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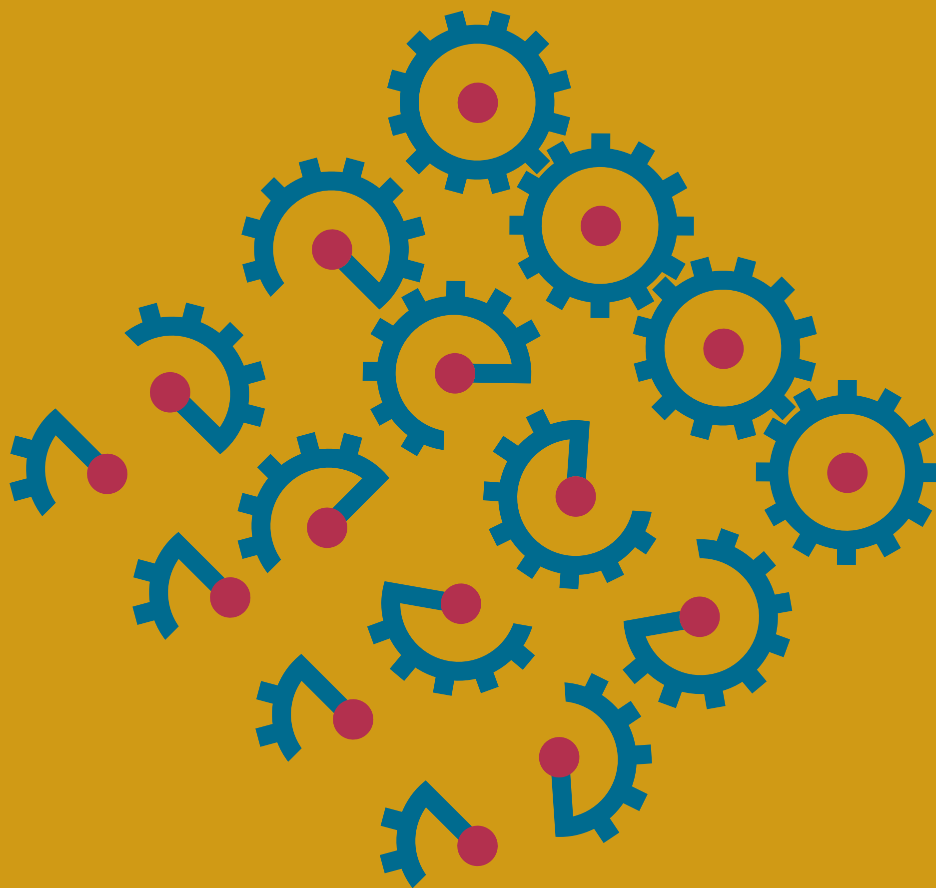
Making Acquisitions Work: Capturing Value After the Deal



Fourth in a Series of Viewpoints on Alliances

Making Acquisitions Work: Capturing Value After the Deal

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Mergers and acquisitions have swept through nearly every industry and have become an essential element of corporate strategy. The value of mergers and acquisitions announced worldwide in 1998 pushed the $2.5 trillion mark, up over 50 percent from the previous year. Yet fewer than half of these mergers succeed. Why? More, importantly, is it possible to improve the odds of success?

Our research shows that successful acquirers improve the odds of success to 70 percent. As a result, they achieve dramatically superior results in terms of profitability and growth. The research points to the fact that more mergers fail due to inadequacies in post-merger integration rather than to any fundamental failure of strategic concept. Until now, each corporation was left to its own devices to develop best practices. However, Booz•Allen & Hamilton has recently completed a groundbreaking detailed study of 34 companies active in acquisitions; our objective was to distill best practices.

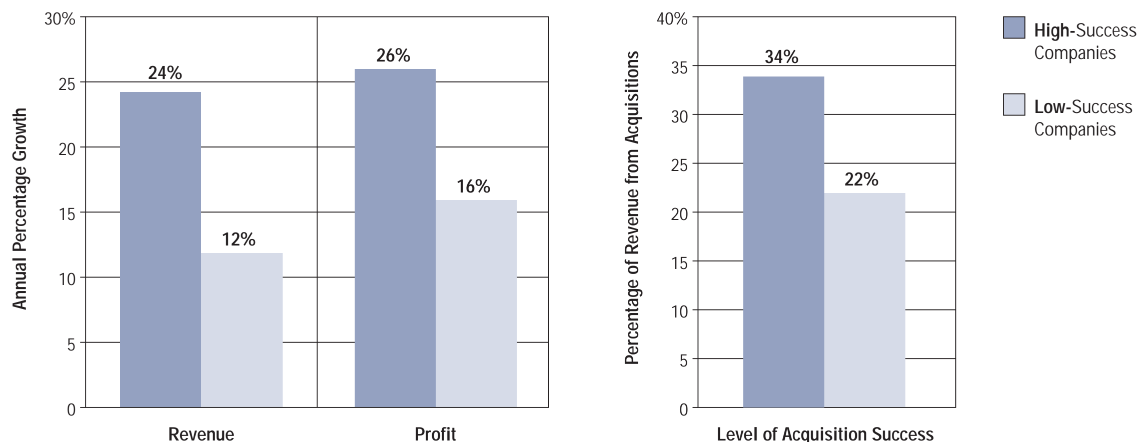
Exhibit 1 shows the dramatic difference in growth achieved by successful companies versus unsuccessful companies. These differences show that experience surely pays. But we do not stop with describing outcomes such as this one.

We have sifted through differences in integration practices across more than 100 dimensions for successful and unsuccessful companies, thereby surfacing the unique differences in best practices that are driving dramatically different results.

In this *Viewpoint,* the fourth in a series on corporate alliances, we explore in depth the challenges and fundamental principles of success inherent in both the mechanics of post-merger integration and meeting the strategic leadership challenge. In addition to our research, our ideas are supported by experience—working with clients in a full range of industries across the broad spectrum of post-merger integration issues. In a recent *Business Week* cover story, Booz•Allen & Hamilton was involved in three of five successful mergers cited and none of the 20 failures. In many engagements, joint client Booz•Allen & Hamilton teams have significantly exceeded, and in some cases doubled, pre-merger expectations of value capture.

We present a proven transformation framework, which we have applied to post-merger integration that can guide companies in making successful post-merger integration a core competency.

Exhibit 1
Role of Acquisitions in Growth



Source: BA&H Survey on "Making Acquisitions Work"

Background

Mergers and acquisitions are a popular way to grow and fill capability gaps because they can be integrated relatively quickly. The race for growth and competitive advantage appears now to be a race to see which firms can add capabilities or access new markets faster, not only by building internally — a process often too slow for competitive markets — but by creating new external relationships. In some industries, in fact, the capability to accomplish successful mergers and acquisitions itself has become a core competency and a source of competitive advantage.

