

Success factors in post-merger integration

*Deal makers share their
recipes for success*

*PwC's M&A Integration
Survey Report 2017*





Preface

Entering foreign markets and reaching new customers, increasing market share and extending product portfolio, realising cost savings or acquiring key talent – the rationale for mergers and acquisitions (M&A) vary from deal to deal. Nevertheless, all acquisitions share a common objective: the acquirer expects to add value and realise synergies so that the combined business is greater than just the sum of its parts. Buying a company is a vital growth strategy and carries with it high hopes.

However, two out of three acquisitions destroy value rather than create it. What are the reasons some deals are sustainably successful while others fail to meet expectations? What are the typical challenges acquirers face? Our experience shows that the main reason for failure is poor performance during

post-merger integration (PMI). PMI is key to every deal and a crucial factor in whether a transaction adds value or not.

In order to understand the value drivers in a PMI process, we conducted a survey among top managers and M&A experts. We gathered information on how businesses perform throughout the integration process.

In order to shed light on the main success factors we split respondents into two groups: deal makers who are able to reach their return on investment (ROI) expectations and deal makers who fail to meet ROI targets. We analyse their responses separately in order to highlight possible sources of success and failure.

Throughout the study, we show what successful deal makers do particularly well compared to less successful acquirers with the goal to identify practical insights for our clients.

We would like to thank all survey participants for their contributions. Their answers enabled us to gain valuable insights into the challenges of M&A integration, develop credible findings and give a consolidated view on the present M&A integration landscape.

We hope you find the survey results insightful and enlightening.

Your M&A Integration Survey team



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Contents

List of figures	5
About this survey	6
Executive summary.....	8
ROI – differentiating successful vs unsuccessful deal makers.....	10
Survey conclusions and recommendations	12
Detailed results along four success factors	14
1. Synergies	14
2. Speed of integration	20
3. Culture and change management.....	24
4. Project governance	32
Authors and contacts	38

List of figures

Figure 1 About the survey and the respondents.....	7
Figure 2 Result structure is divided along the four identified success factors	9
Figure 3 Successful vs unsuccessful deal makers	12
Figure 4 Summary of the four success factors and their impact on ROI achievement	13
Figure 5 Synergy targets achieved.....	14
Figure 6 “Please indicate the integration depth of the respective business functions” Percentage of answers ‘Full integration’.....	15
Figure 7 “Please indicate the integration depth of the respective business functions” Percentage of answers ‘Full integration’ and ‘Partial integration’	16
Figure 8 “Please indicate the three functions in which you achieved the highest synergies”	17
Figure 9 “Please indicate the integration depth of the respective business functions” Percentage of answers ‘Full integration’.....	17
Figure 10 “Did you define and employ figures for performance measurement (KPIs) to track synergy realisation?”	18
Figure 11 Completion of PMI project within defined time frame.....	20
Figure 12 “How long did it take to complete the integration of the respective business functions?”	21
Figure 13 “Please indicate the integration depth of IT”	22
Figure 14 Percentage of those, who completed integrating IT within two years after closing	22
Figure 15 “How fast was your integration compared to your initial timeline?” Percentage of answers ‘Slower’	23
Figure 16 Well received culture and change management	24
Figure 17 “In which areas did risks actually materialise?” Percentage of answers ‘Actually materialised’	25
Figure 18 “Did you consider the cultural fit of your organisation?” Percentage of answers ‘Yes, absolutely’ and ‘Yes, to a larger extent’	26
Figure 19 “Did you define and employ figures for performance measurement (KPIs) to track the success of your cultural integration?”	26
Figure 20 “Please indicate which attributes applied to your change management approach and execution” Percentage of answers ‘Yes, absolutely’ and ‘Yes, to a larger extent’	27
Figure 21 “Which change management activities contributed most to your deal success?” Please write down your most successful change management activities	29
Figure 22 “Were your expectations achieved in regard to the following dimensions?” Share of respondents, who achieved/overachieved expectations	30
Figure 23 “How fast was your integration compared to your initial timeline?”	31
Figure 24 Strong project governance implemented	32
Figure 25 “Did the following properties apply to your integration setup?” Percentage of answers ‘Yes, absolutely’ and ‘Yes, to a larger extent’	33
Figure 26 “Did you identify and manage risks proactively?”	34
Figure 27 “In which areas did risks materialise?” Percentage of answers ‘Issues actually materialised’	34
Figure 28 “Did you complete the PMI as initially planned/slower/quicker?” Percentage of answers ‘As planned’ and ‘Quicker’	35
Figure 29 “Did you achieve expectations with regard to cultural integration?” Percentage of answers ‘Yes, absolutely’ and ‘Yes, to a larger extent’	36

About this survey

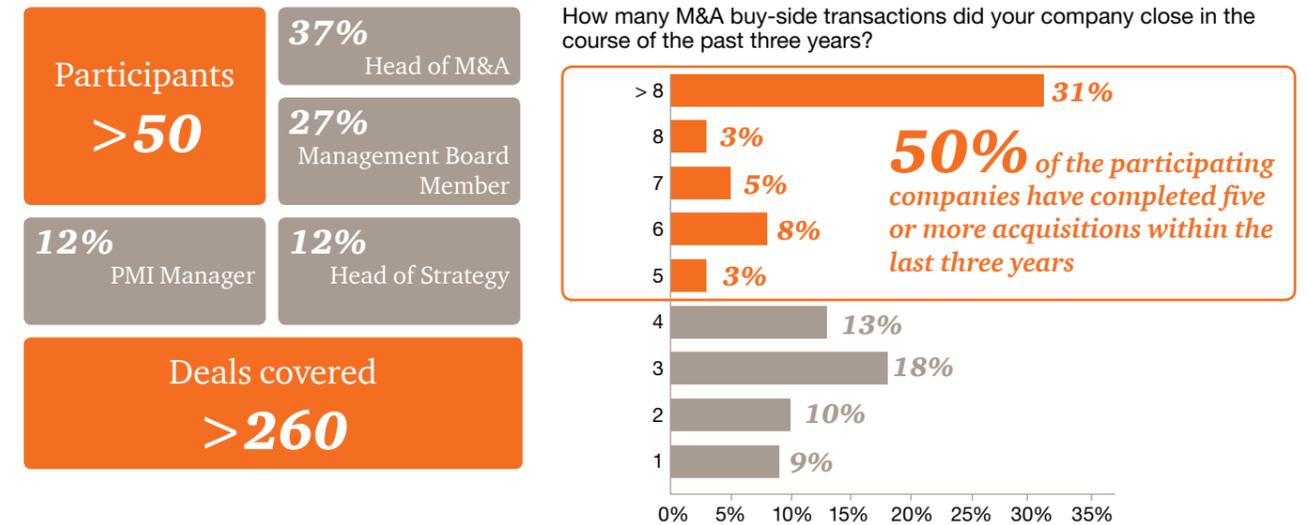
'Success factors in post-merger integration' is the latest PwC study exploring deal makers' recipes for successful M&A integrations. More than 50 company representatives took part in the survey. The results reflect the experiences from over 260 deals conducted in the past three years by the participating businesses.

The vast majority of respondents are members of the management board or are at executive level as head of M&A, strategy or finance. Half of the participating companies have completed five or more acquisitions within the last three years. The respondents covered a broad section of industries with 22% in industrial products and 20% in the technology sectors.

