The Positive Way

WAVESTONE

POST-MERGER INTEGRATION

WHAT ARE THE KEYS TO A SUCCESSFUL MERGER?

The Positive Way

WAVESTONE

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In a world where knowing how to drive transformation is the key to success, Wavestone's mission is to inform and guide large companies and organizations in their most critical transformations, with the ambition of a positive outcome for all stakeholders.

In increasingly competitive and global markets, many companies continue to pursue external growth as a means to strategic development. In fact, France's mergers and acquisitions (M&A) market has returned to pre-crisis levels—with more than 1,500 transactions in 2018.

But, despite this high number of fusions, companies should not underestimate the complexity involved in merging businesses (in terms of synergies, structural and cultural changes, etc.), something that must often be achieved to short timescales and by management and operational teams that rarely have significant experience of what's needed. It's clear that such high-stakes exercises are still often poorly executed: only 40% of them create the expected level of value.

What makes these mergers so challenging? And how can such challenges be overcome? To answer these questions and help inform decision makers, Wavestone's teams interviewed over 100 business leaders who have taken part in such exercises.

By analyzing the results of this survey and gathering other relevant project feedback from Wavestone experts, we've identified the main reasons for failure but also the good practices and critical success factors in three key areas of post-acquisition integration programs:

- Integration strategy and merger process steering,
- Technological integration,
- Change management.

In this insight, we present the results and main learning points from the study.

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He has led numerous projects on business-model development, the definition and launch of new offerings, and the steering of strategic transformation programs—including several business mergers. He works with leading players in the consumer goods and services sectors (retail, fast-moving consumer goods, e-commerce, telecoms, media, entertainment, etc.) and with investment funds, to evaluate and implement their investment and M&A strategies.

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SUMMARY

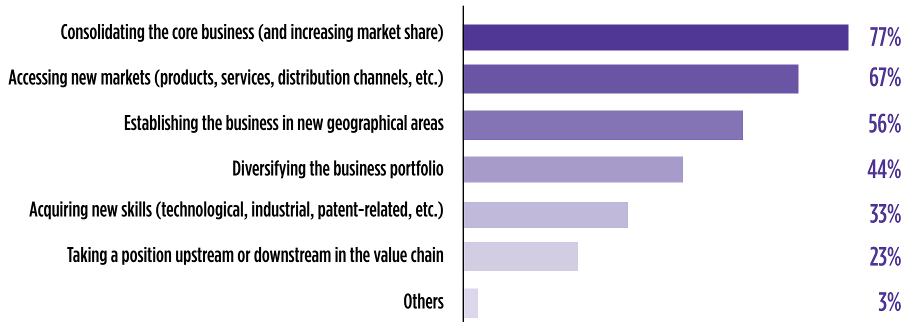
MERGERS: CONTEXTS AND ISSUES

Mergers: contexts and issues

After a difficult period during the financial crisis (where the value of deals fell to €69bn in 2010, compared with €166bn in 2001[1]), the M&A market has again seen high levels of activity in recent years. In 2018, in France, there were over 1,500 mergers—with the associated investments totaling over €140bn[2].

By pursuing such fusions, companies aim to meet one or more of their strategic objectives, in particular consolidating their core business (for 77% of respondents), accessing new markets (for 67%), and establishing themselves in geographical areas (56%).

The strategic objectives most frequently cited by respondents were:



1. *Fusions&Acquisitions Magazine*
2. *Option Finance*

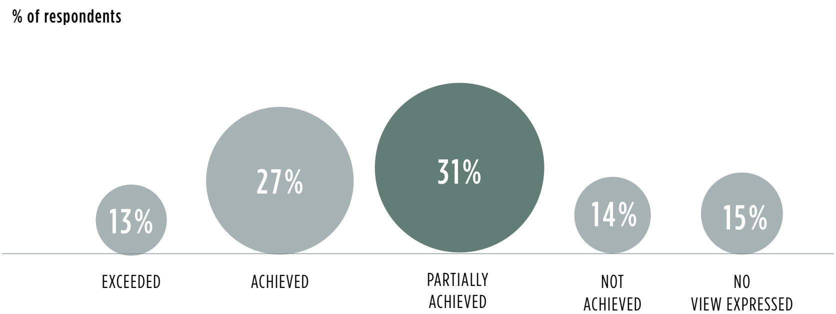
Usually complicated (as a result of a requirement to achieve synergies, develop organizational structures, support cultural harmonization, etc.), and with a need to deliver to tight timescales while ensuring business continuity, Post-Merger Integration (PMI) is one of the most difficult challenges a business leader may have to face.

A relatively rare event in a leader's career, it requires responses and approaches that are quite different from those deployed in day-to-day management. And it's clear that such high-stakes exercises are still often poorly executed and struggle to generate the value expected. In fact, only 40% of respondents in our survey said they had met or exceeded their return on investment (ROI) targets.

- ***What are the challenges associated with merger operations?***
- ***What distinguishes mergers that achieve their ROI objectives from those that fail to do so?***
- ***What are the keys to delivering a successful merger?***

These are the questions we set out to answer in this study, and to which we provide some of the answers.

The overall ROI objectives were:



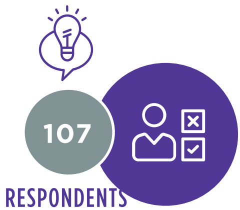
SCOPE OF THE STUDY

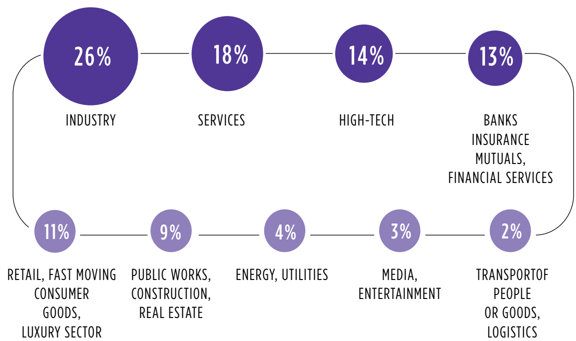
In order to identify the key success factors in a merger, we interviewed about a hundred managers and senior leaders who have been involved in at least one M&A program within the last five years.

Those interviewed work in business functions that are closely involved in such programs: senior management, strategy, transformation, finance and administration, human resources, and information systems. They also represent a range of company sizes (with a minimum revenue of €100m), operating in France's main business sectors (industry, services, high-tech, banking and insurance, etc.).

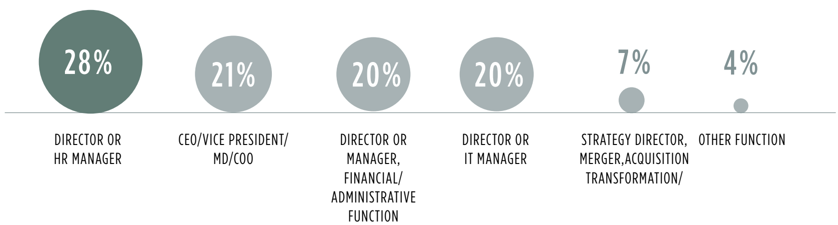
Lastly, the mergers studied had values ranging from less than €10m to over €1bn and represented a broad range of business settings and merger types.

