



THIRD
EDITION

THE COMPLETE GUIDE TO
**MERGERS &
ACQUISITIONS**

PROCESS TOOLS TO SUPPORT M&A
INTEGRATION AT EVERY LEVEL

TIMOTHY J. GALPIN
MARK HERNDON

Foreword by JIM JEFFRIES
Founder and Chairman, M&A Leadership Council

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The Complete Guide to Mergers & Acquisitions

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Timothy J. Galpin and Mark Herndon

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To my family, who have supported me throughout.

— T. G.



To Andrea and Natalie Grace,

Your love and laughter have sustained me through many intense M&A assignments.

— M. H.

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Foreword: Building M&A Integration Capabilities as a Competitive Advantage

By Jim Jeffries

cofounder and chairman, M&A Leadership Council

This book is not an introduction to merger and acquisition integration or even what defines good integration; rather it is the definitive “How To” book on M&A integration. Like the Second Edition before it, this will become the essential manual for successfully integrating organizations. The Third Edition has been updated to include a significant number of breakthroughs that have emerged over the last few years, and which now are validated as best practices that make a substantive difference in the financial, operational, and organizational performance of companies before, during, and after integration.

I have been personally involved with mergers and acquisitions for the last twenty years in some form or another and have watched the practices and outcomes change dramatically. As recently as fifteen years ago, most acquirers did very little, if any, integration planning until after legal close. This happened for a variety of reasons. Many organizations focused almost exclusively on the transaction until it was complete, then merely threw the integration “over the transom” to unsuspecting and previously uninvolved functional leaders. Other organizations viewed due diligence and integration as distinctly different processes that, at best, were loosely aligned but not effectively coordinated. Still other organizations interpreted anti-trust and anti-competition laws to mean that literally no information could be exchanged prior to closing and no amount of pre-closing integration planning could take place. Regardless of the reasons, the

results were the same. Most integration work commenced when it was already too late. Organizations would become galvanized by ambiguity, uncertainty, and delay between the announcement and close, performance would decline, and talent and customers would leave. The result was the startling statistic from countless studies that 70 percent of deals underperformed or became outright failures.

During the 1990s, serious acquirers began working at getting better at M&A integration. Highly experienced and skillful integrators like GE, Cisco Systems, IBM, and others, pioneered best practices such as defining standardized integration processes, accelerating the pace of integration, implementing more effective communications, and dealing with disparate cultures. These practices had a demonstrable positive impact. For the minority of companies who really understood the “can and can’t’s” between announcement and close and took advantage of detailed planning, the rewards were significant and the metrics for successful mergers improved. For example, many of the best acquirers began detailed integration planning right after a deal was announced and were prepared for action on day 1, immediately after legal close. This was a breakthrough at the time. However, when those of us who studied Tim Galpin’s and Mark Herndon’s previous editions of this book, among the many tools, templates, and examples we found was that their integration time line recommended some actual integration-related activity before the announcement itself. Beginning with the First Edition, published in 1998 and reflecting practices refined through many prior integration assignments, Herndon and Galpin were already advocating that “integration begins with due diligence.” It was a subtle but enlightened forecast of emerging practices occurring today. Detailed integration planning prior to close, and similar improvements, were big steps forward fifteen years ago, but even now, results continue to languish behind the full value potential of most deals.

Acquirers are clearly on the right track, but we must push integration farther to the front of the M&A process than ever before. Unless organizations are determined to discover, refine, and institutionalize an entire M&A capability that works in their specific environment, they will continue to destroy value and fail to achieve the full potential of most deals. Herndon, Galpin, and this book continue to be at the forefront of this important development. Their work, research, and publications highlight three essential elements that acquirers should adopt to ensure consistent, reliable achievement of superior integration results. While there are dozens of ideas, examples, and solutions presented throughout this book, executives should pay particular attention to these key principles:

- Mergers and Acquisitions should be viewed as a single, end-to-end business process that seamlessly manages a transaction throughout the entire deal life cycle
- Integration success must be pre-programmed by executive directional guidance prior to initial public announcement of the deal
- Enterprise M&A competency is an important competitive advantage that must be built, maintained, and institutionalized as a core capability