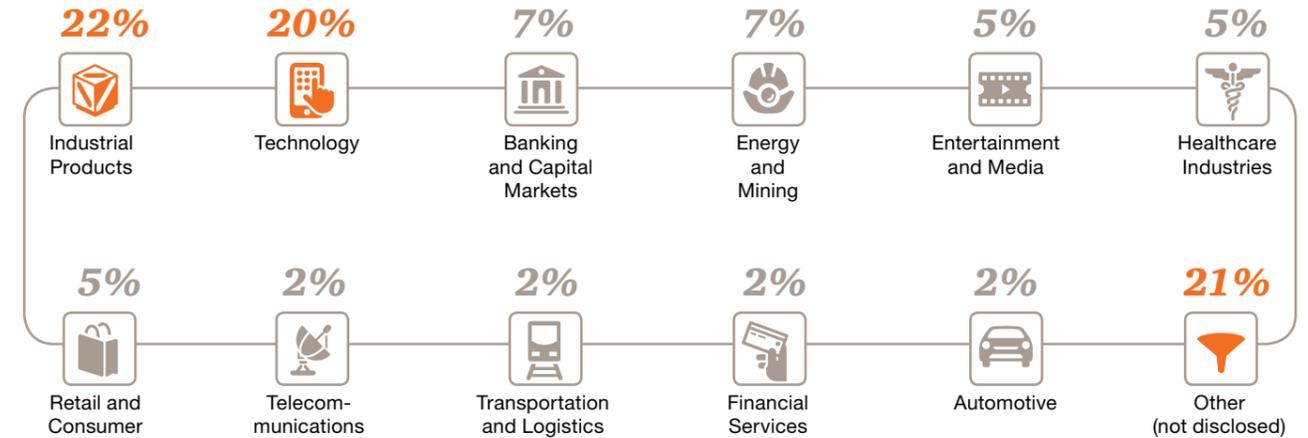
We interviewed smaller firms with up to 2,500 employees as well as large organisations with more than 50,000 employees. In almost three quarters of the acquisitions considered, the target was a stand-alone company; in the remaining cases, acquirers purchased a carve-out entity.



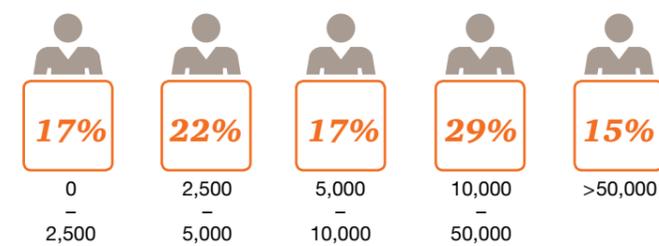
Fig. 1 About the survey and the respondents



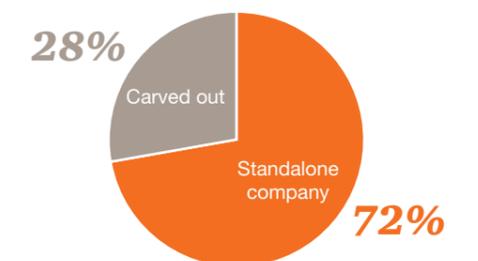
Industries



Employees



Was the deal target a standalone company or carved out part of a larger entity?





Why do some transactions pay off while others do not meet deal makers' expectations? Is integration success blind luck or a manageable and transparent process?

Key highlights

- 1 Successful deal makers excel in four areas: achieving synergies, completing the integration within an ambitious time frame, successfully managing culture and change, and implementing strong project governance. Strong performance in these four areas is what differentiates successful deal makers from unsuccessful ones.
- 2 Companies performing highly in the four dimensions mentioned above are far more likely to achieve their set goals regarding return-on-investment (ROI) objectives. ROI is a good indicator for the success of post-merger integration, as it combines multiple success factors.
- 3 The four dimensions are strongly interlinked: companies who perform well in one dimension also tend to excel in the other three. This holds especially true for companies boasting strong project governance. They are able to achieve their set timelines, synergy targets and expectations regarding culture and change significantly more often.
- 4 Frequent acquirers do not outperform occasional acquirers. Companies that acquired five or more firms during the last three years are as likely as occasional acquirers to achieve synergy expectations and to complete the PMI project within the defined time frame. Frequent acquirers, in fact, experience much more often business interruptions, complex legal regulations, and IT incompatibility than occasional acquirers do.

Fig. 2 Result structure is divided along the four identified success factors



ROI – differentiating successful vs unsuccessful deal makers

Was the target company worth its price? In the context of M&A, return on investment (ROI) is a good measure of deal success. It relates the net profit of the target company to the sum the acquirer invested to buy it.

ROI is generally a good way of measuring PMI success since it comprises multiple success factors. We therefore asked all participants if they achieved their expectations regarding ROI. Based on their answers, we split respondents into two groups:

- Those who achieved or overachieved ROI ('successful deal makers')
- Those who only partially achieved or failed to achieve ROI ('unsuccessful deal makers')

The assignment to the group of 'unsuccessful deal makers' is only based on ROI achievement and does not necessarily mean that the whole integration was unsuccessful.