Business sectors of the companies surveyed:

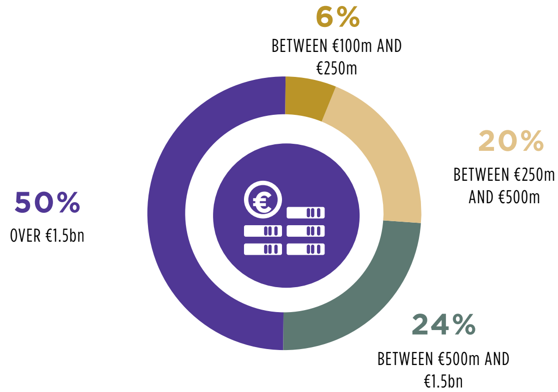




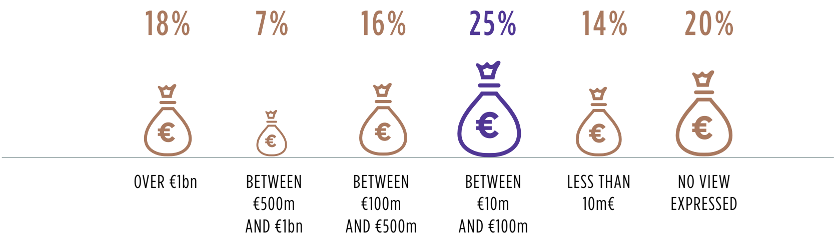
Respondents' business functions:



Revenues of the companies surveyed:



Value of the merger transaction:



MERGER INTEGRATION STRATEGY AND STEERING

Integration strategy and steering of the merger process

Aligning ROI and synergy objectives with the reality on the ground

An integration program must reflect both the merger's objectives (strategic, financial, etc.) and its main features (scope and degree of integration, timescales, etc.); but also—and above all—it must take account of the operational realities.

A recurrent economic driver for mergers is the potential for synergies between the businesses involved. As a result, ROI and synergies are usually considered to be the two key indicators to track the success or failure of a merger; in our survey, 92% of the mergers that achieved their value creation objectives also achieved the expected synergies. But these indicators may also be contributory factors to failure.

All too often, the economic objectives take into account only a partial view of the reality on the ground, as well as underestimating some of the operational difficulties (change management, workstream coordination, etc.); this can lead to overestimation of the potential benefits. Estimation of the potential for value creation may also be overstated in order to gain shareholder buy-in. Such overestimation only increases the risk of failure.

> «During the due diligence phases, assessments of synergies are often carried out in top-down mode; this takes a fragmented view of the reality on the ground, which, in turn, leads to overvaluation of the potential benefits»

LAURENT BELLEFIN
Partner at Wavestone, Digital & IT Strategy

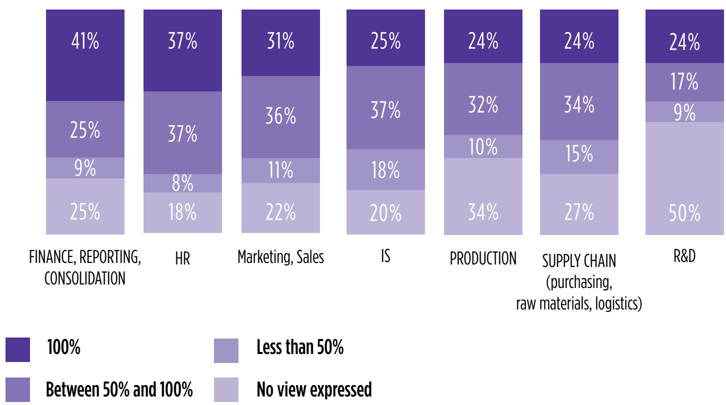
Once the objectives and features of the merger have been aligned with the reality on the ground, it's important to formalize a synergy plan to secure the overall ROI from the merger (objectives for each business function, levers to be activated, reporting systems, etc.). Companies often focus on synergies that result in cost savings, which are theoretically easier to estimate and deliver in the short term. This focus is to the detriment of revenue synergies: the cross-selling opportunities enabled by complementary commercial portfolios, etc. These are more difficult to achieve but are also more inspiring for stakeholders (customers, employees, etc.), and have the potential for very high returns over the medium to long term.

Our survey revealed that executives find it easier to achieve their desired synergy objectives in support functions—areas that offer strong potential for cost synergies.

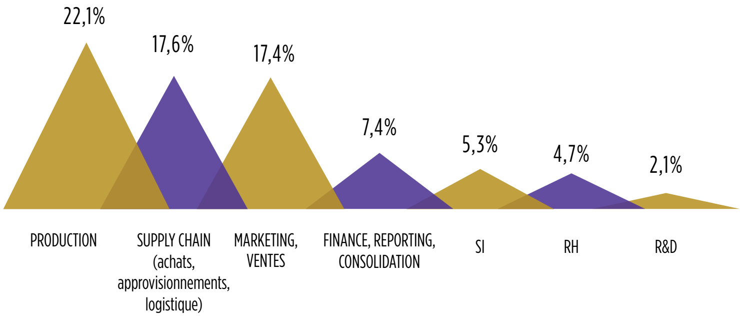
41% of respondents achieved 100% of the expected synergies in finance functions, and 37% achieved them in HR functions. On the other hand, synergies seem more difficult to achieve when they involve front-line business functions: less than 25% of respondents achieved 100% of their synergy objectives in production, supply chain, and R&D functions.

R&D synergies are generally more difficult to generate; on the one hand, they are only critical for a handful of innovation-intensive sectors (pharmaceuticals, etc.); but on the other, it's the R&D function that most embodies each business's expertise and identity, and the associated synergies mostly depend on the retention of talent (which can often be tempted to leave when a merger is in prospect) and the creation of unified teams that can pool their knowledge and expertise.

The achievement of synergy objectives by business function:



The average contributions from business functions to the total synergies achieved:
For mergers that achieved their ROI objectives



It's interesting to observe that mergers that achieved their overall ROI objectives also realized the majority of their synergies in business functions—with an average of 22% of the total synergies achieved in production, nearly 18% in supply chain, and 17% in sales and marketing functions.

Which good practices were observed, or can be adopted, to achieve synergies within the different business functions?

In the production function, synergies must be part of a manufacturing master plan that is common to both businesses involved; they rely, in particular, on designing an optimal framework for production, set within the context of the group's strategic constraints and basic principles (product types, distribution models, legal frameworks by country, degree of outsourcing, etc.).