The banking industry, for example, has seen more than 2,000 mergers in the last five years as firms scramble to become one of the handful of national franchises predicted to dominate by 2005. The ten largest banks now account for half of all commercial banking assets in the United States, and estimates suggest that by the turn of the century they will account for almost 70 percent of the total after further consolidation.[1] Furthermore, as the number of attractive acquisition candidates shrinks, prices will escalate, forcing the acquirer to find more value in the target company. Under such conditions, integrating mergers and acquisitions quickly and effectively becomes not only a source of expanded capabilities, but a source of survival.

Putting pen to paper and signing on the dotted line is one thing. Post-merger integration (PMI) — bringing the companies together successfully after the deal and using what has been acquired to deliver maximum value — is the real challenge. Unfortunately, the success rate in PMI has been alarmingly low by most estimates — only one-third to one-half prove successful.

The large number of well-documented failures — Quaker Oats and Snapple, Wells Fargo and First Interstate, Novell and WordPerfect, to name a few — stand out in everyone's mind, as do the notable successes — First Union's, GE Capital's and Cisco Systems' abilities to integrate multiple acquisitions, for example. The burning question is: What do the successful companies know about making mergers and acquisitions work that others have yet to learn?

In cracking the code, the successful companies address what Booz•Allen & Hamilton characterizes as two critical challenges in a merger or acquisition. The first is a mastery of the mechanics of integration — being able to integrate the two companies in order to achieve the stated merger objectives — by planning in great detail from the outset, identifying sources of value and how to capture them, managing the inevitable challenges of cultural change, and ensuring expert leadership. The second is the company's ability to meet the strategic leadership challenge of post-merger integration — being able to identify, enhance, and leverage the unique capabilities of the new entity to maximize profit and growth — by creating a new vision for the new company to lead its industry or compete in a new way going forward. Both elements are necessary for success; mastering the mechanics, while necessary, is not sufficient for long-term success.

[1] *Mergers and Acquisitions*, May/June 1998

The Survey — An Antidote to the Anecdotes

Much of the existing literature on mergers and acquisitions seems more anecdotal than analytical. Most books and articles focus on explaining what not to do, instead of presenting hard evidence of what actually works.

Booz·Allen has broken through this noise and clutter. We recently conducted a study of 34 major companies worldwide active in mergers and acquisitions. They came from diverse industries including financial services, telecommunications, electronics, health care, real estate, chemicals, pharmaceuticals, and others. The transaction size of the companies studied ranged from less than $500 million to more than $17 billion, and the study covered different levels of success as reported by the participants. Additionally, we have collected best practices from our 50 most recent major engagements.

The goal of this research was to find out how these companies address the challenges of making mergers and acquisitions work and to isolate the approaches and specific tactics used in both successful and unsuccessful ventures.

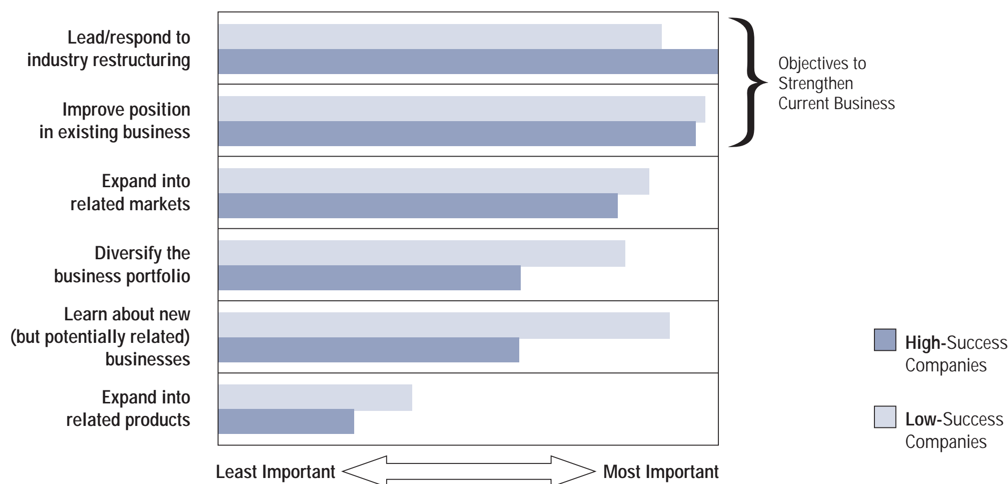
According to the participants, their depth of past experience in mergers and acquisitions was highly linked to future success. On average, the firms that defined themselves as successful had been through 20 deals. In contrast, the firms that were considered unsuccessful had completed only about an average of eight deals.

What kind of merger objectives are most likely to lead to success? Exhibit 2 shows that strengthening the current business is more likely to lead to success than diversification and expanding into related products and markets.

And what causes deals to fail? Overestimating value, paying excessive premiums, and inadequate integration planning and execution (Exhibit 3).

In fact, the odds of success are much greater when the objectives of the merger allow for the integration to be aggressive and for full integration to occur (Exhibit 4).

Exhibit 2
Forced Ranking of Objectives



Source: BA&H Survey on "Making Acquisitions Work"

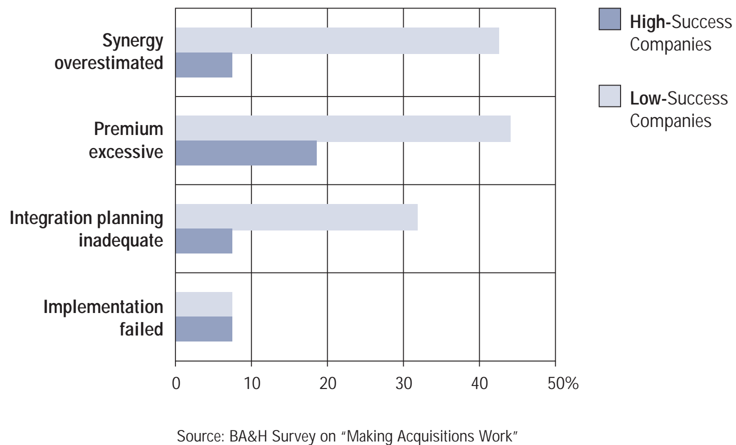
Best Practices — Unlocking the Value

By sifting through the differences in how successful and unsuccessful companies approach integration, we have surfaced a framework of over 60 best practice elements (Exhibit 5) that statistically explain why the successful companies succeed.