Fig. 3 Successful vs unsuccessful deal makers

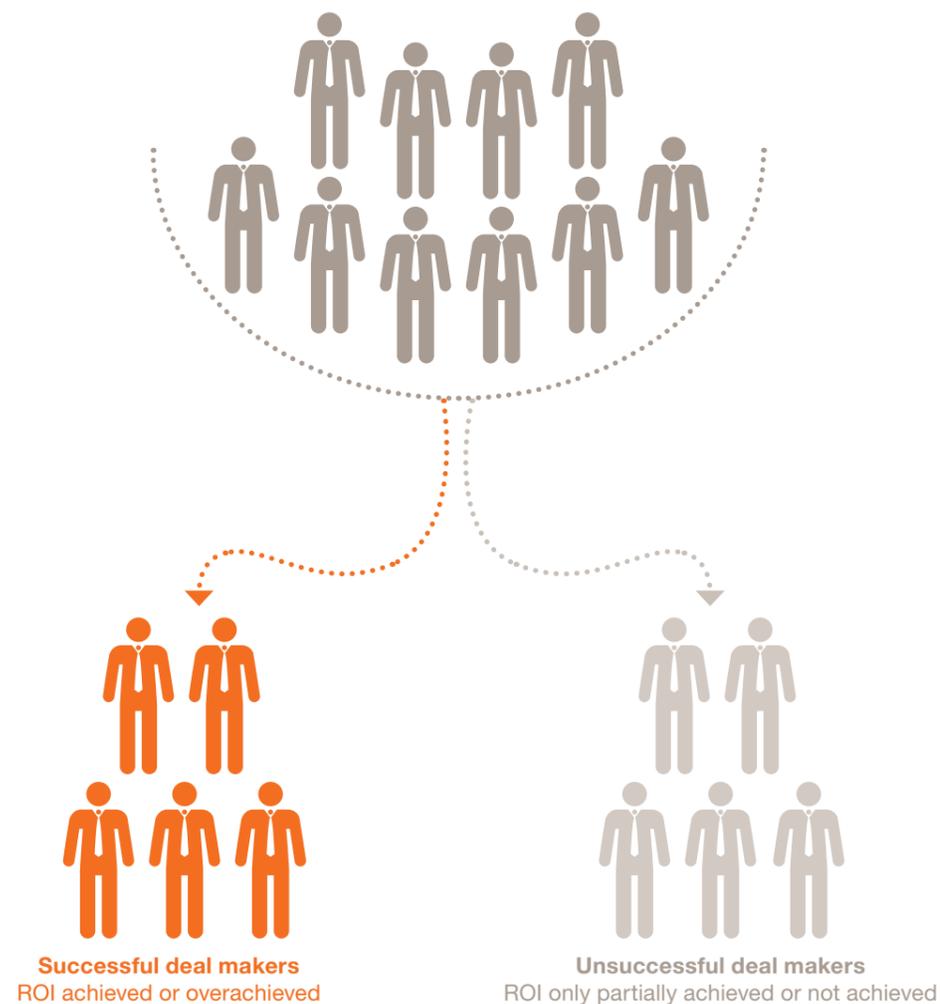
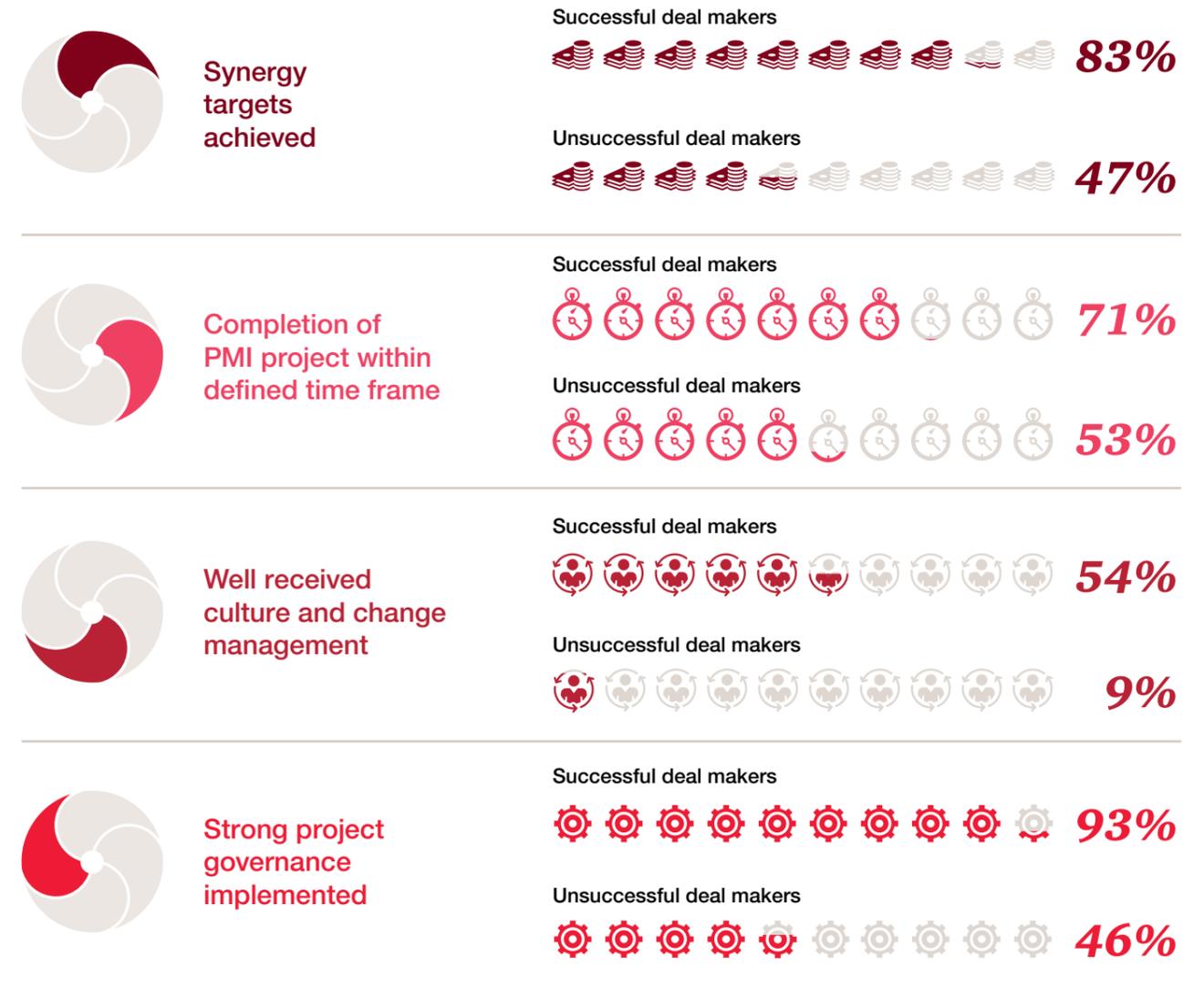


Fig. 4 Summary of the four success factors and their impact on ROI achievement



Survey conclusions and recommendations for each dimension

Synergies

 Page 14–19

Synergies are key in nearly every deal and a necessary precondition to creating value. Deep functional integration contributes to generating synergies. Our research shows that successful deal makers tend to integrate deeper than less successful acquirers. While it is common to integrate support functions, fully integrating core functions is challenging, but promises higher synergy results. Our recommendations:

- 1) Design the target operating model (TOM) of your combined business as early as possible. It will guide all your functional integration activities as well as maximise the benefits of the acquisition.
- 2) Think about how you can create value through a deep integration of your businesses, especially in core functions. Deal makers who integrate deeper, are more likely to realise synergies to the fullest.
- 3) Keep your focus on synergies. Actively managing and tracking them is essential. Set up separate dedicated workstreams and keep the organisation, as well as senior management, engaged until you reach your set targets.

Speed of integration

 Page 20–23

Deal makers who manage a speedy integration benefit from the positive effects of a merger much sooner, enabling them to quickly return to managing the daily business. If the integration process drags on too long, employees can easily feel frustrated. Our research shows that successful deal makers complete most of the integration within one year after closing. Among the first business functions to be integrated are Finance and HR, as well as customer-facing functions promising quick-wins and early synergies. The challenge lies with finding the optimum balance between the speed and quality of the integration. Our recommendations:

- 1) Plan your integration early, translate your deal rationales into a focused integration strategy and operating model, and ramp up your team, ideally before signing. It will save you valuable time after closing.
- 2) Be ambitious with the integration timeline. Six months are usually enough time to integrate support functions. Only in a few cases the integration of functions, as for example complex heterogeneous core functions, takes longer than one year.
- 3) Determine the optimum speed of the integration process depending on the type and scope of the deal. Bear in mind that there is a trade-off between quality and speed.

Culture and change management

 Page 24–31

Culture and change management are among the most unpredictable factors of deal success. If an integration fails, poor culture and change management are often to blame as a majority of deal makers struggle with this area. Unlike financial and operational aspects of a deal, culture and change are more difficult to measure and control effectively.

The survey shows that establishing culture and change management in the integration process and timing change measures correctly are among the most important success factors. Companies that put culture and change management at the heart of their integration process perform better. Almost all companies who achieve their culture and change management expectations also manage to stick to their initial timelines. Our recommendations:

- 1) Be aware of cultural differences and carefully assess which change interventions will be required to foster the aspired working culture. You might consider active planning and systematic tracking of culture and change management measures. However, you do not necessarily need a formal process to be successful if change-experienced leadership is in place.
- 2) Drive your culture and change management through top and senior management to engage and motivate employees throughout the entire integration process. Be sensitive about the timing of change measures, and ensure frequent and consistent communication.
- 3) Always pay attention to identifying key stakeholders and critical talents within your acquired business. Offer monetary and non-monetary retention packages according to each individual's needs and create meaningful roles.

Project governance

 Page 32–37

Implementing strong project governance is essential for deal success. It strongly correlates with integration speed as well as successful culture and change management. Companies who reach their synergy targets and achieve their expectations regarding culture and change management are very likely to have robust project governance in place.

The survey shows that most companies understand how important it is to involve top management in the integration process. However, including employees from both the target and buyer in the project organisation, as well as allocating responsibilities in a waterfall fashion to line management is much less common. Companies which establish robust project governance are more likely to consider risks and ensure business continuity. They tend to finish the integration process as planned, resulting in a more rapid return on investment (ROI), better capitalisation on post-deal opportunities, and lower levels of employee dissatisfaction and organisational uncertainty. Our recommendations:

- 1) Make sure to set up the project governance and organisation well in advance. Thoroughly consider and decide as early as possible within the acquiring company how to involve leadership and employees from the target company within the project organisation.
- 2) To establish effective governance, pay sufficient attention to achieving the right balance in steering and decision-making committees.
- 3) Define pragmatic guidelines for decision-making and on how to assign the right resources to the right activities at the right times.