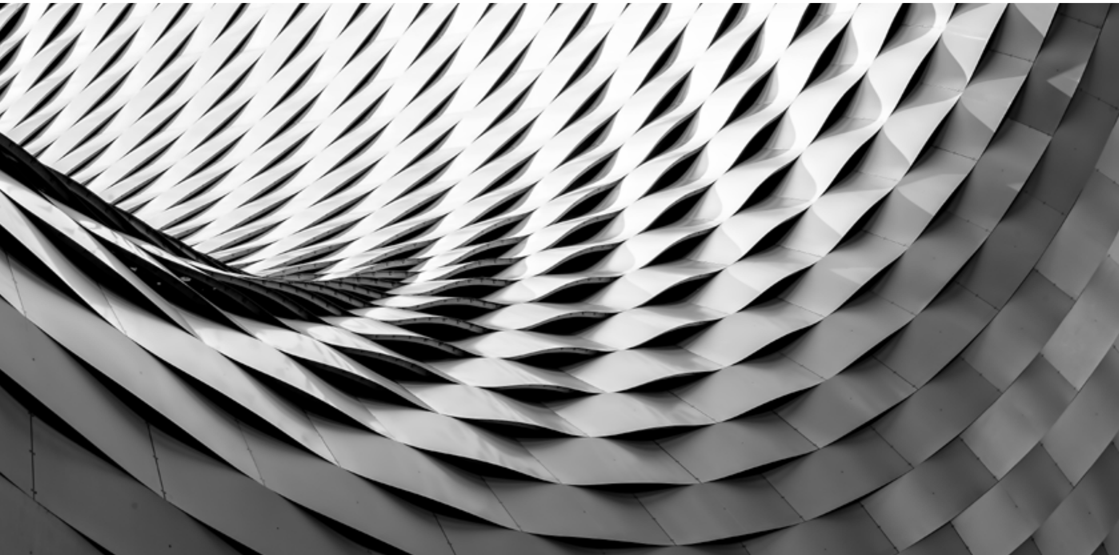
> «Operations is the business function through which the majority of transformations come about. It's particularly important in achieving synergies and gaging the success of a merger.»

ANTOINE KLEIN,
Partner at Wavestone,
Manufacturing & Supply Chain

In addition, against a backdrop where mastery of supply chains is increasingly becoming a strategic issue for companies, purchases are also a source of significant synergies—ranging from 5 to 25% of the total synergies in a merger. Beyond an increase in critical mass and the strengthening of bargaining power with suppliers, mergers also offer a real opportunity to rethink the strategy and organizational structure of the purchasing function (sourcing and listing of preferred suppliers, products, and services; the department's workflow; etc.). At Wavestone, we systematically assess purchasing function maturity using a multi-criterion evaluation grid before determining the potential savings that might be generated by a merger.

When it comes to marketing and sales, a common error is to focus on combining teams; something that can result in reduced capacity, and a consequent decline in sales. For this function, the approach should be more about pursuing commercial synergies than cost-saving synergies, i.e. generating revenue from the new entity which is greater than the sum of the revenues that each historical business could have generated by remaining separate. The businesses' sales forces therefore need to be maintained, at their existing strength, for a period of time, in order to best exploit complementary customer portfolios, communicate the benefits of the merger and reassure customers, and achieve more ambitious sales targets.

Lastly, for IS functions, potential synergies tend to be under-exploited, even though they can represent 15 to 20% of the total achievable synergies (and even more in some sectors, such as banking and retail), provided their realization is well planned and monitored. We discuss helpful good practices in this area in more detail in the section on IT integration.

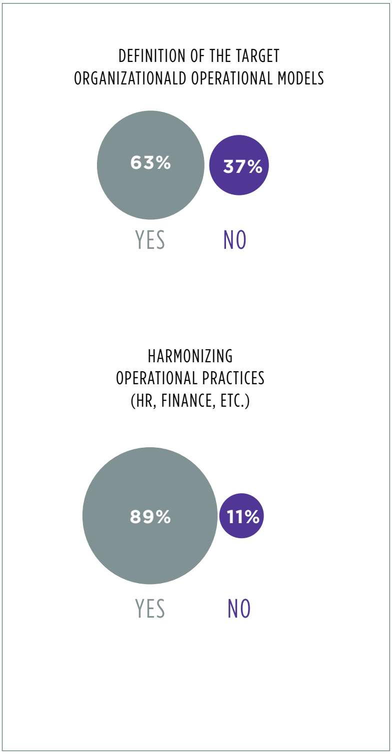


Defining the target organization in advance

Defining the target organization is one of the main challenges in integration programs. Nearly two thirds of respondents in our survey said they experienced difficulties in defining the target organizational and operational models, and nearly 90% had experienced such difficulties when harmonizing business operations.

A typical error during mergers is to manage the integration program as if it were a mechanical process to be pursued once the merger has taken effect. Defining the target organization in advance is a long way from being the norm in integration programs: 30% of respondents did not define the target business model, or how it would be put in place during the program, and more than a third did not do so for the target organizational and governance structures.

Did you encounter any of the following difficulties with respect to the target organizational/operational model?

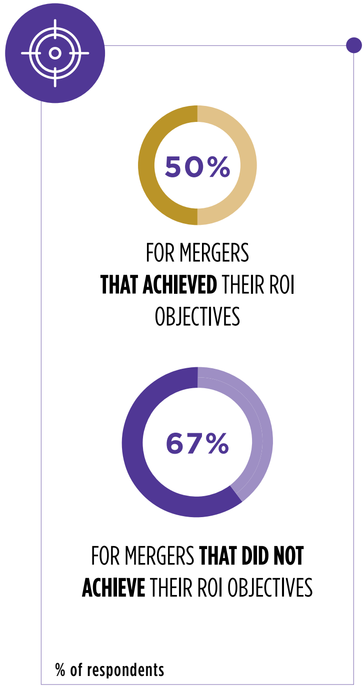


Did you put in place any of the following good practices for the target organizational and operational models?

However, the building blocks of successful integration are often put in place before a merger is formally agreed; this is done by defining in advance, as far as possible, the integration strategy (its key principles, the plan to achieve synergies, etc.), the target organization (its organizational structure, operational model, etc.), and the structure and plan for the harmonization program (workstreams, roadmaps, etc.).

Without a minimum degree of advance planning, implementing new models will be even more delicate and may come up against both technical and labor-relations issues (the renegotiation of agreements on working practices, for example). This can place important program milestones at risk. In the long term, a lack of advance planning will impact the overall success of a merger. Our survey showed that mergers that failed to achieve their overall ROI objectives were more likely to have experienced these kinds of difficulties.

Proportion of mergers that experienced difficulties in defining target organizational and operational models:

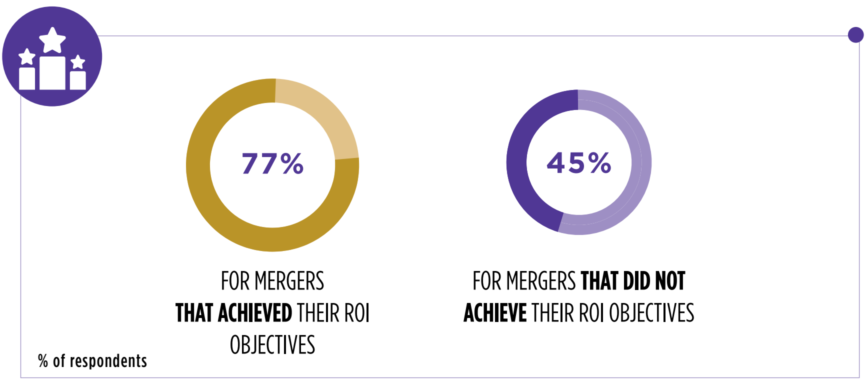


To avoid such difficulties, there are several good practices to adopt. First, to define the target organizational and operational models, you need to:

- / Gain a deep understanding of the business you plan to merge with, by conducting audits during the due diligence phase or by carrying out desktop analysis;
- / Develop outline target models from the negotiation phase on; these must be aligned with the overall approach to integration and the levers that have been identified for value creation;
- / Finalize a detailed description of the target before D-1 (the official launch date for the new entity); this is a pre-requisite to be able to stabilize the program's structure and roadmap, even if some of the assumptions prove to be incorrect over time, or the targets need to be adjusted later.