M&A AS AN END-TO-END BUSINESS PROCESS

Herndon and Galpin present a simple framework spanning the entire life cycle from strategy and targeting through due diligence, integration, and long-term optimization. Key issues, actions, and requirements are identified at each stage, which interact to ensure maximum speed, value, and results. Each function and business unit in your organization can and should build from this framework by mapping the specific functional requirements and cross-functional dependencies at each stage of the M&A life cycle. Once that is accomplished, the “playbook,” or collection of tools, templates, work samples, and knowledge content will enable integration to become much more efficient and effective as all efforts will be more directly aligned with the overall priorities, time lines, risks, and objectives of each deal, rather than continuing to blindly execute detailed functional checklists without regard to the “big picture” or other requirements.

PRE-PROGRAMMING INTEGRATION SUCCESS PRIOR TO THE INITIAL PUBLIC ANNOUNCEMENT

A key game changer of today is the amount of integration-related work that *must* be done prior to the initial public announcement of the deal. Jack Prouty and other members of the M&A Leadership Council pioneered the concept we now call the Game Day Strategy Summit. We believe that Game Day, or announcement day, is one of the riskiest days in the life of the deal. Think about it. This is the day when the acquiring organization, the target organization, and their customers become destabilized. All stakeholders are thinking, what about me? Value destruction starts here and often continues unabated as the concerns most important to each stakeholder seem to take the executive team forever to clarify, resolve, and implement. There’s always a natural tendency to defer consideration of the “big issues.” But delay, ambiguity, and lack of clear strategic guidance on

major decisions will destroy results every time. There's a better way. Herndon's and Galpin's research identifies both the risks of not completing this essential step, along with a clear best practice in the form of a facilitated management summit that determines the "concept of operations" for the merged entity and surfaces all the risks and strategies needed for an error-free announcement day and operational stability until close.

ENTERPRISE M&A COMPETENCY AS AN IMPORTANT COMPETITIVE ADVANTAGE

Herndon and Galpin are the pioneers in developing and refining effective practices like Game Day. But for today's acquisitive company, everything must once again be rethought. Their groundbreaking research, reflected in Chapter 14 and in Resource C, addresses approximately seventy-five different elements across twelve major components of enterprise M&A competency. These components must be effectively addressed if you intend to transform your internal capabilities from a "hero culture," where success is ground off of the backs of the willing few, to a true competitive advantage. This advantage will enable your leadership team to do more, bigger, more complex, and more consistently successful deals. Let me emphasize three important findings of their work.

1. Resourcing the integration—this is simultaneously both the single most prevalent best practice and the single most prevalent "major remaining obstacle," according to sophisticated acquirers participating in Herndon's and Galpin's study. Frankly, even the best acquirers struggle to allocate the best and most experienced talent on M&A assignments. The typical approach to resourcing must change.

2. Training of M&A resources—across the board, Herndon's and Galpin's research indicates that approximately sixty percent of organizations do not provide any type of formal training to their M&A teams. Is there any wonder the failure rate is so high when untrained, poorly experienced M&A teams are sent to the frontlines to do integration work in addition to their normal, full-time job requirements? This omission must be addressed.

3. Integration governance—building off of the end-to-end process model, best-in-class acquirers are re-writing traditional M&A-oriented role descriptions to provide more functional and business-unit involvement early on and throughout the transaction cycle, enabling continuity of the same key resources as a deal progresses through each stage of the M&A life cycle. And finally, companies must

commit to leveraging a few key, full-time leadership roles on every deal to lead the integration management office in order to protect the performance of the acquired business during integration and orchestrate essential cross-functional dependencies. This book, once again, is the roadmap for those wanting to take their practices to the next competitive level.

The Complete Guide to Mergers and Acquisitions: Process Tools to Support M&A Integration at Every Level, Third Edition, is about the new requirements that will become the future practice norms for the most successful companies. It is not a book of speculation and imagination; it is based on research, observation, and experience. These concepts and techniques are in use by some today, and to survive in the competitive world of tomorrow, they need to become core capabilities for companies who take growth by acquisitions as seriously as organic growth. It is a clear competitive advantage to master this book.

Please join me in thanking Mark Herndon and Tim Galpin for bringing this book, this research, this viewpoint to the M&A community. Enjoy it and use it!