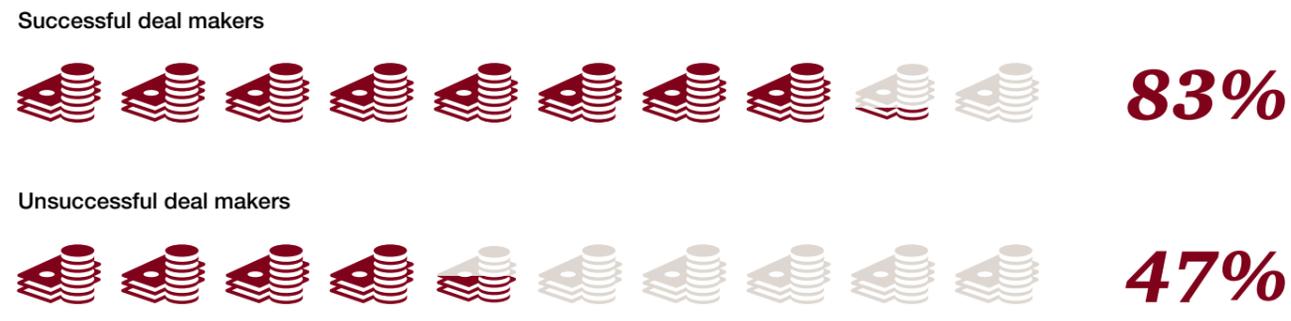
Synergies



Key driver of deal success

Most buyers factor in expected synergies when calculating the purchase price. Thus, realising synergies is one of the most important drivers of success in the integration process. There is a great discrepancy within the levels of synergy achievement between successful and unsuccessful deal makers: while 83% of successful deal makers are able to realise their synergy expectations, less than half of the unsuccessful ones are able to do so (figure 5). That finding illustrates how vital it is for companies to achieve their synergies in order to meet ROI expectations.

Fig. 5 Synergy targets achieved



The road to synergy achievement is a rocky one

Four recommendations from PwC's project experience:

- 1) Plan synergies well in advance, ideally during the due-diligence phase or latest before closing. You need a precise understanding of which synergies you want to achieve and how you want to realise them.
- 2) Identify the most important business functions promising a high level of synergies. Your deal rationale defines the type of synergies you want to generate.
- 3) Differentiate between long-term synergies and short-term synergies that can more easily be realised.
- 4) Define key performance indicators (KPIs) to be able to track progress in achieving synergies along the way. Using quantitative and qualitative KPIs to formulate and regularly monitor processes will help you form realistic expectations about synergies. It will provide you with a well-balanced overview of synergy realisation and thereby integration success.

The deeper the integration, the greater the synergies

The study reveals that deal makers who integrate deeper are able to exploit synergies to the fullest, which translates into superior deal success. In our study we define top performers as deal makers who have been able to achieve their expectations regarding synergies, while low performers fail to achieve their synergy targets.

Figure 6 shows that top performers more consistently integrate all business functions than low performers. This is true for core functions as well as for support functions. Low performers almost never fully integrate functions such as research and development or marketing and sales. As a result, they fail to realise synergies such as cross-selling and fail to attract new clients.

In the short term, a partial integration might appear more tempting. Integrating only certain functions means less work, lower costs and less business and people disruptions. However, in the medium and long run partially integrated companies face the risk of not fully realising their synergies. Eventually, a partial integration can lead to a lower ROI.

“Deal makers who integrate deeper are able to exploit synergies to the fullest, which translates into superior deal success”

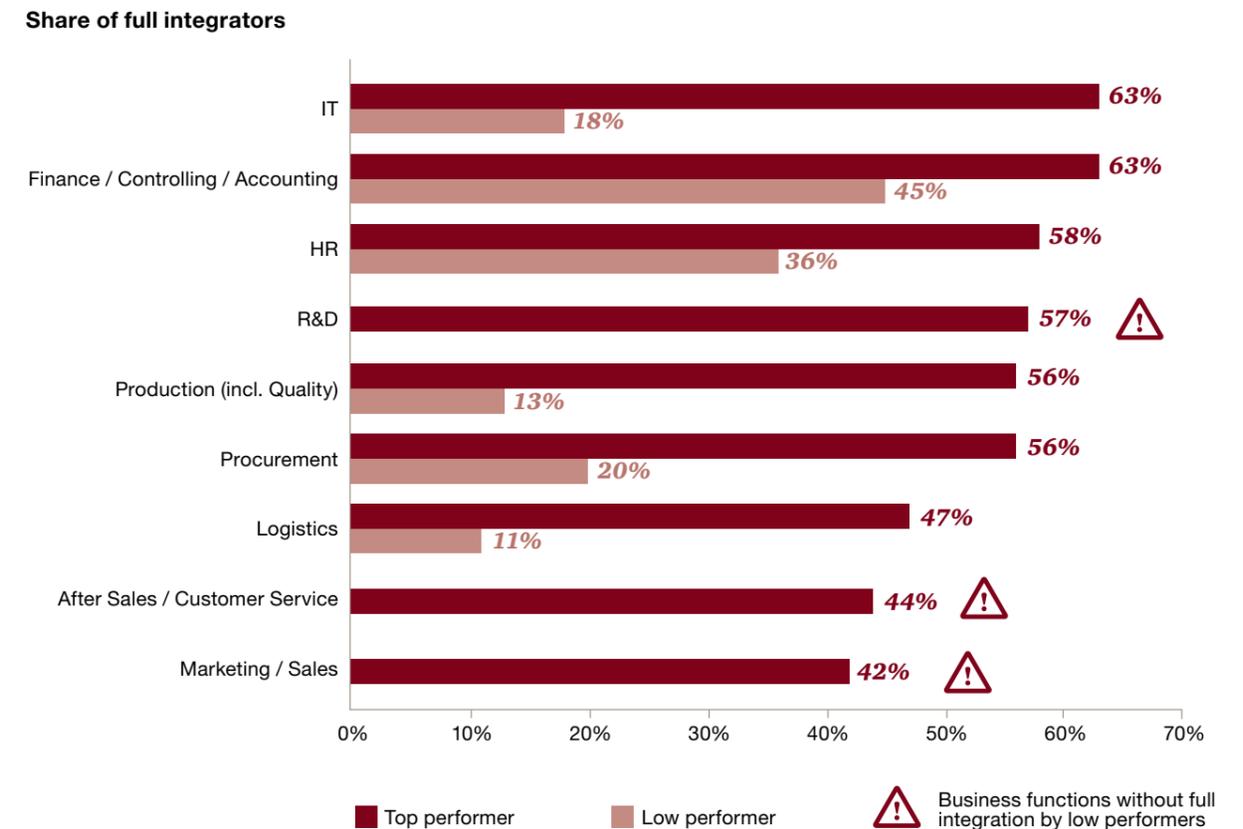
Exceptions prove the rule

The degree of integration for customer service or marketing and sales is relatively low, even for successful deal makers. This outcome is not too surprising: in some cases, keeping separate branding or leaving the customer-facing elements unchanged is the better option.

Another exception is the acquisition of a start-up company: full integration might not be the best choice as the distinctive culture of the acquired start-up is valuable and worth preserving. There might very well be other valid reasons why functions should stay separate. However, businesses should always make a conscious decision that is in line with the overall deal rationale and desired future operating model.