To build the new organizational structure, we recommend following a cascade approach to defining roles and responsibilities as well as identifying the required profiles—working from the top to the bottom of the organogram. Identifying and securing the key resources required must also begin during the due diligence phase, to ensure that the expected value and synergies from the merger are not lost. More than three quarters of the programs that achieved their ROI objectives had implemented a system for identifying and securing key resources, compared with less than half of the programs that did not achieve their ROI objectives.

Proportion of mergers for which a system for identifying and securing key resources was put in place:



Lastly, to be able to put the target model in place, it's important to:

/ Prioritize rapid implementation to facilitate the harmonization of processes and avoid the risk of stagnation in existing ways of working;

/ Set up a transitional organizational structure that reflects the target structure in order to secure business continuity from D-1, including identifying the key people who will be responsible for consolidating the target operating model and putting it in place within a period of three to six months, while adjusting the speed of integration as necessary;

/ Favor a co-construction methodology to encourage a shared target vision. This requires a dynamic approach that involves senior management and uses grassroots feedback to adjust the model if required.

«From the beginning of the integration process, there's a need to put in place an organizational structure that reflects the target structure and mobilizes teams on longer-term integration workstreams, such as those addressing IS integration and social issues.»

GUILLAUME RAOUX,
Director at Wavestone,
Strategy

CLEAN TEAMS: PMI ACCELERATORS

A «clean team» is a team of external advisors that both the seller and buyer in a merger can call on to provide expertise on specific areas where data is sensitive, such as the organizational structure, client portfolio, suppliers, or R&D projects. The clean team plays a neutral and objective role for a given period. After having access to data from both parties, it provides an assessment report. In particular, it can identify new sources of synergies, accelerate negotiations, and help the parties define their target operating models. Involving a clean team during negotiations, then, enables the merger program to move forward on firmer footings and the realization of synergies to be accelerated.

These teams can provide greater added value for some types of fusion: mergers between equals, alliances, joint ventures within a specific regulatory context, multiple-stakeholder mergers, etc.

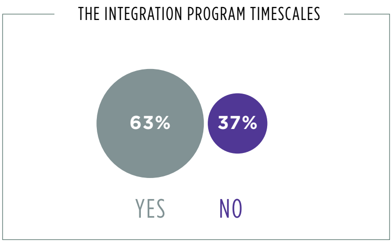
Careful framing of the integration program

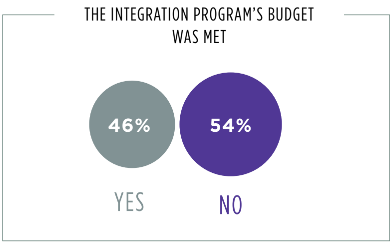
The complexity that mergers involve should not be underestimated. Like any fundamental transformation project, they require dedicated program management that is distinct from the day-to-day management of the company. The design of the integration program has to reflect the objectives, philosophy, and principles of the merger. Likewise, the structure of the integration team should reflect and cover the main areas of synergies and value creation.

Our survey showed that companies frequently encountered difficulties in managing integration programs. These difficulties, which are often due to

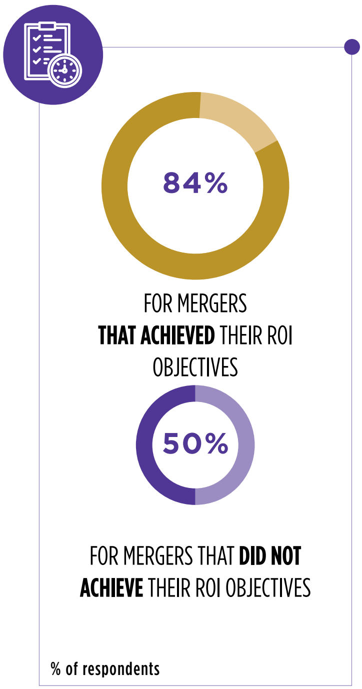
too few resources being allocated to the program, impact the timescales and budgets initially set. Over a third of the programs did not meet their timescales, and budgets were exceeded on more than half of them. Such slippage and overshooting have a negative impact on the overall success of mergers.

Were the integration program's original timescales and budget met?

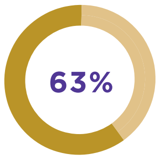




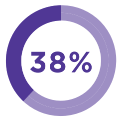
Proportion of mergers that met their planned timescales:



Proportion of mergers that stayed within budget:



FOR MERGERS **THAT ACHIEVED** THEIR ROI OBJECTIVES



FOR MERGERS **THAT DID NOT ACHIEVE** THEIR ROI OBJECTIVES

% of respondents

To avoid these pitfalls, you first need to set up a dedicated, full-time project team to work on the integration. It must be structured and configured to gain a deep understanding of the levers of value creation for the merger. The team running the Project Management Office (PMO) is generally separate from the one with responsibility for carrying out the integration.

The first team orchestrates and sets the rhythm for the program, ensuring that projects progress and that the objectives (synergies, etc.) are achieved, as well as informing on, and raising, issues that need to be resolved. The second oversees the workstreams.

In addition, senior management must be involved, actively and visibly, throughout the program, to ensure effective decision-making, support the strategic approach and principles being applied to the merger, and to gain buy-in from, and align, the stakeholders.

2/3

respondents who reported they had not remained within **THEIR BUDGET AND WHO CONSIDERED THEY HADN'T PAID SUFFICIENT ATTENTION TO CLEARLY AND ACCURATELY IDENTIFYING THE WORKLOADS AND AVAILABILITIES ASSOCIATED WITH THE RESOURCES NEEDED**

84%

respondents who said they had experienced **PROBLEMS WITH THE AVAILABILITY OF KEY RESOURCES ON THE PROGRAM**

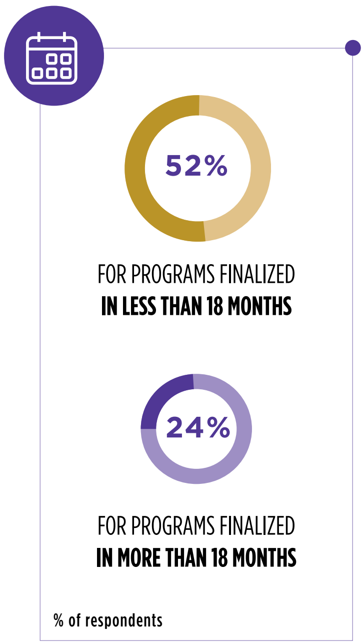
In addition, the approach to managing the program must be planned as early as possible. It must organize the program into workstreams, factor-in linkages and interdependencies, and develop the associated timelines. The workstreams will usually reflect the relevant business functions (finance and risks, HR and change management, IT, etc.) and/or the objectives (business integration, delivering the synergies, managing team transitions, communications, etc.). They should follow a three-phase approach:

1. **Defining the target and preparing for D-1**
2. **The operational template for the integration plan**
3. **Deployment of the integration plan**

The operational template for the merger must be ready before the agreement takes effect. The roadmaps and action plans to be put in place for each workstream must be defined precisely, to a level of granularity that enables the associated costs to be assessed in detail. Some of the activities to be undertaken may, in fact, be very time-consuming, and will have a considerable impact on the initial project plan if they are not defined in advance (for example: the creation of organograms populated with roles and names, the reallocation of budget responsibilities, the recasting of corporate decision-making processes, etc.). On the day when the merger takes effect, you must have identified the main workstreams, those responsible for them, and the people who will contribute (from both the buyer side and that of the business being acquired), as well as the associated project plans.