Jim Jeffries, cofounder and chairman,
M&A Leadership Council
Dallas, Texas
July, 2014

As cofounder and chairman of the M&A Leadership Council (www.macouncil.org), Jim Jeffries, along with the Council's corporate sponsors and M&A experts, have trained several hundred executives from best-in-class acquirers in virtually every industry segment in the "Art of M&A." As a C-Level executive in multiple consulting firms, Jim's background includes P&L responsibility of both large and small firms through multiple stages of growth. One of Jim's integration clients was recognized by *Business Week* for delivering the greatest shareholder returns in all 302 mergers studied between 1995 and 2001.

P R E F A C E

As the world economy emerges from the financial downturn of the past few years, merger and acquisition (M&A) deal volume is again reaching high levels. Unfortunately, management are still struggling to demonstrate the ability to guide their deals through the rocky waters of post-deal integration. Integration difficulties often stem from the “people” side of the deal, and they occur as a result of the change dynamics created by the merger. These dynamics heighten the resistance that people usually bring to the successful integration of two companies. Moreover, much of the needed talent—a key value driver for many deals—voluntarily leaves the organizations that are merging, and the departure of this resource also serves to derail the deal before its success can be achieved.

THIS BOOK’S PURPOSE AND AUDIENCE

The Complete Guide to Mergers and Acquisitions: Process Tools to Support M&A Integration at Every Level was written as a pragmatic how-to text designed to aid integration leaders and participants (at the enterprise level and at the functional or divisional level) in realizing the advantages that can be created from a merger or acquisition. Its purpose is to provide executives and managers alike with tools, templates, and a proven process for efficiently and effectively combining two organizations. This revised third edition has added to the content of the first two editions in several key areas, including

- Recent cross-industry research on the current state of M&A integration
- A comprehensive *deal flow model* describing the best practices for conducting M&As, from strategy through implementation and evaluation

- Clear case examples and results achieved by companies who have managed integration well
- Advice on how to handle situations requiring “merger repair” in the wake of integrations that have lingered or have not been managed well
- A method for *rapid assessments* to quickly determine how well your organization is conducting M&As

Finally, a new section has been added to address how your organization can build internal M&A capabilities into an enterprise competency, leading to more consistent deal success.

OVERVIEW OF THE CONTENTS

The fourteen chapters in this revised third volume highlight both the time-tested and the latest best practices, as well as lessons learned with respect to the following M&A integration areas and issues:

- Recent research identifying the areas of integration most in need of improvement
- Activities conducted and questions confronted throughout the process of M&A integration
- Effectively conducting M&A due diligence that seamlessly transitions into the integration process
- Results that can be achieved through a sound integration approach
- Typical people-related dynamics created during an M&A deal
- Mistakes commonly made during integration
- How to compare and combine company cultures
- Effective design, management, and coordination of the enterprise-wide integration process
- Clear integration leadership and decision making
- Specific actions for creating measurable positive results
- Design and implementation of a well-thought-out communication strategy
- Retaining and rerecruiting key talent

- Capturing and measuring deal synergies
- A clear process for integration staffing and selection
- Accelerating M&A integration at every organizational level
- Repairing integrations that have gone on too long or that have gotten off track

This revised third edition includes several new visual aids, tools, and templates that should prove extremely valuable during the integration process, as well as useful back-of-the-book resource sections that can serve as handbooks in themselves for facilitating effective, value-creating integration. As additional aids, the third edition now includes:

- Results of The State of M&A Integration Effectiveness Survey, 2014
- A new chapter on the M&A process deal stages, with an expanded Deal Flow Model
- Findings of substantial M&A research from various studies in multiple industries and organizations, supporting the concepts presented throughout the book
- New and revised tools and templates for due diligence, integration, and results measurement and reporting
- New case examples of recent transactions
- Highlighted key principles throughout each chapter
- A summary of key points at the end of each chapter
- Discussion questions addressing the key themes of each chapter
- A rapid assessment diagnostic regarding the key elements of each chapter, which can be completed for any organization
- Taking your M&A game to the next level—essential requirements for building M&A capabilities into a consistently successful enterprise competency

ACKNOWLEDGMENTS

We've told the story many times about how we were forced to think about M&A as an end-to-end business process years ago, through sheer desperation and by necessity, and long before M&A methodologies or playbooks were common. We

had a project to run and we had to get our team and our client aligned and on the same page in order to deliver a quality result. At first, we had to invent things on the fly — many times at night, in the hotel room, and usually right before an important client meeting. But gradually the methodologies took shape and, much to our relief, actually worked. With tremendous and insightful contributions from many friends, colleagues, and clients over the years, we have continued to seek practical solutions to help explain, visualize, train, and deliver quality client solutions that get results.