Fig. 6 “Please indicate the integration depth of the respective business functions”

Percentage of answers ‘Full integration’



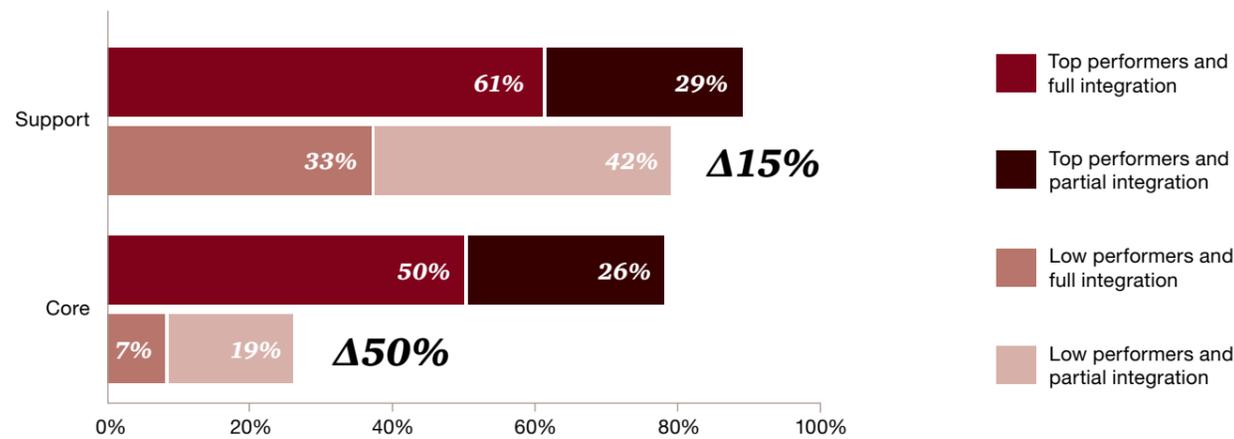
Successful deal makers integrate core functions

When it comes to integrating support functions, deal makers who achieve their synergy targets do not significantly outperform deal makers who do not manage to reach their synergy goals (figure 7). The reason why top performers achieve a much higher level of synergies is that they focus on integrating core business functions; a far more challenging task requiring a lot of time and effort.

Harmonising support functions is often a quick win: cost synergies come easily and can serve as a basis for successful integration. Integrating core functions, on the other hand, is much harder, but also more rewarding: it will result in revenue synergies, create long-term competitive advantages, and make a deal truly successful.

Fig. 7 “Please indicate the integration depth of the respective business functions”
Percentage of answers ‘Full integration’ and ‘Partial integration’

Share of full and partial integrators



Core functions

- Marketing & Sales
- After Sales / Customer Service
- Production (incl. Quality)
- Procurement
- Logistics
- R&D

Support functions

- Finance / Controlling / Accounting
- IT
- HR

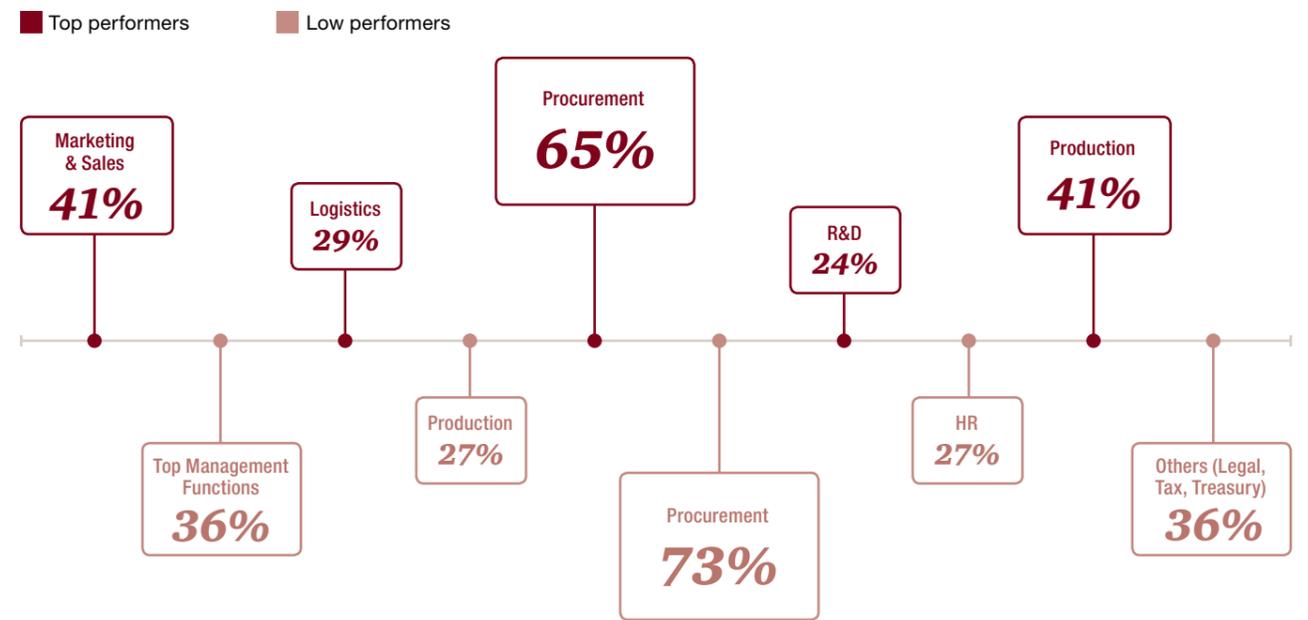
IT function as a special case

IT is a support function, but an exception to the rule. If the success of the combined business depends on integrated IT systems, a speedy and deep integration makes sense. For instance, if the acquirer buys a target in order to use cross-selling potential through a common ERP or online platform, integrating IT systems is a top priority. In cases where integrated IT systems are not critical for the business to achieve synergies or value creation initiatives, the acquirer might choose to make IT integration a lower priority.

Highest synergies come from core functions

Figure 8 shows the functions in which deal makers achieve the highest synergies. It is interesting to note that top performers claim that they achieve highest synergies in core functions, such as procurement, production, marketing and sales, as well as logistics. Low performers also name procurement as the most important area in which they realise synergies. However, support functions such as legal, tax and treasury, and top management functions rank second and third.

Fig. 8 “Please indicate the three functions in which you achieved the highest synergies”



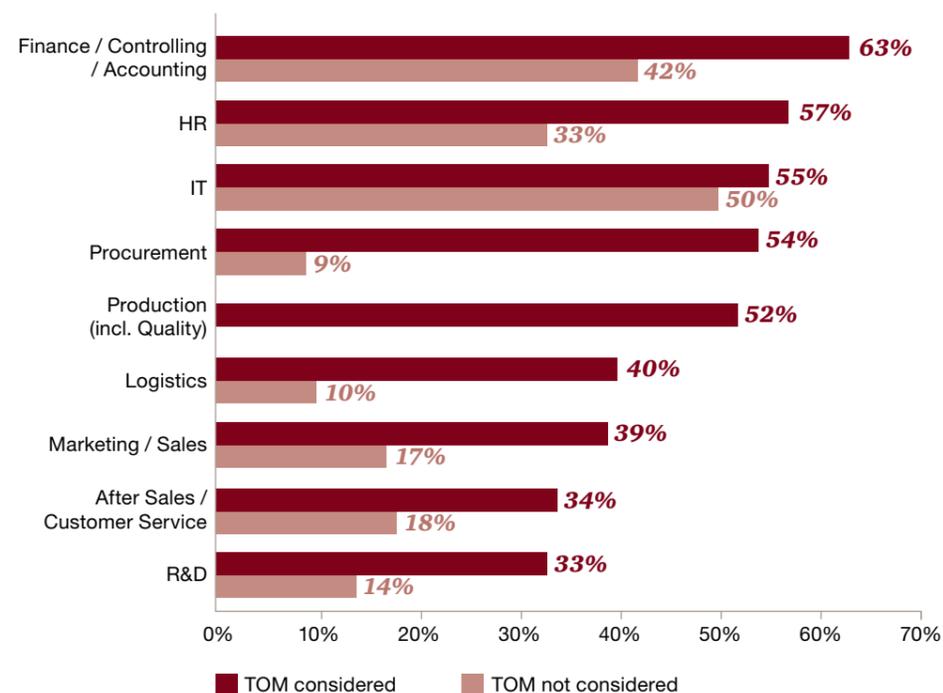
Defining the target operating model (TOM) as a guideline

Top management usually develops a target operating model (TOM) as a useful guideline to integration success for all business functions. Since partial integration is less demanding and costly than deep integration, single business functions typically have an incentive not to integrate fully. Defining a TOM is a useful top-down measure countering this potentially harmful impulse.