The top ten of these best practices, based on the biggest "spread" between high and low success companies, are (in descending order of criticality):

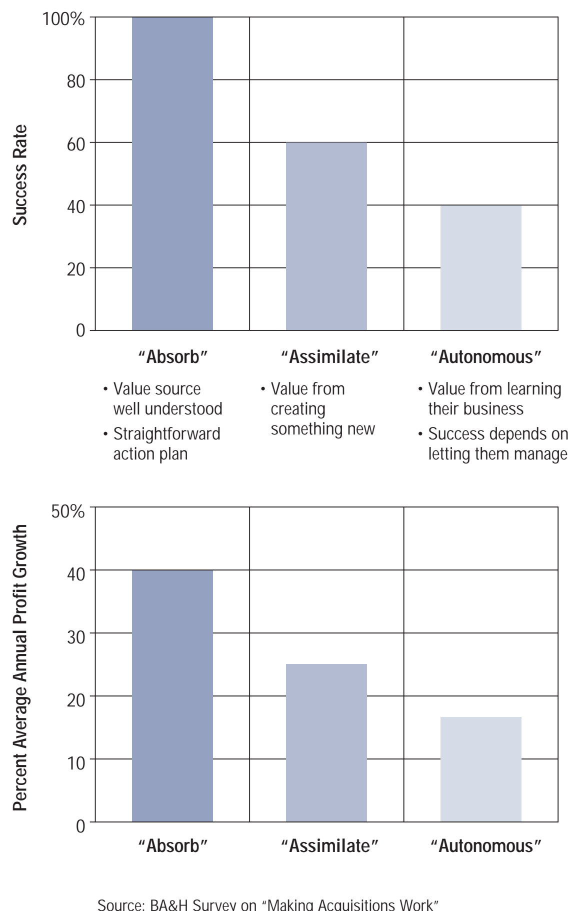
1) Appoint strong executive to clearly lead the integration process
2) Compress change duration by taking bold strokes early
3) Provide for real incentives to reach targets
4) Set out credible milestones and maintain pressure for progress
5) Move quickly with regard to personnel changes
6) Build a robust plan detailing integration activities
7) Emphasize the transfer of critical capabilities to capture value
8) Ensure senior management involvement in integration activities
9) Adopt best practices in key functions from either company or external source
10) Get task forces (with people from both companies) interacting as soon as possible

Exhibit 3
Reasons for Failure



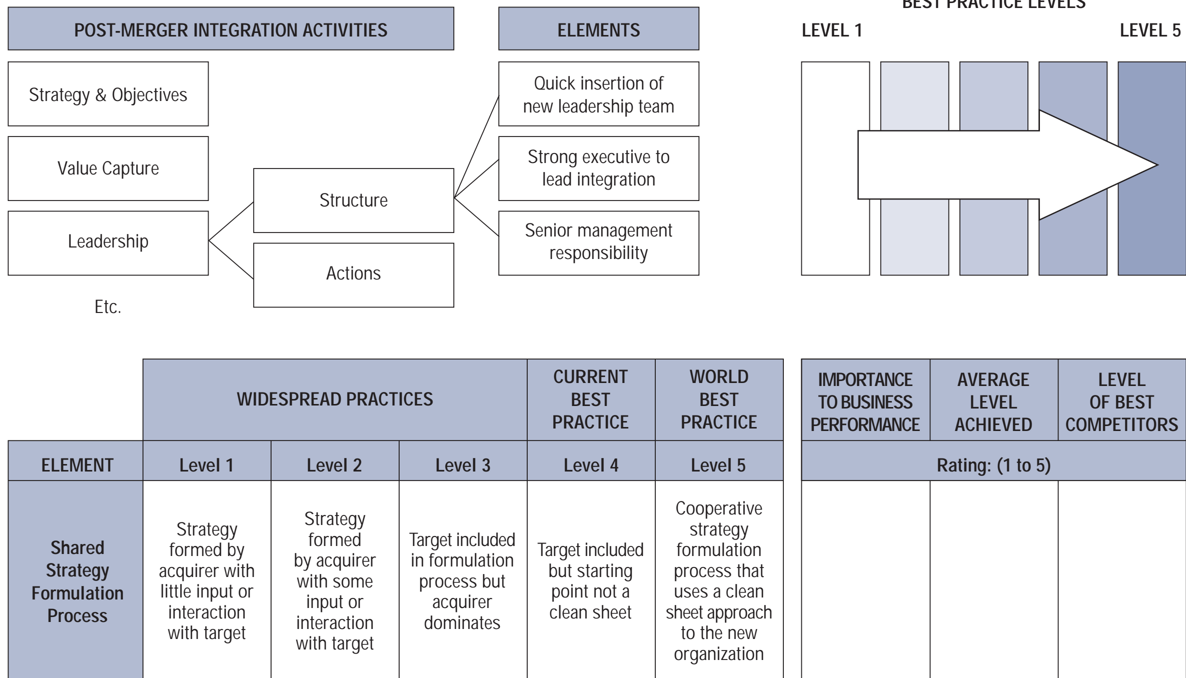
Source: BA&H Survey on "Making Acquisitions Work"

Exhibit 4
Integration Approaches



Source: BA&H Survey on "Making Acquisitions Work"

Exhibit 5
Best Practices of Successful Companies



	WIDESPREAD PRACTICES			CURRENT BEST PRACTICE	WORLD BEST PRACTICE	IMPORTANCE TO BUSINESS PERFORMANCE	AVERAGE LEVEL ACHIEVED	LEVEL OF BEST COMPETITORS
ELEMENT	Level 1	Level 2	Level 3	Level 4	Level 5	Rating: (1 to 5)		
Shared Strategy Formulation Process	Strategy formed by acquirer with little input or interaction with target	Strategy formed by acquirer with some input or interaction with target	Target included in formulation process but acquirer dominates	Target included but starting point not a clean sheet	Cooperative strategy formulation process that uses a clean sheet approach to the new organization			

Source: BA&H Survey on "Making Acquisitions Work"

Companies willing to apply these best practices now have a tool to enable them to leapfrog the learning curve and improve their results. The rest of this Viewpoint *will explore these and other best practices in more detail.*

Not Just Bolting Together

Most companies focus only on the mechanics of putting the two companies together. While important, mechanics are only part of the story. Managing the mechanics requires a disciplined and tested integration program—"fire-ready-aim" just won't work. Meeting the strategic leadership challenge is the steady hand that puts the pieces together into a cohesive whole.

VAL-ue: A Framework for PMI

In order to achieve the transformation required during post-merger integration, Booz•Allen applies what we call the VAL-ue framework (Exhibit 6)—the Vision, Architecture, and Leadership essential to success in post-merger integration, implemented through Understanding and careful Execution. In simple terms, these three elements represent the what, how and who of both the mechanics and the strategic leadership.

Companies that successfully integrate following a merger have mastered these three core elements and found the answers to the most critical questions they face.

All Three or Nothing at All

Exhibit 7 shows the likely outcomes when one or more of the VAL-ue components are missing or not fully realized. For example, without Vision, the new enterprise lacks focus and direction. Without a well-structured process for integration—the right Architecture—chaos reigns throughout the new enterprise. And without effective leadership, the required change does not occur throughout both companies at all levels.

It doesn't matter where you start. Failure to address all three elements of the VAL-ue framework can actually destroy value.