To each of you who have contributed to this work, the client projects, and the development of a professional discipline in M&A integration — we are grateful for the time together and for your wisdom and influence in our professional lives.

In particular, for this third edition, to Stephanie Snyder, Susan Liles and the entire team at M&A Partners . . . thank you for your support and important contributions to the survey and to the concept of the M&A Partners Enterprise Competency Model and MergerMax Value-Creation Map™. We would also like to thank J. Lee Whittington at the University of Dallas College of Business for his input to our chapter on the Deal Flow Model, Mike PreFontaine at Kalypso Consulting for his input to the Innovate stage of the Deal Flow Model, and Joan Graham and Marshall Tucker for their reviews and insight that helped shape this third edition.

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this book — The State of M&A Integration Effectiveness 2014 — and as the premier source for M&A skills training, your efforts will continue to have an important and positive effect on corporate organizations, executives, and all those impacted by acquisitions, for many years to come.

July 2014
Timothy J. Galpin
Fort Collins, Colorado
Mark Herndon
Dallas, Texas

THE AUTHORS

Timothy J. Galpin, Ph.D., is a clinical professor of management at Colorado State University, teaching strategy and entrepreneurship. His consulting, research, and publishing are in the areas of mergers and acquisitions, leading sustainable organizations, leadership effectiveness, and entrepreneurship.

Prior to his teaching, Tim Galpin gained over twenty years of experience as a management consultant and business manager working with boards and senior management around the world on strategic planning, strategy execution, merger and acquisition integration, divestitures, restructurings, human capital management, business productivity improvement, and organizational culture change. He still consults to firms on these topics.

Tim Galpin's consulting clients have included numerous Fortune 500 corporations, including GE, GE Capital, Verizon, Cargill, Reliant Energy, Tampa Electric Company, London Life Insurance, Lyondell-Equistar Petrochemicals, Quaker Oats, Armstrong Building Products, Prudential Insurance of Canada, Macrovision, InstallShield, Harrods (UK), Safeway (UK), Siemens, the Central American Retail Holding Company (CARHCO), BlueCross BlueShield of Texas, and various agencies of the United States Government.

He has authored numerous articles appearing in *Mergers and Acquisitions*, *Journal of Business Strategy*, *Handbook of Business Strategy*, *Training and Development*, and *HR Magazine* on the topics of merger integration, strategy execution, corporate culture change, and organizational productivity. Galpin's other books include *Making Strategy Work: Building Sustainable Growth Capability* and *The Human Side of Change: A Practical Guide to Organization Redesign*, both published by Jossey-Bass.

Tim Galpin can be contacted at:

Department of Management
College of Business
Colorado State University
207 Rockwell Hall
Fort Collins, CO 80523
970-261-8999
tim.galpin@business.colostate.edu
www.tjginfo.com and www.mergerresults.com

Mark Herndon serves as president of M&A Partners, where his practice includes M&A integration strategy and management; building internal M&A capabilities for corporate acquirers; due diligence; culture assessment and integration; and change management, communications, and leadership during periods of disruptive change.

Previously, Mark served as president of Parkwood Advisors, a transaction advisory firm that supported private equity, family offices and midmarket companies with M&A buy-side and sell-side transaction services, including strategy development and implementation; valuation; acquisition, growth, and distressed situation financing; due diligence; and restructuring and workouts.

Mark formerly served as U.S. Region Leader for Merger and Acquisition Services with Watson Wyatt Worldwide, a global consulting firm with approximately \$750 million in annual revenue.