Survey results show a positive correlation between TOM and integration depth: deal makers who consider and actively design the TOM of the combined company also integrate functions deeper than those who do not specify the combined TOM during the early phase of integration (figure 9).

Fig. 9 “Please indicate the integration depth of the respective business functions”
Percentage of answers ‘Full integration’

Share of full integrators



The advantages of considering and defining the TOM of the combined company as early as possible are convincing: deal makers are able to make more rationale and conscious decisions regarding the best degree of integration, maximising the benefits of the combined business. A known target state also leads to more consistent decision-making during the integration planning and execution, as it allows executives to prioritise and focus resources to areas where the highest impact can be generated.

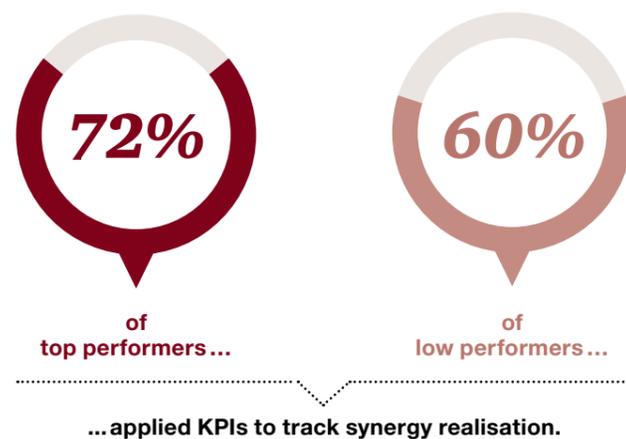
“Tracking KPIs regularly is crucial to achieve synergy expectations”

What gets measured gets done

The survey results show that the vast majority of deal makers use key performance indicators (KPIs) to measure and track their synergies. This holds true for all participants, regardless of whether they succeed in realising synergies or not. Deal makers are well aware that measuring and managing synergies is an important part of integration. A well-defined set of KPIs offers businesses a balanced overview of their progress throughout the integration process.

Among deal makers who achieve their synergy expectations, using KPIs is slightly more common: 72% of top performers and 60% of low performers apply KPIs in order to measure synergy realisation (figure 10). This finding illustrates that defining and tracking KPIs regularly is crucial for deal makers to achieve their synergy expectations. However, it is not sufficient just to apply measurement tools. Businesses need to use them in a systematic, sequential and regular fashion as well as base them on their deal rationale.

Fig. 10 “Did you define and employ figures for performance measurement (KPIs) to track synergy realisation?”



A challenge: measuring revenue synergies and qualitative KPIs

Past integration projects show that measuring revenue synergies is far more challenging than keeping track of cost synergies. In order to estimate revenue synergies, businesses need to make predictions about the future development of the combined firm. For cost synergies, they can simply base their targets on historical financial data.

Apart from quantitative KPIs that capture revenue and cost-related developments, companies can benefit greatly from qualitative KPIs tracking soft factors, such as culture and change management. Whether the objectives are defined by qualitative or quantitative measures, formulating and following up on KPIs from the beginning typically helps companies to set and achieve realistic synergy targets.

Speed of integration

Speed matters

As shown in figure 11, successful deal makers are generally faster at integrating: seven out of ten are able to complete their PMI project within the defined timeframe. Among unsuccessful deal makers, only slightly more than half manage to finish their integration project in a timely fashion. The benefits of a speedy integration process are obvious: the positive effects of the merger materialise earlier and the created value increases.

A prolonged integration process, on the other hand, can lead to frustration and a negative attitudes among employees, more uncertainty within the organisation, doubts about the merger, and barriers to change. Businesses should take employees on board as early as possible and send out clear messages to convince them of the advantages of the integration. The faster the acquiring company completes the integration process, the sooner it can go back to daily business.

Fig. 11 Completion of PMI project within defined time frame

Successful deal makers



Unsuccessful deal makers



Complex integrations may require a little extra time

However, speed depends on the extent and complexity of each integration. Acquirers need to be aware that a complex integration of large corporations might require more time, and adjust time schedules accordingly.

Project experience shows that fast integration is good, up to a point. Too speedy an integration is risky: businesses may take incorrect or uninformed decisions and overlook important aspects. The challenge lies in finding the right balance between the speed and quality of the integration.

Another factor determining the optimal speed of integration is how much time a company can devote to the integration process. In order to avoid unnecessary time pressure or delays, deal makers need to develop a realistic schedule.

Successful deal makers complete integration a year after closing

On average, successful deal makers manage to integrate at least two functions within the first six months and almost all remaining functions within one year after closing (figure 12).

The first business functions to be integrated are often finance, HR and customer-facing functions, such as marketing and sales. The advantage of starting with finance and HR is that they promise quick wins and enable acquirers to achieve short-term synergies. Finance and HR do not need to follow the business; their integration can happen before top management takes any decisions on integrating core functions.

Integrating IT systems, on the other hand, often takes the longest time, followed by core functions such as research and development or production. Integrating those areas requires a lot of effort and commitment over the long-term. Success will not come immediately, but good planning and systematic tracking can help acquirers get these challenging areas under control.



“Positive effects of the merger materialise earlier and the created value increases”



Fig. 12 “How long did it take to complete¹ the integration of the respective business functions?”

Successful deal makers



Unsuccessful deal makers



1) Completed means more than 80% of respondents have integrated the function. 80% was chosen as threshold not to reduce the impact of outliers in this chart.

Project experience proves that successful integration must happen quickly. The period between deal announcement and closing, as well as the first 100 days post-close, are critical to realising quick wins and preparing the combined company to maximise value over the long term. Between six months and one year after deal closing, companies often lose integration momentum.



IT integration as a success factor

Successful deal makers not only aim for a deeper level of integration of IT functions, they also integrate them much faster: 54% of successful deal makers indicate that they integrate their IT function fully, compared to 27% of unsuccessful deal makers (figure 13). After two years, 77% of unsuccessful deal makers, but all of the successful deal makers have completed integration of IT (figure 14).

For most of the respondents' companies, IT is neither a core function nor does it deliver the highest synergies. Nevertheless, companies cannot do business without a well-functioning IT. This is why they should not underestimate the importance of IT in the integration process as it is a key enabler for most synergies and usually the highest area of one-time costs. Therefore integrating IT is a priority that deserves careful consideration in every budget and schedule.