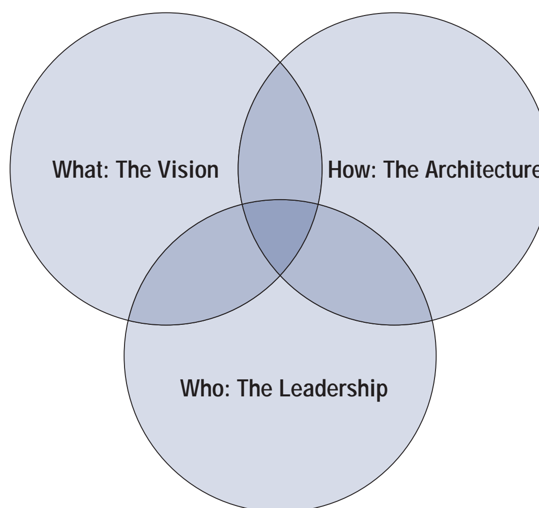
Meeting the Strategic Leadership Challenge

We believe that what sets apart the Booz•Allen approach to post-merger integration is the emphasis on meeting the strategic leadership challenge. In its simplest terms the strategic leadership challenge answers the question: How will the newly consolidated company compete and thrive

Exhibit 6
The VAL-ue Framework

What: The Vision

- What is the vision for the new enterprise?
- How will the new enterprise create value for its customers? What incremental market presence can be created?
- How will the new enterprise achieve its objectives? What new capabilities, products, markets or other value-added offering can be provided?



How: The Architecture

- What parts of the business should be integrated?
- At what level in the business should change occur?
- At what pace should the integration proceed?
- What capabilities should be migrated, shared, and built upon?
- What operational and overhead savings can be obtained? What are the specific cost-savings targets?

Who: The Leadership

- Who leads the post-merger integration process (overall and day to day)?
- How is change created and managed? How should the integration be managed?
- What are the roles of CEO and key executives?
- How is participation between the two companies balanced?
- What level of resources should be dedicated overall to the process?
- What are the cultural differences and how should they be managed?

PLUS: Understanding and Execution

Exhibit 7
Three Elements Necessary for Change

ELEMENTS PRESENT

Vision	Architecture	Leadership	Outcome
●	●	●	Successful post-merger integration
●	●	○	Change isn't cascaded throughout both companies or to all levels
○	●	●	No focus: New enterprise lacks direction
●	○	●	Chaos: No process for integration
●	○	○	An academic exercise
○	●	○	Bureaucracy
○	○	●	Empty charisma

Source: BA&H Analysis

once the merged entities come together? In this way, we look at post-merger integration as creating opportunity through corporate transformation. Stakeholders expect change. Corporations should exploit this expectation of change and act with a transformation mindset rather than an incremental change mindset. A transformation mindset opens up the possibilities for a new vision, new strategy, new business opportunities, and long-term sustainable growth. And it all starts with a vision.

What Does Vision Mean?

Although all three elements of our VAL-ue framework (Exhibit 6) come into play in both mechanics and strategic leadership, it's the "V" or vision that separates the winners from the losers in meeting the strategic leadership challenge. The vision for a consolidated organization defines its purpose, where it is heading, and how it intends to get there. Exhibit 8 graphically depicts the elements of a clearly articulated vision. It begins with the mission of the new organization—setting tangible goals and describing the actions required to reach them.

The vision includes a well-defined set of core values and beliefs—the basic precepts that will reinforce the new organization's culture and purpose. The vision also identifies the distinct set of competencies that will enable the new organization to deliver the unique value required to remain competitive as it goes forward. A clearly articulated vision also defines the value—the new organization's fundamental purpose—that the company and its people will create and deliver. And it also lays out (in concrete terms) the expectations for what the company will look like and how it will operate over time—the vision for the architecture we described earlier.

There are many companies that enter into a string of acquisitions, particularly when an industry is consolidating, without a real vision for what

they will do once they have finished the acquisition binge. Supermarket chains, banks, insurance companies, and others have all set out on a path to get bigger. Companies must realize they need to start early on to develop the vision for how they will compete once they achieve their attained size.

For example, in supermarketing, many chains are making acquisitions in order to achieve more scale. They want the scale because they believe that they need it in order to compete with mass merchants, discounters, and club stores that are adding more and more grocery items to their stores. So, as these supermarkets make acquisitions and integrate them for the immediate value, they must also begin to set the vision for the future. What will be their basis of competition with the other channels? What capabilities, such as more centralization of certain aspects of merchandising or sophisticated logistics, will they need? How can they begin to develop these capabilities now as they integrate one acquisition after another?

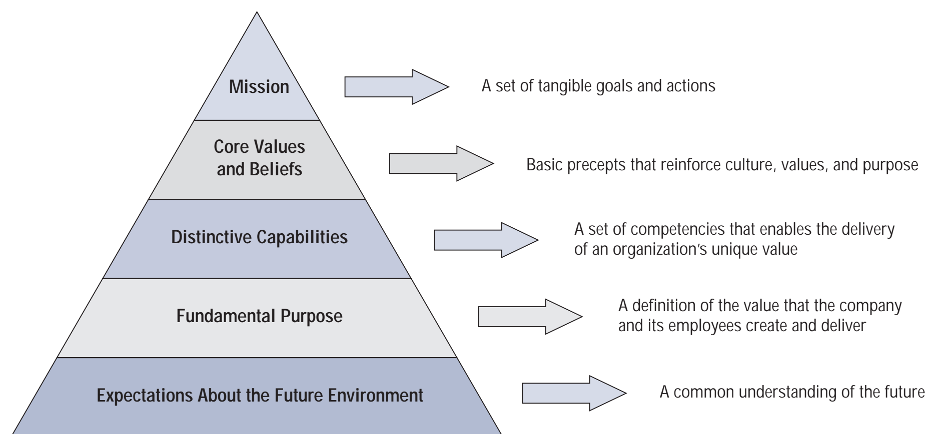
GUIDING PRINCIPLES:
Strategic Leadership — Vision

- *Know where you are going overall and the extent to which this merger helps to fulfill the vision*
- *Begin to plan for the future as you integrate today*

An Architecture Upon Which to Build

Once the vision is set, it's time to begin understanding the architecture for transforming the company. Presumably the acquisition itself was pursued because it fit into some vision of where the company was headed and the capabilities it needed to get there. The acquisition in question should provide some of those capabilities. But the acquisition also provides an opportunity to reassess. What capabilities did we acquire that fit with the vision? Where are we still in need? What did we get with the acquisition that we don't need? What was unexpected that we can now use? The answers to these questions will drive the architecture of the strategic leadership challenge.

Exhibit 8
Elements of a Vision



Source: BA&H Analysis

Exhibit 9
Strategic Leadership Quotient Sample Diagnostic

	WHAT'S YOUR SLQ?	Rarely 1	2	3	4	5	6	Always 7
1	Can everyone in your company clearly explain the meaning of the corporate vision after the merger (or series of mergers)?							
2	Is there a clear understanding by everyone of what they have to do in order to realize the company's vision?							
3	Are conflicts resolved in ways that advance overall company goals?							
4	Do people on the front line routinely do the things necessary to achieve corporate goals/objectives?							
5	Is behavior at all levels consistent with your stated aspirations?							
6	Are the best people in the company working on the most important priorities?							
7	Does every manager live your company's values?							
8	Does your top management team have the capabilities to execute the corporate strategy?							
9	Is the quality of leadership evaluated — and rewarded — at every level?							
10	Is there superior leadership at all levels of the organization?							