His clients include American Express Financial Advisors, Amoco, Boeing, British Petroleum, Cessna Aircraft, Chevron, Dell Computer, Dow Chemical, Equistar Chemicals LP, First Interstate Bank, General Electric, Hoechst-Celanese, J.C. Penney, Komatsu-Dresser, Lyondell Petrochemical, Magma Copper, McNeil Consumer Products, Northern States Power, Occidental Chemical, Quaker Oats, Shell Oil, the Toledo Hospital, TRW, and Willamette Industries, among others.

In addition to his business advisory work, Mark serves as chief knowledge officer for the M&A Leadership Council (www.macouncil.org), a professional association devoted to establishing best-practices among M&A practitioners, and as a board director for various private companies and faith-based and charitable organizations.

Mark earned the distinction of “Top Ten Graduating Seniors” at Oklahoma State University, where he completed a bachelor of science degree. While in college, Mark served as the National President of the Future Farmers of America, a five-hundred-thousand-member educational organization funded by the United States Department of Education. He subsequently earned an executive master of business administration degree from the University of Texas at Dallas.

A dynamic professional speaker, Mark has presented keynote addresses and concurrent sessions to nearly four hundred thousand people in forty-five states and twelve countries. In addition, he is the author of a popular weekly newsletter, *Merger Monday Insights*, available at www.mapartners.net, which is focused on value-added insights to help corporate acquirers build enterprise competency in M&A.

Mark Herndon can be contacted at:

M&A Partners
6860 N. Dallas Parkway, Suite 200
Plano, TX 75024
855-TO-ACQUIRE (855-862-2784), ext. 702
mark.herndon@mapartners.net
www.mapartners.net

Integration: Where Deal Value Is Realized

It's Merger Monday ...

... Among other transactions, another mega-merger was announced today—this morning, industry leader Your Company announced an initial agreement to merge with industry giant Their Corporation. During a joint press conference, the two companies' CEOs described the combination as “a true merger of equals.”

The two went on to state, “It's too early in the deal to begin planning for integration, but we are confident that the new company will be stronger together than either company could be on its own. This combination will benefit everyone involved including our customers, shareholders, and employees alike. We will communicate more about the merger to our stakeholders as we have more information to share. Our plan to combine the two companies is essentially to ease the changes in. We will freeze the two organizations for at least a year and, once things settle down, we'll see what we have in the way of products, operations, systems, and people. Once our employees and customers get comfortable with each other and the new entity, we'll then start integrating the two businesses.”

Sound familiar? Announcements like this have appeared in the business media so frequently for the past few decades that mergers and acquisitions have become part of daily business. Even after the financial crisis of 2008, total global M&A deal volume reached US\$2,215 billion for 2013 (Mergermarket, 2014). Moreover, merger and acquisition activity is forecasted to increase as economic conditions and confidence in various regions around the globe improve (Ernst & Young, 2013). Deloitte's

third annual (2012) Corporate Development survey of 309 professionals involved in M&A at their companies—representing heads of corporate development/M&A, CFOs, CEOs/presidents, and board members—found predictions of an increase in both merger and acquisition and strategic alliance activity over the next two years. Nearly half the respondents (46 percent) expected an increase in mergers and acquisitions activity. The study also found that executives in the manufacturing sector are the most bullish on M&A prospects, with more than half responding that they expect an increase in strategic alliance transactions driven by investment in emerging markets (*Wall Street Journal*, September 15, 2013).

KEY PRINCIPLE

Even after the financial crisis of 2008, M&A volume is still at high levels and will continue to grow as economies and confidence in various regions around the globe improve.

BUYER BEWARE!

Ultimately, for a merger or acquisition to be considered a success, the NewCo (the term we will use throughout our discussions to designate newly formed entities resulting from M&A transactions) must increase shareholder value *faster* than if the companies were separate. However, in spite of continued high deal volumes, most M&As still fail to accomplish many of the strategic objectives so optimistically projected in the initial announcements.