Being clear about how the program will be managed will also enable you to determine the timescale needed. Given that this period can result in reduced productivity and disruption that is detrimental to the creation of value, the integration period should be ambitious and as short as possible while remaining realistic about the complexity of the merger and the means of achieving it. Our recommendation is to set up programs for a period of 12 to 18 months. The study shows that over half of the programs that achieved their ROI objectives were completed in less than 18 months.

Proportion of programs that achieved their ROI objectives:

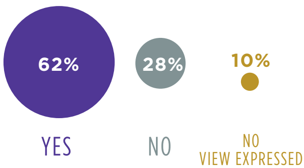


To assure the integration plan, intermediate milestones must be set and significant progress, such as the implementation of new forms of governance or a new brand, must be achieved within the first six months. This enables momentum to be generated for integration and creation of the best conditions to pursue the key workstreams (IT synergies, cultural harmonization, etc.).

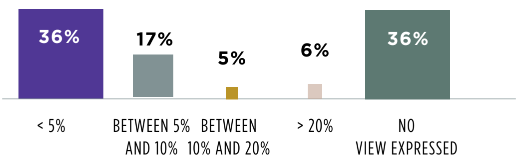
Monitor program delivery and integration expenditure

The tracking of financial performance is a critical process for any integration program that has ROI objectives. Yet, according to our survey, this type of tracking is not in place for over a quarter of mergers.

Was a system for measuring and monitoring the integration program's financial performance put in place?



Total expenditure on integration as a percentage of the total value of the merger:



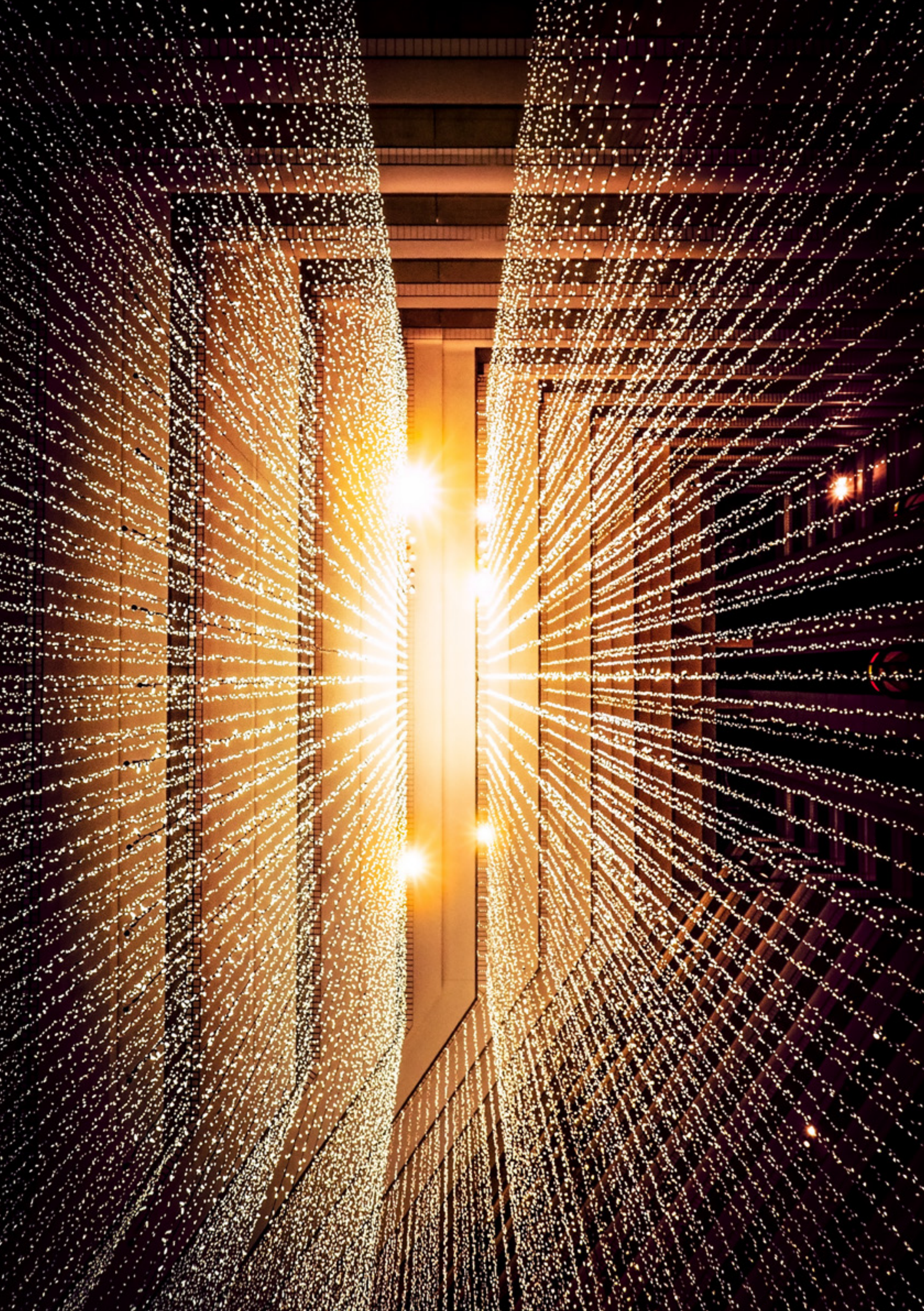
As discussed above, the program team's work is to steer the merger's implementation. To do this, it must rely on governance entities (the steering committee, project committee, technical committees, etc.) and a two-level reporting system:

- **Progress reporting on the tasks that are core to the various integration workstreams,**
- **Financial reporting that tracks the achievement of the anticipated synergies.**

The financial indicators make it possible to measure the impact of integration on the business that has been acquired and ensure that the merger isn't detrimental to its performance, meaning that the integration trajectory can be properly maintained. They also enable the tracking of the expenditure required to deliver the integration.

This represents, on average, between 5 and 10% of a merger's total value. And while some costs may be hard to estimate, you should not adopt a mentality of trying to minimize integration budgets: programs that spend closer to 10% of total merger costs on integration are more likely to achieve their goals.

TECHNOLOGICAL INTEGRATION



Technological integration

IT, the pivotal function in a merger program

The IT function is the cornerstone of any integration program—and can determine its success or failure. IT managers must drive critical workstreams which help ensure the merger's success, and need to organize their teams around five priorities.

