost always a goal to improve operating efficiency and reduce costs. Initially this may be seen in terms of eliminating duplicate corporate staff or functions, but most often there are expectations around taking advantage of economies of scale, utilizing best practices, creating a flatter organizational structure, integrating technology, and reducing unit costs. Operational areas usually have the most employees, largest budgets, greatest customer impact and are primary targets for both cost reductions and operational improvements.

- To maximize the potential of the merger, we have identified four critical components:
- Realize that you have purchased two companies;
- Develop a new vision;
- Involve people and develop culture; and
- Deliver on aggressive, realistic timeframes.

You Have Purchased Two Companies

Analyze Both Companies

Typically in a merger, the acquiring company starts with a due diligence analysis of the target company. While this is a necessary start to the acquisition process, it is a predominantly one way analysis: the acquirer does not analyze its own internal operations. We propose that the merger be viewed as an opportunity to analyze both companies to be able to compare strengths and weaknesses and identify best practices. The first analysis should be at a high level but thorough, and should include markets, products, distribution, expenses, unit costs, personnel, systems, customer satisfaction, and profitability.

Perform a Detailed Operational Analysis

The purpose of the due diligence process is to determine if there are enough opportunities to do the deal. Because of the desire to make the acquisition, this can sometimes be overly optimistic. A second, more detailed analysis is required after the due diligence has been completed. The objective of this analysis is to take a hands-on look at both organizations to understand not only the opportunities but also potential roadblocks.

This should (1) include as many people as possible in both organizations, (2) have pre-defined objectives, evaluation criteria, and timeframes, and (3) utilize pre-defined key operational measures to ensure that what is collected is "what is needed" versus "what is available."

For future success, the combined company must operate as one entity, and there may be best practices that can be shared. It is important to use the collected data to review structure, processes, locations, operating cultures and talent pools. To gather consistent data, it is best to have a designated team of people, whether from within or from outside, to do the work and provide documentation that can be compared in an unbiased manner on an apples-to-apples basis. This effort should occur at the point that an agreement is reached to merge or acquire and should be carried out expeditiously. The outcome of this process should be a set of prioritized action items and implementation plans.

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New Company, New Vision

Develop a Vision for the Combined New Organization

In some acquisitions the bigger/stronger company just gets bigger or stronger; but more commonly, companies combine to become something new in the marketplace. Management must create and communicate the vision of the new combined organization.

After the analysis is completed and the data has been collected, it can be used by the senior management team to review the current vision and to make the adjustments that are necessary, based on where the merger/acquisition will place the new combined organization in the marketplace. The new vision will help provide direction for the merger effort and give people a sense of what the new organization wants to become. Communications in both companies must be maintained throughout the process to keep the rumors and fears to a minimum.



Create a New Strategic Plan

Armed with revised information about both organizations and challenged with a new vision, the management team can create a strategic plan of how to achieve that vision. This step is best taken at the point when the new senior team is in place. To ensure this happens quickly, an early task of the CEO is to evaluate personnel at the senior level and make the decisions necessary to create a strong and supportive team at the top for the upcoming culture and organizational changes.

Strategic planning not only helps create innovative approaches but also builds acceptance and responsibility in the key leaders and staff. Some items to consider when creating this new strategic plan include new customer requirements, product synergies, distribution systems, competitors, changes in the marketplace, and anticipated reaction to the merger.

Align All Strategies and Actions

The strategic plan should provide the roadmap of how to achieve the vision of the new organization. This roadmap must be understood by everyone in the organization to ensure alignment of resources and actions. For example, the organization structure, work processes and systems might look very different if the primary strategy is to be lowest cost as compared to highest personal service. These strategies might dictate simple products vs. complex integrated products or centralized service centers vs. close-to-the-customer individual service. The key is that the operational strategies must be in clear support of, and in alignment with, the new organization's strategies and vision.