Mergers and acquisitions often destroy shareholder wealth in the acquiring companies. A study by the National Bureau of Economic Research (NBER, 2014) of 12,023 transactions found that, over a twenty-year period, U.S. takeovers led to losses of more than \$200 billion for shareholders. Likewise, other research has found that M&As have a failure rate of between 50 and 85 percent. For example, a KPMG study found that 83 percent of these deals hadn't boosted shareholder returns; another study, by A. T. Kearney, found that total returns on M&A were negative (Heffernan, 2012). Likewise, in a 2012 study conducted by the Canadian Financial Executives Research Foundation (CFERF), only 20 percent of finance executives who had been involved in mergers or acquisitions during

the previous five years said their transactions were “very successful.” Survey respondents indicated that they determined the success of their transactions by measuring different metrics: 69 percent of respondents measured revenue growth; 63 percent of respondents measured achievement of specific synergies other than cost reduction; and 45 percent of respondents measured retention of key talent. However, executives are not deterred from future attempts at M&As. The vast majority (more than 80 percent) of the survey participants said they were at least “somewhat likely” to do another M&A in the next twenty-four months (*Wall Street Journal*, January 23, 2013).

Beyond the research, case examples demonstrate the high potential for failure of M&As. For example, on September 3, 2001, the day prior to Hewlett Packard’s announcement of its acquisition of Compaq, HP’s stock price was \$23.11. After the announcement HP’s stock dropped to \$18.87 and stayed pretty much at that same level for the following three years, selling at \$18.70 on September 21, 2004—down over 19 percent from its pre-acquisition selling price (Wheelen and Hunger, 2006). Likewise, following Quaker Oats Company’s 1994 acquisition of Snapple Beverage Corporation, one of the more ill-fated M&A deals in corporate history, Quaker Oats lost \$1.4 billion in just twenty-seven months. Quaker’s strength in supermarkets and mass distribution was a poor match with Snapple’s convenience-store market. The new owners of Snapple replaced a popular ad campaign with new marketing programs that immediately flopped. In addition, Wall Street considered Snapple’s purchase price to have been about \$1 billion too high. All these factors and more resulted in a \$1.6 million loss for every day that Quaker owned Snapple.

Cases such as the ones just discussed are sensational and garner a great deal of public attention. Yet smaller firms are not exempt from M&A problems. It is easy to assume that the managers of smaller firms with a flatter structure would have an easier path to M&A success. Yet there is considerable evidence that this is not the case. Poor M&A performance has also been documented for small- to mid-size industry consolidations including freight hauling (Prince, 2009); cleaning services, garden supplies, and lawn services (Gilbert, 1989); and scrap metal (Marley, 2008)

One of the most compelling statistics regarding the risk that management undertakes when doing mergers and acquisitions is that M&As rank above even business start-ups as the most risky business undertaking; with over 80 percent of M&As resulting in no or negative shareholder returns (Heffernan, 2012), while 75 percent of new businesses do not survive more than five years (Hogarth and

Karelaia, 2012). The high failure rate of M&As is not surprising. In fact, our most recent survey (Galpin and Herndon, 2014) found that not even a third (32 percent) of respondents believe that their company’s “overall M&A capability and readiness level” is “good” or “outstanding,” whereas over two-thirds (68 percent) of respondents see their firms’ “overall M&A capability and readiness level” as “very poor,” “poor,” or simply “average.”

KEY PRINCIPLE

Mergers and acquisitions rank even above business start-ups as the most risky business endeavor.

FACTORS CONTRIBUTING TO POOR M&A RESULTS

Overall poor M&A results, such as those just described, may be attributed to a number of factors—poor strategic or cultural fit, incomplete or haphazard due diligence, paying too much, and/or ineffective integration efforts—but they all point to the same basic fact: *it is much easier to do a deal than to implement one*. The “real deal” is that integrating the people, processes, and systems of one business with another is inherently demanding, even for the most experienced acquirers, and the integration process must be managed exceedingly well if the effort is to succeed.

KEY PRINCIPLE

It is much easier to do a deal than to implement one.

Indeed, beyond all the statistics and optimistic press announcements, real organizations are being disrupted, real employees are being displaced, and real shareholders are being disappointed—not for lack of effort, but largely for lack of effective and efficient integration planning and execution. There is a compelling body of evidence: various researchers have found a clear set of factors to be consistently associated with either poor or successful M&A integration and results:

- Our most recent survey of 153 managers and executives from approximately thirty different industry sectors (Galpin and Herndon, 2014) found that with one exception—the effectiveness of communications on the day of initial deal announcement—the majority of respondents (between 52 percent and 77 percent) feel that their firms are “very poor,” “poor,” or only “average” with regard to seventeen key integration effectiveness measures, including *M&A communications; timely and effective decision making by executives; integration planning; Day 1 operations; employee onboarding; tracking deal or integration metrics; making structure and staffing decisions; successfully leading their organizations through change; and cultural assessment and integration.*

- A 2011 survey of 135 senior management from a sampling of large-capital and middle-market U.S. companies that had completed mergers or acquisitions between 2007 and 2010 found that *planning and execution* are key factors in successful integrations, and that “*people-related integration activities* are of great importance to delivering deal value” (PWC, 2011).