Firstly, it is IT teams that guarantee business continuity—the ability to conduct business-as-usual during the integration process. Their role is to isolate or separate the ISs to assure the security of infrastructure. Email networks and media must be rapidly connected, and made common, to ensure that the two businesses can communicate. Depending on the terms of the merger, this transition phase may be based on a service agreement (or a Transition Service Agreement [TSA]). This type of contract, which may result in a degree of conflict as it is negotiated ahead of the merger, sets out the duration and cost of the seller providing in-service support to the buyer. Our experience tells us that particular attention must be paid to the duration of such contracts because they are likely to have impacts on both the seller and purchaser sides. On the seller side, a TSA that extends over a long period exposes the IS to cybersecurity risks. On the purchaser side, underestimating the duration of a TSA can jeopardize the timely integration of the business being acquired. This can lead to financial penalties and involves the coexistence of the two businesses' ISs and a resultant slowdown in the achievement of synergies.

The teams' second priority is to rapidly pursue the IS integration projects for the two entities, with the aim of generating the initial sources of savings. These savings come, in particular, from three areas:

- **Applications,** by reducing their number, and the number of associated licenses, while renegotiating maintenance contracts;
- **Technologies,** by consolidating data centers or renegotiating telecommunications contracts;
- **The organizational structure,** by rationalizing and centralizing development and support teams.

Then, given the increasing complexity of information systems and the digitalization of companies, the IT teams will need to work closely with the other business functions, such as finance, human resources, marketing and sales, and operations, to support the integration of the businesses and the associated synergies, which are often the most significant ones.

Beyond the merger itself, the IT teams must consider the long-term integration strategy to pursue in order to put in place the architecture that will support the new entity's growth strategy. The alignment of information systems with the strategic objectives of the merger is essential to guarantee long-term success. Different scenarios can be considered according to the degree of IT maturity of the businesses and the objectives of the merger:

Where the ISs are compatible, their interconnection is relatively easy: an «ideal» situation that lends itself to achieving synergies.

/ When the purpose of the merger is to diversify activities, it may be possible to retain both ISs. The integration then consists of creating bridges to facilitate communication between the two businesses and maintain organizational consistency. This type of approach accelerates the integration process but, at the same time, is detrimental to achieving synergies.

/ In a scenario where the ISs are incompatible, we recommend selecting the one that will best support the new organization's activities. Such a strategy is particularly appropriate when the two entities to be merged are of different sizes. The smaller company will then adopt the larger's IS architecture. Here, integration will be faster and result in savings. Despite this, such a strategy does not facilitate integration since migrating an IS is more complicated than developing new applications. Another common pitfall is the destruction of value in the purchased entity.

/ If the ISs of both companies are little developed and incompatible, one solution is to create a common IS. This means rethinking the architecture, structures, and each application—a potentially long and laborious process. Such an approach is generally reserved for mergers between small businesses.

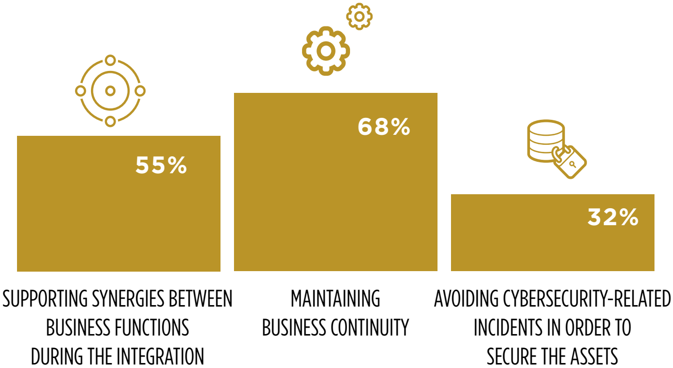
/ Lastly, if the ISs of the two entities are very poorly developed, another potential option is to subcontract to a digital services company. Then, IT integration will often be more rapid and secure. However, using the services of a subcontractor represents a considerable investment that can be difficult to estimate in advance of the merger.

The fifth and final priority is cybersecurity. Unlike the other considerations discussed, which are specific to the integration phase, cybersecurity is an ongoing issue. Nevertheless, experience shows that businesses risk even more exposure to cyber risks during a merger-acquisition:

driven by a desire to deliver business synergies, the interconnection of the ISs is often done quickly—to the detriment of security considerations. This issue must be at the top of the priorities list since, aside from the responsibilities of the senior management, a cybersecurity incident can compromise both the integration process and business continuity.

While companies are apparently aware of the numerous IT issues, too often they still make mistakes when putting the IT integration plan into operation.

What is (was) the biggest challenge in the IS integration program?



% of respondents

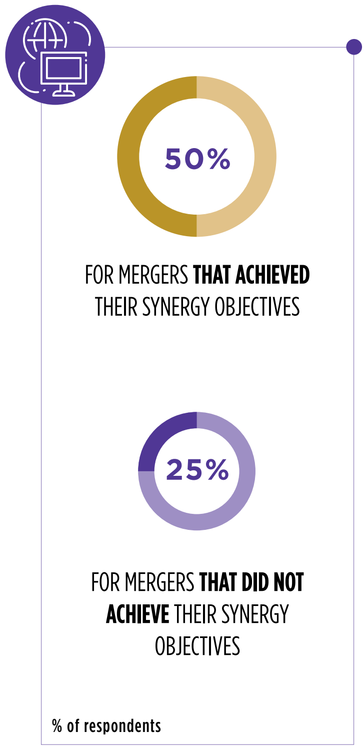
Key success factors in IT integration

Firstly, any company pursuing an external growth strategy must design its ISs to cope with future mergers. A flexible IS facilitates the execution of operational integration projects, increases the scope for synergies, and broadens potential in terms of technological developments. Consolidating the IS into a single ERP is, for example, a workstream that can be initiated to upgrade the businesses' ISs.

In addition, special attention must be paid to defining the integration strategy. This must, of course, be thought through ahead of D-1, but a typical mistake made during reconciliations is to adopt a vision that is too short term—as a result of focusing solely on preparations for the new entity's official launch date. Such efforts, which focus on securing the operability of the existing ISs (infrastructures, workplaces, etc.) certainly contribute to maintaining business continuity, but the absence of a post-D-1 integration plan then causes long-term delays when it comes to achieving the synergies desired.

This lack of planning is highlighted in our study since 45% of respondents did not address IT issues before signing the merger agreement. The survey also reveals that half of the companies that achieved their synergy objectives defined their IT strategies during the due diligence phase, compared with a quarter of those that did not achieve their synergy objectives.

Share of operations for which the IT strategy was defined during the due diligence phase:



This strategy must be accompanied by a detailed and prioritized roadmap that combines short-term objectives—such as business continuity and the rationalization of tools and infrastructures—with the long-term objectives that will support the achievement of synergies. The roadmap should also highlight the, often strong, interdependencies between the different workstreams, and take into account the constraints and challenges of the various departments.