Fig. 13 "Please indicate the integration depth of IT"
Percentage of answers 'Full integration'

Full integration of IT

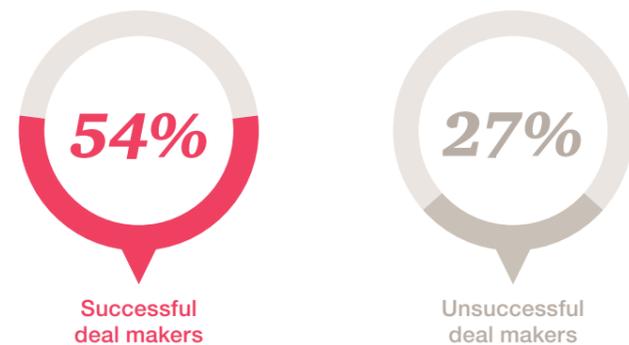


Fig. 14 Percentage of those, who completed integrating IT within two years after closing



"IT is a key enabler for most synergies, its importance should not be underestimated"

Successful deal makers show better time management

Successful deal makers are significantly more likely to complete the entire PMI project according to their initial schedule: only 29% of them state that their integration went more slowly than originally planned. In the group of unsuccessful deal makers, almost half failed to stick to their initial timeline (figure 15).

The benefits of quick integrations are indisputable: synergies materialise faster and the merged company can swiftly return to managing the daily business. Accelerated transitions result in more rapid returns on deal investment, better capitalisation on post-deal opportunities, and lower levels of organisational uncertainty. There is no value in delay. Prolonged transitions will reduce profits, destroy morale and productivity, and lead to missed opportunities and loss of market share.

Fig. 15 "How fast was your integration compared to your initial timeline?"

Percentage of answers 'Slower'



... performed the integration slower compared to initial timeline.

Culture and change management



The most unpredictable factor of deal success

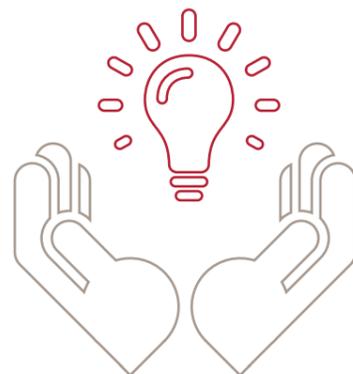
Experience shows that cultural differences between the acquirer and target companies are amongst the major reasons why mergers and acquisitions fail. The shared values, beliefs and behavioural norms of employees, in brief, the corporate culture of a business, are implicit and develop organically over time. A cultural shift cannot happen overnight. Culture and change might therefore turn out to be the largest barriers to a successful integration process.

Unlike the financial and operational parameters of a deal, culture and change are soft factors and very difficult to measure and control. During the PMI process, designated executives take responsibility for achieving financial or operational goals in a timely manner. When it comes to culture and change, it is less common to nominate one single leader as responsible for facilitating cultural integration.

Consequently, businesses tend to neglect soft issues in the course of the integration process. This can result in frustrated and demoralised employees and a general reluctance to accept the new corporate culture. In the worst-case scenario, talented employees decide to leave the company.

Survey results show that expectations regarding culture and change management are difficult to achieve for both successful and unsuccessful deal makers. However, successful deal makers manage cultural issues significantly better than unsuccessful ones. Over half of them state that their culture and change management was well received. Among unsuccessful deal makers, in comparison, only one in ten reports that their culture and change management was well accepted (figure 16).

Fig. 16 Well received culture and change management



What is the secret of success regarding cultural integration? Which tools can the acquirer use to help convince employees to give the new corporate culture a chance? In which ways will businesses benefit from successful cultural integration? All of these questions will be addressed over the next few pages.



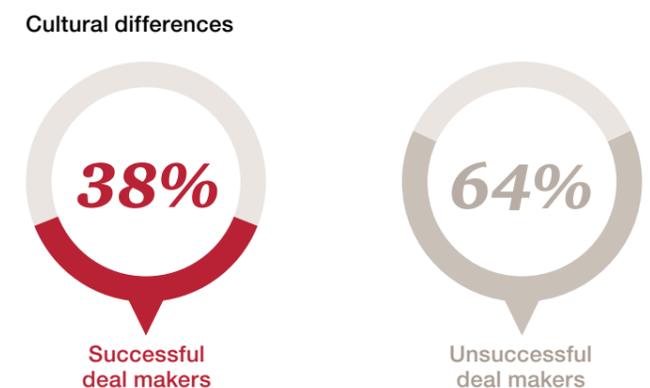
“Culture and change might turn out to be the largest barriers to a successful integration process”

Deal makers struggle with cultural differences

When asked in which areas risks actually materialised, more than half of survey respondents name cultural differences. This result confirms that cultural clashes are not just a myth, but a reality that post-merger integrators often struggle with.

However, as illustrated in figure 17, cultural differences materialise significantly less often for successful deal makers. Less than four in ten of them encounter difficulties with cultural differences. Among unsuccessful deal makers, as many as almost two-thirds struggle with cultural clashes. That means that successful deal makers take a different, more effective approach to cultural integration.

Fig. 17 “In which areas did risks actually materialise?”
Percentage of answers ‘Actually materialised’



Culture and change require proactive planning

So, what is it exactly that successful deal makers do better when it comes to culture and change management? Firstly, almost all of them consider the cultural fit of buyer and target before the deal. In the group of unsuccessful deal makers only two-thirds pay attention to cultural issues before closing (figure 18).

Fig. 18 “Did you consider the cultural fit of your organisation?”

Percentage of answers ‘Yes, absolutely’ and ‘Yes, to a larger extent’



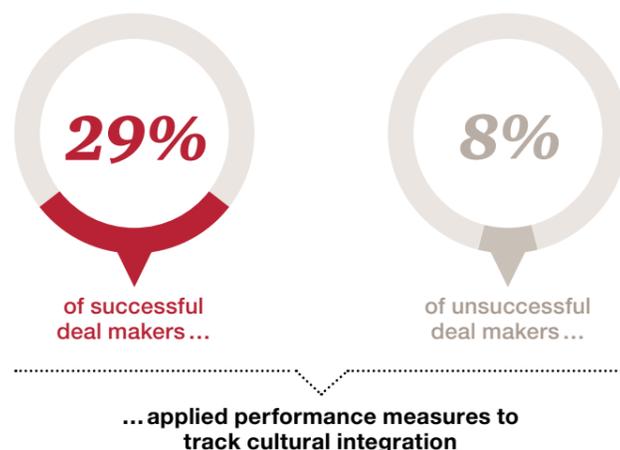
The survey results illustrate that there is no guarantee that a cultural shift will just happen and be successful. It is not a by-product of integration appearing automatically. Instead, the companies involved in the transaction not only need to consider culture-related issues, they also need to address them adequately, early and proactively.

Timing is an important parameter: cultural integration cannot wait until the deal is done. Instead, the issue requires special attention and proactive planning. Deal makers are well advised to prepare for different culture-clash scenarios that could occur along the way, and actively design strategies to mitigate or deal with them.

Systematic tracking

Secondly, successful deal makers are better at tracking the success of cultural integration, a soft factor of PMI processes. Executives often feel unsure when it comes to tracking and managing cultural changes because they are hard to define and very subjective in nature.

Fig. 19 “Did you define and employ figures for performance measurement (KPIs) to track the success of your cultural integration?”



Even though for some deal makers defining KPIs for measuring cultural integration seems to be hard, it is not impossible: three out of ten successful deal makers apply performance measures to track cultural integration closely, compared to less than one out of ten unsuccessful deal makers (figure 19).