- A 2009 study, using a sample of over eight hundred cross-border acquisitions occurring from 1991 through 2004, found that *culture* was a key factor in the success or failure of deals (Chakrabarti, Gupta-Mukherjee, and Jayaraman, 2009).

- A sample of 254 employees from various industries who participated in at least one merger or acquisition found that *managerial behaviors and human capital practices* were key factors in their assimilation into and identification with the combined organization (Creasy, Stull, and Peck, 2010).

- A 2012 survey by the Canadian Financial Executives Research Foundation (CFERF), including seventy-eight respondents (72 percent working in finance, 10 percent working in Human Resources, 8 percent CEOs or COOs, and the rest working in other departments), found “companies that very successfully completed an M&A all paid unwavering attention to *human capital at all stages of the process*, while this was not the case for less successful transactions” (*Wall Street Journal*, January 23, 2013).

- A 2009 survey of almost ninety M&A professionals found that 92 percent of the respondents said their deals would “have substantially benefitted from a *greater cultural understanding prior to the merger*” while 70 percent acknowledged that “*too little*” effort focuses on culture during integration (McKinsey & Company, 2010).

As the data overwhelmingly suggest, organizations know the root causes of failed M&As. But, in our experience with numerous clients around the world, firms still do a poor job of managing the issues involved in achieving positive M&A outcomes. Even in companies where there has been painful personal experience of deals gone wrong, it is the rare executive who has led combining organizations through a successful integration effort. Sadly, in spite of overwhelming evidence of the importance of effective post-merger integration, organizations and executives continue to fail. This is not surprising, however. Overall, our most recent survey of 153 managers and executives from approximately thirty different industry sectors (Galpin and Herndon, 2014) found that not even one third (32 percent) of respondents believe that their company's overall M&A capability and readiness level is "good" or "outstanding," whereas over two-thirds (68 percent) of respondents see their firm's overall M&A capability and readiness level as "average" or worse. Moreover, fewer than one-third (32 percent) of respondents believe that their company's overall M&A capability has been "outstanding" or has improved substantially since they joined the company. Over two-thirds (68 percent) of respondents believe their firm's overall M&A capability level has only "improved somewhat," has "made no substantial improvement," or has even "declined or gotten worse."

The findings get much worse for deals that cross national borders. Only 4 percent of respondents felt that their company's integration challenges and results for global deals are "better" or "much better" than domestic deals, whereas 46 percent of respondents believed their firm's integration challenges and results for global deals are "much worse," "somewhat worse," or "about the same" as domestic deals. Some 50 percent of respondents either did not know or their firms did not do global deals.

KEY PRINCIPLE

The completion of a deal does not ensure the success of the resulting organization.

DEAL STRATEGY—THEN AND NOW

Despite the risks and horror stories, mergers and acquisitions are here to stay. Driven by globalization and economic or strategic barriers to organic growth,

Exhibit 1.1 Deals Then and Now

	1980s and 90s	Now
Reasons	<ul style="list-style-type: none"> • Financial play 	<ul style="list-style-type: none"> • Operational leap
Risks	<ul style="list-style-type: none"> • Over-leveraging 	<ul style="list-style-type: none"> • Integration
Targets	<ul style="list-style-type: none"> • Diverse 	<ul style="list-style-type: none"> • Similar/Complementary
Prizes	<ul style="list-style-type: none"> • Hard assets 	<ul style="list-style-type: none"> • “The Eight Cs”
Mandate	<ul style="list-style-type: none"> • Stabilize 	<ul style="list-style-type: none"> • Exploit instability
Market	<ul style="list-style-type: none"> • Forgiving 	<ul style="list-style-type: none"> • Merciless

M&As have become the primary means by which many companies have chosen to grow. Largely because of these drivers, today’s deals are fundamentally different from those that figured in previous waves of merger activity (see Exhibit 1.1).