With this in mind, the ISD and the dedicated IT integration steering team must be involved in discussions right from the due diligence phase and communicate closely with the business functions throughout the program. To be able to set out an integration strategy that goes beyond rationalizing IT costs, prioritizes the key levers for value creation, and can support the target operating model while accelerating the rate of integration, IT managers should be considered true «business partners", in the same way that members of the finance team are. They must be able to understand, in depth, the business objectives of the merger, the proposed business model, and the associated business plan. A lack of involvement by the ISD in discussions, prior to concluding the merger agreement is, moreover, often at the root of IT integration budgets being underestimated, something caused by a poor appreciation of the workstreams that need to be completed (ERP relocation, license reviews, cybersecurity upgrades, etc.) and the costs involved. This underestimation leads to budget overruns that can jeopardize the success of the merger.

Estimating and obtaining the IT resources and skills required for integration

IT integration projects require particular expertise. The IT teams of the companies involved in a merger will have both functional and technical skills, but they often have less experience of M&A activity. It can also prove difficult to decide whether to dedicate full-time, internal resources to these exceptional programs given, on the one hand, their exiting workloads and, on the other, the considerable number and criticality of the integration projects.

Against such a backdrop, buyers would do well to seek additional resource from a third party to strengthen their teams and gain support to:

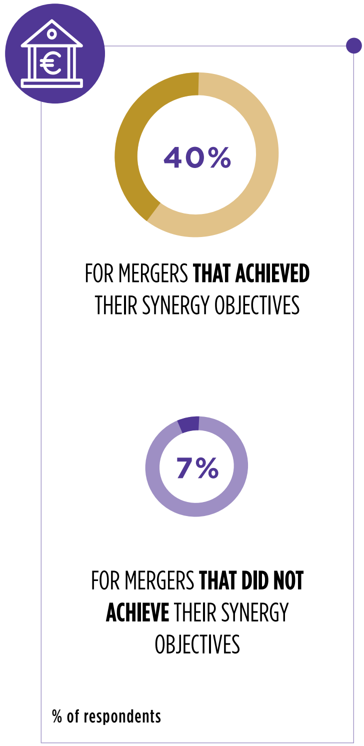
- **Conduct discussions with the seller and collect key information;**
- **Construct an objective vision of the target IT infrastructure, often under considerable time pressure and with limited available information;**
- **Define the integration strategy and estimate the associated CAPEX.**

Such expert/external teams help the company to frame workstreams and assess the required resources and associated costs, something that ultimately reduces the risk of budget overruns and program slippage. Correctly estimating the resources required is essential if the overall synergies are to be realized. According to our study, 40% of companies whose spending on IT represented more than 30% of the total merger budget achieved their synergy targets, and only 7% did not achieve them.

> «To refine the estimate of the budget required, and reduce the risks of an overspend, Wavestone has developed its "quick cost sizer." This tool is based on IT integration cost benchmarks, which have been developed from data collected from our projects, and market analysis.»

ROMAIN GAGLIARDI
Manager, Wavestone,
IT & Data Architecture

Proportion of operations for which the share of IT expenditure on the integration program was over 30% of total expenditure



CHANGE MANAGEMENT

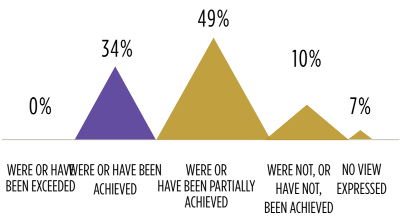

Target

Change management

Cultural harmonization, an inherent problem in any merger

The success of a merger is measured in terms of ROI and the achievement of synergies. However, it's important not to forget the human factor. In this respect, a merger is the ultimate example of a change management exercise, which aims, on the one hand, to support employee morale and motivation, as well as gaining their buy-in to the project; and, on the other, to create the conditions required to harmonize the cultures of the businesses involved in the merger. But such exercises are especially complex for companies: only 1/3 of the respondents in our survey considered they achieved their goals in terms of harmonizing cultures and change management.

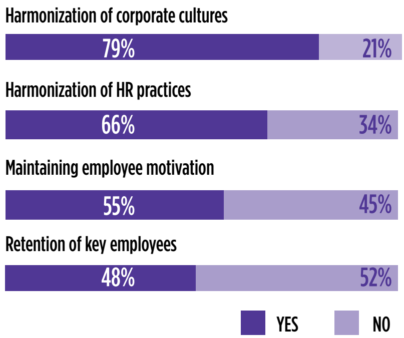
In terms of cultural harmonization and change management, your objectives:



Cultural harmonization is cited as a major issue, ahead of the harmonization of HR practices and motivating employees.

In this last area, a bonus system can be an effective mechanism to align the objectives of employees with those of the merger. However, bonuses must be adapted to each type of role (linked to synergies achieved for the senior management; associated with a transition period for those with critical roles in the merger but which are not expected to continue in the future organization, etc.) and must remain rewards—not simply bonuses to distributed without good reason.

In the context of the merger, did you encounter difficulties in any of the following areas?

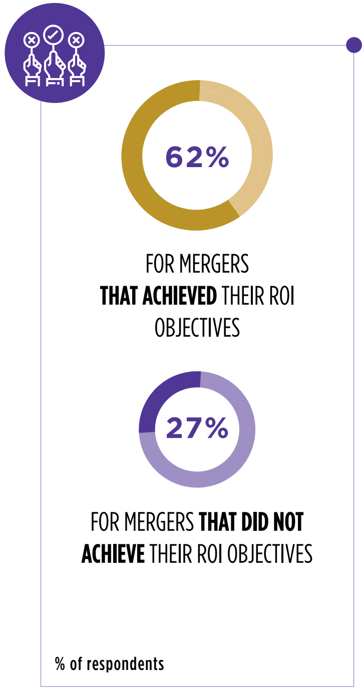


Analyze cultural gaps and co-construct the target shared culture

It is culture that drives the behavior of members of an organization (values, modes of interaction and decision, etc.), and which, in turn, impacts its operations. Cultural harmonization is therefore a key issue that should not be underestimated; it must be addressed during the negotiation phase. A common mistake in mergers is to fail to understand in detail the cultural differences between the businesses involved, something that can compromise the long-term success of change management. As a first step, the differences between the two organizations should be analyzed from the negotiation stage on. This analysis, which is part of a risk management approach, enables employee reactions to be anticipated and targeted action plans to be developed.

Something carried out by 52% of respondents to our survey, the analysis of cultural differences helps ensure success for the companies that apply it: 62% of the respondents who achieved their ROI objectives had carried out this analysis before completing the merger agreement.

Proportion of companies that analyzed cultural differences between the two businesses in advance:



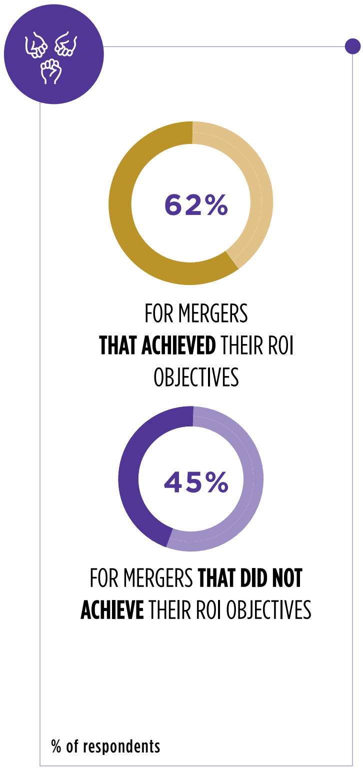
The analysis of cultural differences must be followed by a detailed consideration of the target culture. Defining a common culture can be done either by taking the best of the two existing cultures or by starting with a blank sheet of paper. Ultimately, the aim is to embed the values, behavioral norms, and symbols of the new entity—essential foundations that help unite the teams around common objectives. Getting employee buy-in can take the form of workshops that mix the teams of both businesses involved in the merger; and these must allow for both assumptions and unspoken beliefs to be aired.