Source: BA&H Strategic Leadership Center

The completed architecture should lay out a plan for using the capabilities that exist within the corporation and capturing (by building, buying or allying) the ones that are still needed.

GUIDING PRINCIPLES: Strategic Leadership — Architecture

- *Understand what your capability gaps are*
- *Devise a plan for filling in the gaps*
- *Develop a plan for using or removing acquired capabilities which are not critical to the original vision*
- *Assess what to do with the unexpected benefits of the merger*

Leadership for the Future

Tackling the strategic leadership challenge will also require leaders who are willing and able to help develop the vision and move the corporation in the established direction. At Booz•Allen & Hamilton, we refer to the company's ability to do this as the Strategic Leadership Quotient or SLQ. The SLQ measures whether the company has a cadre of managers who understand the mission, vision, and values of the company, and understand their role in making

it happen. It means that everyone knows the "right thing to do," has the right skills to do the right thing, and is empowered and rewarded for doing "right."

The mini-diagnostic shown in Exhibit 9 can help companies assess whether they have a high enough SLQ to meet the strategic leadership challenge in post-merger integration.

GUIDING PRINCIPLE: Strategic Leadership — Leadership

- *Build your Strategic Leadership Quotient*

Mastering the Mechanics

While we believe that addressing the strategic leadership challenge is the key to real long-term success after a merger, most companies in the throes of integration are focused on getting the mechanics right. There is no shortage of challenges in this phase of the integration. Many companies never get past this phase to address strategic leadership. Here's what we think it takes to succeed:

Setting the Vision

The mechanics of post-merger integration develop directly out of a clear understanding of how the merger fits into the overall vision for the new company—the strategic intent of the merger. This then leads to a set of priorities for creating the new organization's unique value.

Successful acquirers in our study tended to focus more intently on specific means of capturing value by developing an in-depth understanding of value sources and then pursuing them relentlessly. They focused on the critical elements of the

Exhibit 10
Strategic Intent and Value Creation Priorities

STRATEGIC INTENT	VALUE CREATION PRIORITIES	EXAMPLES
Industry consolidation	• Apply best practices to acquired assets • Fold back office into acquiring scaleable infrastructure	In banking, cut costs quickly to maximize the benefits of the deal and justify the premiums paid in an increasingly competitive bidding game
Strengthen current business	• Bring complementary capabilities into businesses	AT&T/TCI — AT&T acquired access to TCI's infrastructure and TCI gained broader distribution capabilities
Vertical integration	• Capture additional value added • Integrate capabilities	Merck/Medco — Merck gained a strong distribution arm
Cross-selling	• Integrate for commonality • Create new capabilities • Capture scale	Citibank/Travelers — intention is to allow for each company to distribute through the other's channels
Seed a new business	• Isolate/maintain/strengthen acquired assets and capabilities	IBM/Lotus — Lotus brought a new business to IBM. The challenge was for IBM to leverage it but not destroy it
Diversification	• Keep the best of acquired assets and people • Rethink structure	Allied/Signal — balanced the defense business with commercial aerospace

Source: BA&H Analysis

business as value sources and also emphasized the transfer of critical capabilities to capture additional value. In other words, their "mechanics" stage of integration was guided by a clear vision of where they were going and why.

Exhibit 10 outlines examples of how value creation priorities, and therefore the vision for the mechanics, develop directly from the strategic intent of the consolidation.

GUIDING PRINCIPLES:
Mechanics — Vision

- *Gain agreement on your strategic intent and let that guide the vision for the merger integration*
- *Explicitly identify the critical sources of expected value*

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both the end game—what the company will look like post-integration—and the change program to achieve that goal.

Architecture for Change

In our study, participants overwhelmingly confirmed that proactive, up-front planning fosters success. Those who had experienced successful mergers reported that they had clearly defined their objectives early on and had created detailed battle plans that encompassed all integration activities. While planning does not necessarily guarantee success, the odds for failure are significant without it. According to our study, fully two-thirds of the mergers that were characterized as lacking specific implementation plans prior to closing the deal were unsuccessful. The same failure rate was experienced in those mergers where the risks and uncertainties of implementation were not explicitly identified up front.

It is therefore clear that planning is important, but how should the plan be shaped? One of the key decisions will be to determine the pace of integration. Our study showed that successful companies were able to capture value almost 70 percent faster than their unsuccessful counterparts. Speed, given the constraints of the merging companies characteristics, is critical. Exhibit 11 shows that when companies are of unequal size, the pace of integration can be more rapid than when they are of similar size.

Mechanics Meets Architecture

Most of the actual mechanics of post-merger integration relate to building the right architecture for the new organization—the "A" of the VAL-ue framework. This requires an understanding of the capabilities, people, and infrastructure needed to achieve the vision. It begins with knowing what the company already has, what it needs, and how it should get there.

The purpose of architecture in the "mechanics" phase is to change the content of the work people do and help them adapt to the change. The architecture puts into place the processes that institutionalize change and allow change to filter throughout the new organization. It includes

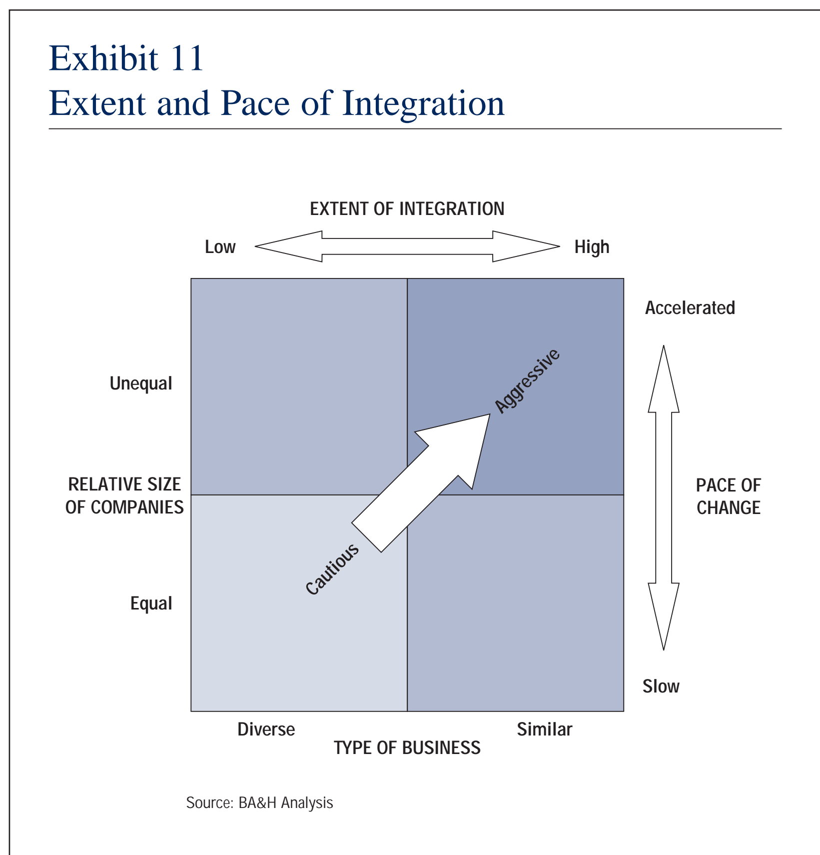


Exhibit 12
Sample Checklist Items

Source: BA&H Analysis

The matrix also shows that the extent of integration can increase if the companies are in similar businesses. The implication is that the most aggressive merger integration programs consist of the combination of two similar companies of different size (i.e., the big bank swallowing up a little bank phenomenon) while the most cautious are mergers of equals between relatively dissimilar partners.