In past decades, M&As tended to be primarily financial transactions aimed at gaining control of undervalued assets, which was then often resold or left to stand alone as an independent entity. The target was often a dissimilar industry, or a business line distinctly separate from the acquirer’s main business. Price premiums were less common, integration was not a primary value driver, and as a result there was more room for mistakes. The main risk involved taking enough cost out of the business to ensure sufficient cash flow for debt service.

Today, the typical merger or acquisition is quite strategic and operational. Executives are buying an installed customer base as well as new and better distribution channels and geographic markets. They are buying organization competencies and an infusion of talent that leverage and extend strategic opportunities, and they are gaining control over competitors’ products and services. They are also consolidating business units or industries in a down cycle, to increase revenue and share price. The differences don’t stop there, however. Given the all-out race for globalization, not to mention the constant short-term pressure for earnings growth, desirable targets are fewer, demand for them is much greater, and price premiums are far more common. There are fewer margins for error in actually achieving the economic projections of the deal. Costs must still be driven out of the business, but now without any sacrifice of the ability to capture revenue-generating synergies. Moreover, in contrast to the past (when acquisitions

normally could be integrated over a longer period — perhaps three or four years or even longer), today, in order to realize projected targets, frequently the businesses must be merged as quickly as possible — often within six to twelve months after the close.

KEY PRINCIPLE

M&As have become the primary means by which many companies have chosen to grow, with today's deals being fundamentally different from those occurring in previous waves of M&As.

STRATEGIC DEAL RATIONALE: THE EIGHT CS

Strategic reasons for deals vary from firm to firm and transaction to transaction. Moreover, deals are often predicated upon multiple rationales. Here are eight key strategic reasons that companies do deals. One or any combination of these may serve as motivation for a company to pursue a particular transaction:

- *Costs*: to realize efficiencies of scale across duplicate functions
- *Channels*: to gain new means of distribution, such as retail outlets, a direct sales force, or an internet presence
- *Content*: to obtain new products or services
- *Capabilities*: to gain new or augment current strengths, such as R&D, marketing, or technology
- *Customers*: to obtain access to new customer segments, including lower, middle, or upper market purchasers
- *Countries*: to gain entrée to various regions or countries in which they did not previously have a presence
- *Capital*: to obtain available cash or access to capital markets that a target firm may possess
- *Capacity*: to increase the available volume of operations

KEY PRINCIPLE

Any combination of the eight Cs for a strategic deal rationale requires a well-planned and well-executed integration of some or all of the firm's people, processes, and systems.

SERIAL ACQUISITIONS AS A GROWTH STRATEGY

For decades, firms have engaged in multiple acquisitions to execute their growth strategies. Therefore managers and employees, instead of having to survive only one or two M&A transactions in their careers, must now be ready to routinely help integrate new businesses as a matter of course, one right after another, and often with multiple transactions occurring simultaneously. For example, during the 1990s, some of the most active acquirers—such as Cisco, General Electric, Microsoft, and several others—engaged in extensive acquisition programs in which they each acquired more than fifty companies (Laamanen and Keil, 2008). In his discussion of serial acquirers in the banking industry, Streeter (2007) states, “There is no official definition of the term, but a good rule of thumb could be companies that have done five deals since 2002. There are 23 such companies currently active (two others were acquired themselves). Collectively they accounted for 167, or 12.8 percent, of the 1,305 bank and thrift deals done since 2002” (p. 38).

In their study of serial acquirers, Laamanen and Keil (2008) identified 611 public U.S. acquirers operating in seven industry sectors that had carried out at least four acquisitions over a ten-year period. They further split their sample down into 173 “frequent acquirers” (those who conducted over ten acquisitions over a ten-year period) and 438 “less frequent acquirers” (those who conducted four to nine acquisitions over a ten-year period). The researchers found that a high rate of acquisitions is *negatively* related to performance. They also found that the serial acquirers who have developed the capability to manage acquisitions performed better than those who had not developed that capability. According to their findings, serial acquirers perform best when they supplement their deal-making skill with a well-developed and repeatable deal integration capability.