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People & Culture

Insist on Wide Participation

A critical factor in the success of an operational merger is the wide participation of staff from both companies. These are the people who will be responsible for the implementation of the new organization and who are directly linked to its success. Early in the project, each company should identify the key implementers for all of the

affected departments and dedicate them to the project. Throughout the above activities (analysis, vision, strategies and alignment), the common element is that this work be done by the staff that will be charged with implementing the changes. It may help to have the process facilitated by experienced consultants, but it is critical that the decisions incorporate the thinking of the whole organization and be supported through implementation.

Communicate Continuously

For the leaders highly involved in the acquisition process, the vision of the future organization is obvious. To the majority of employees, however, this vision may be unclear and confusing. Add to this confusion an uncertainty regarding continued employment and you create an environment of fear and resistance. Honest, open and continuous communication keeps people involved and informed and reduces uncertainty. This allows them to both contribute to the effort and also be able to inform customers of progress in an informed way.

Define the Culture of the New Organization

Often neglected during merger activities (with fatal results) is the work of defining the culture of the new organization. Most likely, each company has a separate and distinct culture. Combining the operations does not necessarily lead to a harmonious combining of the cultures.

The leadership team must determine the culture of the new organization: is it the culture of the acquirer, a combination of the two, or something entirely new? Cultural issues can get complex when you consider influences like rapid growth, downsizing, different management styles, past performance expectations, political systems, markets, use of technology and HR policies. In order to change to the new culture and to maximize the results of the merger, it is important to recognize past accomplishments of both organizations, retain and build on organizational strengths, and provide leadership to guide people into the desired new behaviors.

This may be the most difficult work in the merger. Very few companies that combine have similar cultures and some cultures are incompatible. Plentiful examples repeatedly show us that culture change requires a tremendous amount of effort and leadership. Actions (that speak louder than words) are required or the organization will begin to resist



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the change and the process will bog down. A committed leadership team is required; it can't be dependent on a single individual.

A review of failed efforts usually finds cultural conflict at the top of the list of causes. Open and honest communications, whether it is good or bad, is important. No manager that speaks the philosophy but acts contrary should be allowed to continue in his or her role. This may be tough at times but must be adhered to rigorously or the people will stop believing, and the efforts will be brought to a standstill despite the best of intentions.

Don't Ignore New Talent

Part of what you are buying from the target company is functional expertise, relationships, and talent. Identifying and retaining these key skills may be critical to the success of the new organization. It is important to identify key players, cultivate their loyalty, and capitalize on their knowledge. This sounds like common sense, but because new talent threatens existing positions political defenses can make this difficult.

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Do It

Establish Realistic, Aggressive Timeframes

Due to the complexities involved in merging two organizations, it is important to establish, as early as possible, targets for completing the critical steps in the process (i.e., establishing the vision, defining new strategies, completing the detailed operational analysis, merging the operations, etc.) These timeframes should be aggressive, yet realistic. It is important to ensure that

services continue uninterrupted. But, it is also important to continue pushing toward the new organization since it is much easier for most people in both organizations to leave things the way they are.

Quickly Develop Momentum

While due diligence, vision setting, operational analysis, etc., are important steps, the organizations are not merged until the plans are implemented and the two organizations become one. It is important to understand that there will be a number of roadblocks, reasons to wait and unexpected delays. While these should be reviewed, accommodated, and appropriate adjustments should be made, the merger must be completed.

Once you are committed to the merger/acquisition, you must move steadily forward and as quickly as possible in order to maintain momentum and achieve your goals. Organizations that study too much or ponder too long lose the advantage of the event. People know there will be changes when an acquisition takes place and are mentally prepared even though they still may not want or like change. If you can capitalize on this position and take quick actions to change the structure, eliminate redundant positions and install new processes to maximize your investment return, you can gain enough momentum to get past the resistance. If you hesitate or slow down decision making and give the resisters enough time, they will garner the forces necessary to make transition a more painful process or even sabotage the effort.

Make the Sum Greater Than the Parts

In the final analysis the reason for the merger is not just to gain the sum of organization A with organization B, but to become something stronger and more powerful than the two were separately. That is the measure of a successful merger or acquisition. §