Once the pace and extent of integration are decided, the next challenge will be to prioritize the vast array of opportunities. We believe that by arraying the opportunities across the dimensions of size, risk, and effort needed for further analysis, it is possible to determine where to attack first. Typically the highest value, lowest risk and easiest to analyze opportunities should be addressed in the first wave. Successive waves should account for those opportunities that are lower value, need more time to analyze, and require more detailed implementation planning in order to minimize risk.

Developing the plan means having a clear sense of what needs to happen when (Exhibit 12).

GUIDING PRINCIPLES: Mechanics — Architecture for Change

- *Begin planning early and create detailed plans*
- *Set the right pace; work with a sense of urgency*
- *First attack the opportunities that combine the lowest risk and highest reward*

Architecture for the New Company

Where do these opportunities lie? What is the architecture that actually needs to be built? Developing the architecture should be based on the overriding vision and objectives of the merger and should involve a relentless approach to identifying and capturing value. The new architecture will emerge from the new entity's sustainable competitive position and the sources of value. Achieving the new architecture will require integrating and redesigning critical functions and processes, redefining key roles, and developing the new organizational model. These changes will have a profound impact on the ability to capture sustainable value from the acquisition.

The emerging architecture should be crafted to provide a sustainable position that allows for the ongoing capture of value. Value capture should be viewed from an integrated approach, to ensure it fits the strategic intent and is internally consistent.

In our experience, the sources and relative impact of value capture vary considerably with each merger. However, some areas where joint client-Booz·Allen & Hamilton teams typically find value include:

Growth-Oriented

- New products (individual and "bundled"), service offerings, markets, customer segments, distribution channels
- Enhanced market presence, market capture
- Enhanced product development efficiency (leveraged R&D, internal best practices)
- Combined technologies or capabilities
- Leveraged sales force
- Increased capture of the value chain

Efficiency-Oriented

- Integrated supply chain
- Leverage procurement volume (product and non-product)
- Production footprint optimization
- Facility optimization

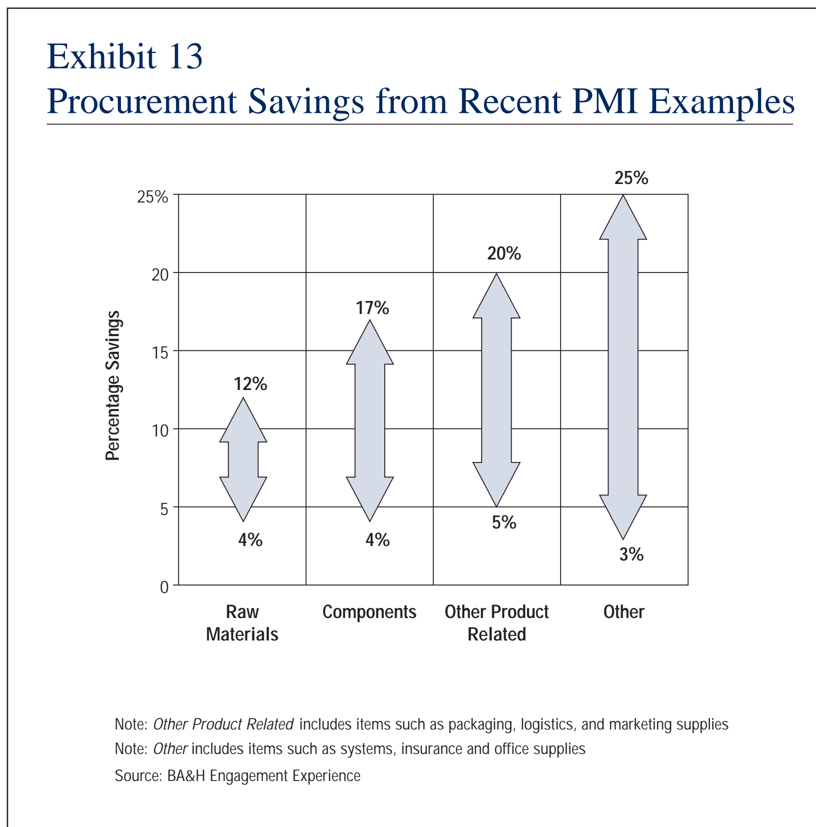


Exhibit 13
Procurement Savings from Recent PMI Examples

Note: *Other Product Related* includes items such as packaging, logistics, and marketing supplies
Note: *Other* includes items such as systems, insurance and office supplies
Source: BA&H Engagement Experience

Example: Sources of Value in Procurement

While the sources of value capture vary in each acquisition, procurement is a likely driver of value in virtually all situations. Often sourcing benefits can be derived in product-related (e.g., paint, raw materials) and non-product related (e.g., insurance, travel) categories. Sourcing improvements can often be considered in two phases in a PMI environment. The first phase entails the ability to leverage greater volume purchasing and consolidation of the supply base. Longer-term but more fundamental improvements are derived from enhanced supplier relationships (e.g., strategic sourcing) and product redesign/rationalization. Collectively, our experience has identified 10-25% improvements in several product and non-product categories (Exhibit 13).

- Vertical integration, de-integration
- Distribution channel optimization
- Sales force optimization
- Headquarters consolidation
- Support function consolidation (HR, finance, IT)

Other

- Financial value (balance sheet items, taxes, etc.)
- Optimized programs and policies (e.g., benefits programs)
- Rationalization and/or elimination of special programs, projects, etc.
- Additional alliances or relationships

Identifying the key sources of value is only the beginning of value capture. While there will be some opportunities that require little or no redesign, most opportunities will require the redesign of key processes and activities. In general, there are usually near-term opportunities in procurement, selected facilities and support functions which can provide savings. However, most revenue, supply chain, facility redesign and distribution efforts require significant redesign. In some instances, the emerging design will take the form of one of the previous company's (e.g., best practice), while in other instances the design will be tailored to meet the new business model, potentially based on outside benchmarks.