52%

of respondents defined **THE TARGET CULTURE IN ORDER TO FACILITATE CULTURAL HARMONIZATION**

Experience shows that simply taking part in such exercises is, in itself, a contributor to employees accepting the merger—the first step towards cultural harmonization. 62% of the companies that achieved their ROI objectives had involved the teams of both businesses in the integration program.

Proportion of companies that involved both target and buyer teams:



Once the signing of the merger has been completed, it's essential to steer cultural harmonization as precisely as the frontline business function and support workstreams. There are a number of practices that can be adopted to help change management:

/ **Involve** senior management during the construction, but also during the roll out, of the new culture to all employees;

/ **Define** the target management model, to clarify the behaviors expected of current and future employees in the new culture (the recruitment system, criteria for development and remuneration, etc.);

/ **Design** the organizational structure so that it is aligned with the strategic objectives and target culture;

/ **Deploy** change management tools, which are the main levers to foster the creation of links between the two entities' employees (shared offices, seminars, informal events, etc.);

83%

of respondents said that

THE INVOLVEMENT OF SENIOR MANAGEMENT HAD A VERY SIGNIFICANT IMPACT ON THE MANAGEMENT OF CHANGE

The new organizational structure must be put in place rapidly to avoid any situation of conflict between the teams, something that can occur when the power of some employees is reduced due to changes. By clarifying roles and responsibilities, management teams will be less likely to adopt defensive positions that are resistant to change. In addition, when managers are reluctant to participate, workshops and seminars can become inefficient; and, after all, it's the job of the management teams to reassure employees and promote the benefits of the changes.

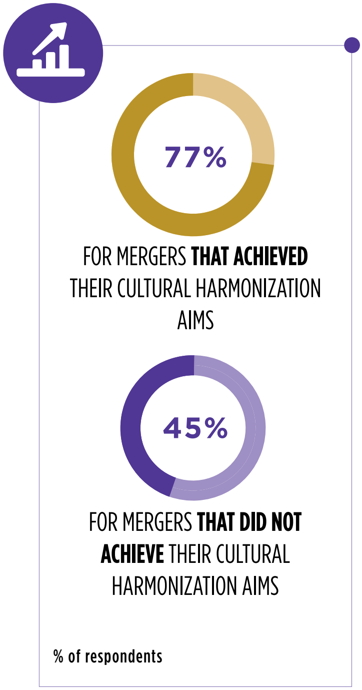
Measuring cultural harmonization among employees

Once the cultural harmonization strategy has been launched, the establishment of a measurement system such as a mood board or change barometer is a good practice for gaging levels of employee acceptance. By developing a short questionnaire—sent monthly to all employees of the two businesses involved or to targeted teams—levels of trust, motivation, and acceptance can be assessed, and these also serve to pick up more subtle feedback.

The analysis of the data collected during the integration process enables the teams with responsibility for change management to identify specific actions to address any concerns and reticence among the teams. The assessment of harmonization can be improved by using qualitative data collected during discussions with employees or from points of contact within the teams.

Our survey showed that nearly 80% of the respondents who successfully achieved their cultural harmonization aims had set up a monitoring system. Measuring the degree of cultural harmonization must be done regularly and continue for months, or even years, after the merger takes place.

Proportion of companies that implemented a system of performance indicators:



Communication, an accelerator for successful mergers

Communication is an essential accelerator in all merger programs; something that must not be overlooked, given that it facilitates the dissemination of the merger's ambitions and objectives to the employees of both businesses involved. A common mistake in change management is the failure to develop a communication plan that encompasses the entire merger process.

Constructing an effective communications strategy involves:

/ **Identifying** the stakeholders, and training managers to be facilitators of communication;

/ **Determining** the communication needs in order to develop personalized and impactful messages;

/ **Selecting** the communications channels for the key messages;

/ **Measuring** the impact of the communications on employees.

It's essential to modify the communication plan as required, in the light of feedback from employees and points that require further clarification. Good internal communication from D-1 promotes trust, motivation, and employee involvement in the new entity.

In parallel, effective external communication helps reassure the partners of both businesses (such as investors, suppliers, and customers), as well as making changes more real in the minds of employees.

> «Communication is a powerful accelerator of integration because it's the easiest means of making a merger tangible (through the creation of a website, development of a new logo, etc.).»

SARAH LAMIGEON,
Communications Director,
Wavestone

CONCLUSION

Each merger is unique, and the challenges faced are as varied as the mergers themselves. Having said that, the results from our analysis show that there are three main causes of failure which tend to occur time and again:

/ **Lack of preparation and vision with respect to the integration strategy and the target organization** that needs to be put in place—if the plan for synergies is to be achieved while also taking account of the particularities and cultures of the businesses involved;
/ **Underestimation of the resources and effort required**, or even the length of time needed for the merger to be fully delivered;
/ **Cultural tensions** that go unaddressed or unresolved.

To avoid these pitfalls, good practices adapted to each key area in a merger can be applied.

When it comes to steering the merger process and integration strategy, experience suggests that work on these must begin before the merger is concluded, and integration must be underpinned by a sufficient budget (of the order of 5 to 10% of the merger's value). Thinking must start in the due diligence phase and must enable the main lines of the integration to be defined, the framing of the target operating model, and a structure given to the integration program—such that the main workstreams can be identified, along with the managers responsible, those taking part, and the associated timelines.

The program's duration must also be fixed in advance to avoid any loss of productivity that could be detrimental to value creation while still remaining realistic about the complexity of the merger and resources required.

Finally, it's essential to steer the program's progress closely, both from an operational point of view—by monitoring the various workstreams, but also from a financial standpoint by tracking the key indicators that reflect the achievement of the expected synergies.

On technological integration, IT issues should be considered as early as possible. The development of a technology integration plan, that is aligned with the merger's strategic objectives, will enable business continuity to be maintained from D-1, cybersecurity incidents to be avoided, and support to be provided for the achievement of synergies between business functions. To do this, the integration budget earmarked for IT must reflect the level of challenge involved (and will often represent more than 30% of the total PMI budget).

Finally, for change management, we recommend carrying out an analysis of cultural differences before the merger agreement is concluded, in order to define a common target culture with the teams of the two businesses involved and develop a communication strategy, both internal and external, that covers the entire integration period. Adopting these good practices will ensure, from the day the merger takes effect, that its benefits are highlighted, something that will promote buy-in from teams in both businesses involved and reduce the risks of cultural disparity. Once the change management plan has been launched, the establishment of a system to measure cultural harmonization becomes essential to assess employee acceptance and adjust action plans accordingly.

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