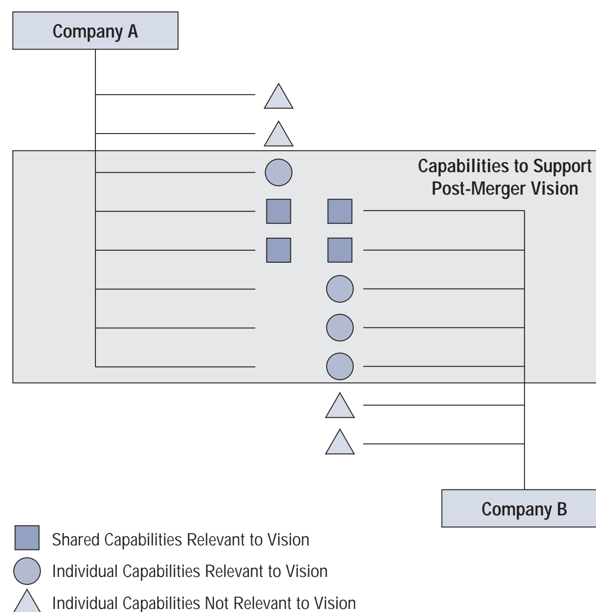
Value capture must also be viewed from a capabilities perspective, i.e., the portfolio of capabilities that the new corporation must have at its disposal and how it will build or share these capabilities across the original merging entities. This is often the single largest driver of the ability to attack new revenue opportunities and reflects a critical role of the global core.

Typically, the acquired company brings capabilities relevant to achieving the overall vision and therefore, the goal is to determine their integration. But often there are overlapping capabilities that need to be rationalized. And in cases where the acquired company brings capabilities outside the vision, they either need to be isolated or sold, or the vision needs to be expanded (Exhibit 14).

Architecture must also consider information technology. It can be a major enabler of change if e-mail, voicemail, and intranet technology are integrated quickly in order to smooth communications between companies. Value can be achieved through rationalizing projects and platforms over the long run, a new information architecture must fully integrate the two companies and address strategic goals.

Post-merger integration also often provides a rich opportunity to make a fundamental change to organizational design. Once again, the post-merger environment creates an opportunity to modify the organization within the existing structure or it provides an opportunity to craft an entirely new structure. A new organizational model must be established, which

Exhibit 14
Capability Portfolio Challenges



Source: BA&H Analysis

allows for flexibility to respond to change and to fully integrate the acquisition.

Post-merger integration permits an organization to reorient focus (e.g., products and geographies), redesign the underlying structure (e.g., business units), and alter the delivery of services (e.g., from embedded to shared). Percy Barnevik at ABB applied the 30-30-30-10 rule to the corporate and services organizations. Thirty percent was parceled out to the business units, 30 percent went to a services company, 30 percent was dropped and 10 percent remained in the corporate center. Business units must be realigned to reflect the new portfolio of capabilities and optimize the likelihood that new business opportunities can be pursued. Mergers also present an opportunity to rethink the governance structure of the organization: What composition should the board have? What should be the role of the board? How should the board processes be structured?

Finally, mergers present a challenge to retain key personnel and to release those who are no longer needed. Policies must be set and followed regarding issues such as severance, relocation, transfers and pay to stay bonuses. Furthermore, existing compensation and benefit plans must be integrated. Creative options such as stock plans and re-employment pools for laid-off workers can ease the transition. Most important, these decisions need to be made as quickly as possible and communication must be timely, open, and honest. People want to know where they stand.

GUIDING PRINCIPLES: Mechanics — Architecture for New Company

- *Focus on relentless identification and capture of value (cost, revenue, and other)*
- *Build an organization that takes advantage of the strengths of both companies and looks at outside benchmarks*
- *Address information issues to both enable change and capture value*
- *Restructure the business in a way that maximizes value capture and optimizes the business for the future*
- *Handle personnel issues swiftly and according to policy*

Mechanics Requires Leadership

The “L” in the Booz•Allen VAL-ue framework speaks directly to the need to develop transition leaders throughout the new organization and at all levels—those who can get the company from where it is (once the deal is finalized) to where it wants to be (as defined in the vision.) The most successful companies determine their new leadership teams immediately following the merger agreement (if not as part of the agreement.) Personnel decisions should be made as far down the organization as possible. Ownership and defining key roles is essential for “running the business” as well as for value capture. Mergers inherently create an era of uncertainty which can potentially hinder the business (e.g., lower sales during integration) and even the best personnel may be unsure of their role in the organization. Announcing these decisions as early as possible is key to inspiring confidence from all audiences—internal and external. In some cases, companies have faced the trade-off of making the top leadership announcements quickly, rather than taking the time to make the choices perfect. As one executive told us, “The impact of hundreds of thousands of employees and customers waiting around for a decision would be a lot worse than not getting it quite right.”

The merger integration process itself should be led by a strong executive, usually dedicated to the task, with performance rewards linked to the success of the integration. GE Capital, one of the most successful companies at integrating mergers, appoints a dedicated integration manager to each of its acquisitions.

The integration leader must also have a team and a plan. The transition team should actually be multiple teams, each focused on a particular area or source of value. The individual teams should be coordinated through a project manager, or if the situation calls, a project management office. The teams should have specific targets to reach and should move to implementing ideas as soon as possible. In order to show fairness and objectivity and to make the best decisions, data and analysis should be used to cut through the politics and anecdotes that sometimes cloud decision making. But

this is not a mandate to form dozens of teams. Choosing the highest value opportunities to attack and setting teams against the highest priority items are key to focusing and completing the job.

The composition of the teams is critical to success. Teams need the right mix of skills—financial analysis, functional or business expertise, leadership, and project management. Also critical is choosing people senior enough in the organization who can command respect and take action, and also junior enough to be willing to roll up their sleeves and devote real time to the project.

Functional managers, who will be responsible for delivering results, should also be actively involved in the process. Key personnel should be responsible for identifying and quantifying the opportunity and then determining the key actions needed to realize the savings. During implementation, progress should be tracked by comparing the results to "milestone" and financial scorecards. Finally, successful companies have teams that are comprised of people from both organizations who are able to work well together.

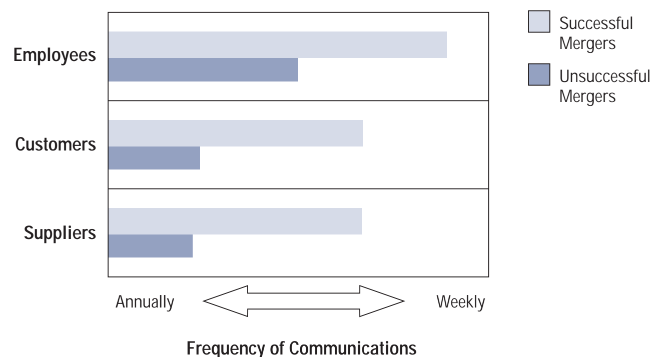
Creating rapid cultural change appears to be one of the most important leadership responsibilities and a distinguishing tactic among those companies reporting successful mergers. Ensuring effective leadership requires that transition leaders in successful integrations must share common attitudes and demonstrate consistent behaviors.

Our study showed that the tactics used in creating and leading cultural change seem to focus on having employees from both companies perform meaningful tasks together. The successful companies reported more extensive use than the unsuccessful participants of tactics such as ensuring early interaction between task forces from both companies, allowing adequate time to gain mutual understanding, and transferring best practices between the companies. Furthermore, successful companies explicitly identify cultural differences through diagnostics and create a plan to address them. They attempt to create the best culture, not necessarily pick one or the other.

Perhaps one of the most critical elements of successful integration is communication. Successful companies communicate early, often, and openly about the integration process. They focus on answering the questions that their audiences want answered in an honest way. This means giving answers to tough questions and admitting when decisions have yet to be made, along with presenting a time frame for when they will be made.

Communications must be tailored to the audience. For example, employees at different levels will have more or less desire to hear about the overall reason for the merger versus what detailed effects it will have on their daily lives. Geographic and cultural differences must be considered, especially when addressing audiences in different parts of the world. Successful companies often use a cascading method where senior managers present a fairly standard and broad message to the entire corporation and then individual managers meet with their employees to focus more closely on their concerns.

Exhibit 15
Frequency of Communication



Source: BA&H Survey — Preliminary Results

Often overlooked is the need to communicate to a broad set of audiences. Employees at both companies have a need to know about the combination. Suppliers are anxious about business being lost or gained. Customers are eager to know how their service will change and what potential new benefits or problems are on the horizon. In any event, communications need to be frequent and targeted (Exhibit 15).

GUIDING PRINCIPLES:
Mechanics — Leadership

- *Choose the new leadership quickly*
- *Pick the right people and dedicated resources to be involved in the integration process*
- *Show fairness and objectivity by using data to make decisions and by including people from both companies in the decision-making process*
- *Set out credible milestones and maintain pressure to progress by providing for real incentives to reach targets*
- *Keep the focus of the integration team on value capture*
- *Address cultural issues directly with an explicit plan*
- *Communicate clearly, early, honestly, and often; use a tone of decisiveness; don't forget those outside of the two combining companies*

Where to Go from Here?

For many companies, the opportunities for crafting significant mergers and acquisitions are a new frontier. But even many newcomers recognize that developing the ability to integrate mergers and acquisitions on an ongoing basis is critical to future success.

In both their planning and execution, successful companies handle both the mechanics of the merger and the strategic leadership challenge. They address the three essential elements of post-merger integration: the "what" or the vision of where the new entity is going; the "how" or the architecture necessary to get there; and the "who" or the leadership required to sustain forward movement. All three elements must be in place; companies that fail to thoroughly address one or more doom themselves to far less than optimal outcomes from the start. But those who do master the three elements exponentially increase their likelihood for capturing maximum value after the deal.

About Booz·Allen & Hamilton's Post-Merger Integration Work

Booz•Allen & Hamilton helps clients accomplish post-merger integration by capturing more value with less risk and with the appropriate tempo. We also use our depth of strategic experience to prepare the new company to compete into the future, creating step level change within the company so that it can drive its industry forward. We help you to master both the necessary mechanics and the strategic leadership challenge.

We bring to this task:

- A proven methodology for post-merger integration built on deep and broad experience with clients, and solid research about what does and does not work in the post-merger environment
- An understanding of client companies' industries, which helps to provide the context for change and for critical decisions
- A Post-Merger Integration Team of experts who stand ready to assist client teams
- A team of people who are easy to work with and sensitive to the difficult issues involved in post-merger integration

Booz•Allen & Hamilton is a global management and technology consulting firm, privately owned by its partners, all of whom are officers in the firm and actively engaged in client service. As world markets mature, and competition on an international scale quickens, our global perspective on business issues grows increasingly critical. In more than 90 countries, our team of nearly 9,000 professionals serves the world's leading industrial, service, and government organizations. Each member of our multinational team has a single, common goal — to help every client we serve achieve and maintain success.

Our broad experience in the world's major business and industrial sectors includes aerospace, agriculture, automotive, banking, basic metals, chemicals, construction, consumer goods, defense, electronics, energy, engineering, entertainment, food service, health care, heavy industry, high technology, insurance, media, oil and gas, pharmaceuticals, publishing, railways, retailing, steel, telecommunications, textiles, tourism, transportation, and utilities.

With our in-depth understanding of industry issues and our expertise in strategy, systems, operations, and technology, we assist our clients in developing the capabilities they need to compete and thrive in the global marketplace.

We judge the quality of our work just as our clients do — by the results. Their confidence in our abilities is reflected in the fact that more than 85 percent of the work we do is for clients we have served before. Since our founding in 1914, we have always considered client satisfaction our most important measure of success.

Booz•Allen & Hamilton also has extensive experience assisting clients throughout the process of forming strategic alliances and acquisitions, including vision definition, identification of critical capabilities, screening for partners, evaluating priority partners, negotiating and implementing alliances/acquisitions. We work together with our clients in three ways to help them improve their performance in alliances/acquisitions:

- **Process (Institutionalizing Capabilities):** Assisting clients to build/improve their underlying capabilities in identifying, evaluating, negotiating, implementing, and managing acquisitions and alliances — based on our best practices frameworks and methodology.
- **Content (Transactions):** Working together with a client on a specific alliance or acquisition, at individual stages in the process or throughout the process.
- **Alliance Portfolio Renewal:** Revitalizing a client's portfolio of existing alliances by involving the client's current partners in an effort to improve performance of those alliances, by tuning them up and reinvigorating them.

We couple the understanding from our industry practices with our functional expertise in alliances and our geographical footprint to help our clients achieve superior results in their alliance efforts.

Other related *Viewpoints* in our Alliances series:

1) *A Practical Guide to Alliances: Leapfrogging the Learning Curve* (1993)
2) *Cross-Border Alliances in the Age of Collaboration* (1997)
   – *An Asian Perspective on Cross-Border Alliances: Different Dreams* (1997)
   – *Betting on Stability and Growth: Strategic Alliances in Latin America* (1998)
3) *Institutionalizing Alliance Skills: Secrets of Repeatable Success* (1998)

Related books in The Age of Collaboration Series by Booz•Allen & Hamilton authors:

1) *Smart Alliances: A Practical Guide to Repeatable Success* by John R. Harbison and Peter Pekar (Jossey-Bass, 1998)
2) *The Trillion-Dollar Enterprise* by Cyrus Freidheim (Perseus Books, 1998)
3) *Balanced Sourcing: Cooperation and Competition in Supplier Relationships* by Timothy M. Laseter (Jossey-Bass, 1998)

John R. Harbison, Vice President for Booz•Allen & Hamilton based in Los Angeles, specializes in strategic alliances, acquisitions, and post-merger integration. He has recently published the book "Smart Alliances: A Practical Guide to Repeatable Success."

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