“Executives often feel unsure when it comes to managing cultural changes because they are very subjective in nature”

Success factors of strong change management

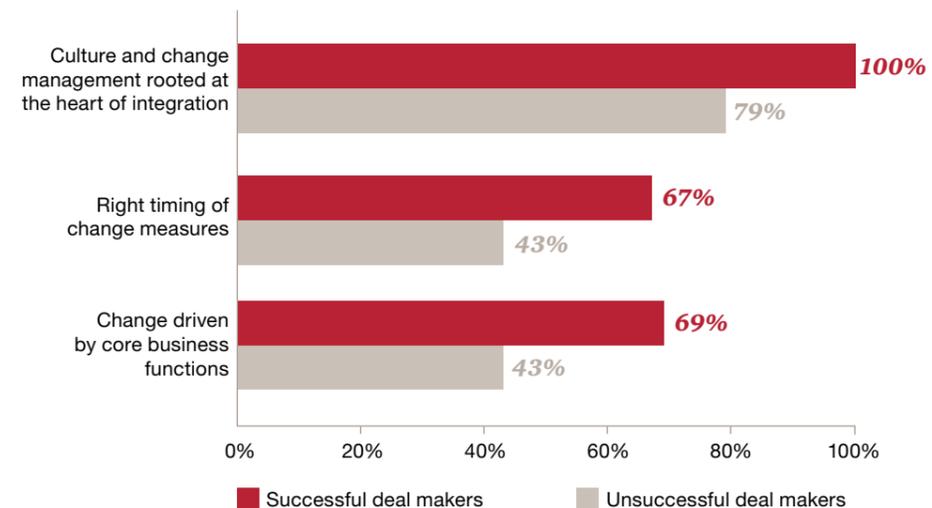
What are the characteristics of strong change management in a PMI process? The study reveals that successful deal makers outperform less successful acquirers especially in three areas of change management (figure 20):

- Involve core functions**
 Successful deal makers are more likely to drive change through the core functions of their business. This is a wise move since change is highly important for the entire organisation. Less successful companies tend to focus change measures on support functions. They concentrate on the variety of short-term changes happening during an integration, such as the consolidation of different functions, while neglecting core functions where change management efforts pay off in the long term.
- Focus on the right timing**
 Successful deal makers concentrate on getting the timing of change management measures right. Change management requires very conscious decision-making: when is the best time to start initiatives? How often do I need to update stakeholders? In general, the earlier and the more often, the better. Employees should learn about new values and norms as soon as possible, so they do not start feeling frustrated. Uncertainty and fears grow with time. Communicating changes early on, helps get employees on board with upcoming changes.
- Put culture and change at the heart of the process**
 Successful deal makers root culture and change management at the heart of their integration. In other words, they make culture and change a core responsibility of their project management and communication team instead of looking at change as a separate support activity that can be delegated to HR or even be outsourced.

Fig. 20 “Please indicate which attributes applied to your change management approach and execution”

Percentage of answers ‘Yes, absolutely’ and ‘Yes, to a larger extent’

Top three characteristics of strong change management





Involving top management

All deal makers, successful or not, focus on actively involving top management in their change measures and on developing a clear and concise vision for change as well as realistic messaging. Project experience shows that this is an important factor contributing to the overall success of the integration.

Top management involvement is essential. Especially at the beginning of the integration, employees will look at leaders and follow their inspiring messages and guidance. The culture of the combined business can only develop and thrive if top management makes a strong commitment.

However, a top-down approach is not enough. Executives cannot simply impose culture and change on their employees. New norms and behaviours are implicit in nature; they develop very slowly and organically. Employees will only accept new values and norms if they feel right.

The solution for cultural difficulties should come from the place where the problem originates, at all levels of the organisation. It takes collaboration and collective efforts to build a common corporate culture, consisting of new organisational values, standards and beliefs, shared by the employees of both the target and the buyer.

Fig. 21 “Which change management activities contributed most to your deal success?”

Please write down your most successful change management activities



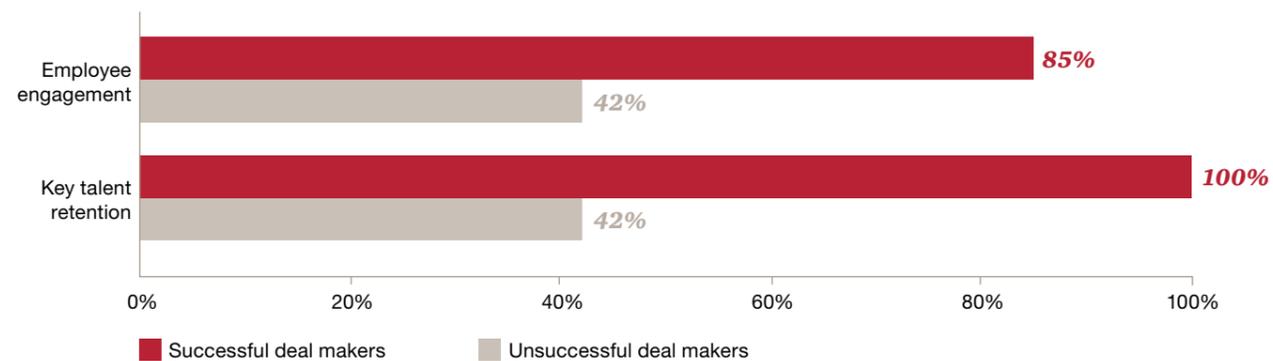
The benefits of strong culture and change management

The results show that successful deal makers are not only more likely to achieve their expectations with regard to cultural integration. They also outperform less successful acquirers when it comes to keeping key talents in the firm and engaging employees (figure 22). Talent retention and a high degree of employee engagement are positive by-products of a successful cultural shift.

Managing change smoothly ensures that valuable employees decide to stay with the organisation, willing to contribute their effort and time to support the transition and to collaborate with each other in the process of the integration.

Fig. 22 “Were your expectations achieved in regard to the following dimensions?”

Share of respondents, who achieved/overachieved expectations



Why talent retention is key

Acquiring key talents and gaining access to innovative ideas are main drivers for mergers and acquisitions. Losing key talents during the integration process can jeopardise the success of the whole deal. Corporate culture spreads much farther than just internal working relationships. It also includes the way the firm interacts with customers or approaches product development. Losing key talents often means sacrificing operational excellence, thus diminishing the value of the target company. This is particularly true in the case of service companies whose major assets are their employees.

The first steps are always to ensure consistent communication along all employees, and to identify critical talents. Once the right retention measures are in place, the acquiring company needs to ensure, that communication is consistently translated into action and reaches all critical talents and employees.

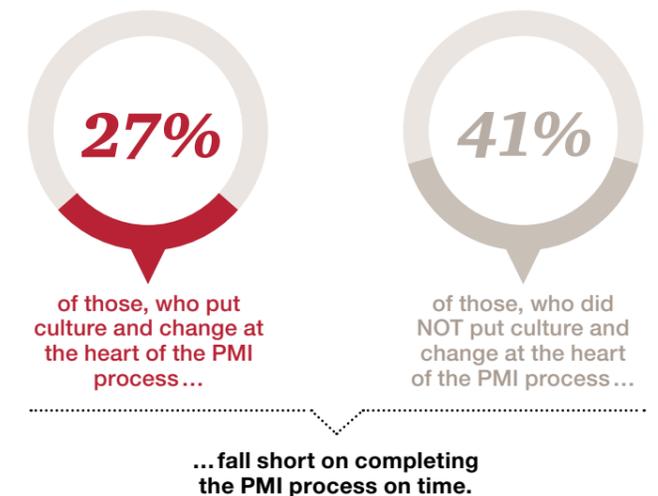


“Losing key talents often means sacrificing operational excellence, thus diminishing the value of the target company”

Prioritising cultural issues ensures a swift integration

Businesses who do not put culture and change management at the heart of their integration process fall short on completing the integration in a timely manner almost twice as often: 41% of deal makers who did not give priority to culture and change during integration fail in completing the PMI process on time. Among those who put culture and change at the heart of their integration, only 27% fell short of finishing post-merger integration on schedule.

Fig. 23 “How fast was your integration compared to your initial timeline?”



When culture and change management play a central role in the integration setup, they function as a reminder of integration progress. Project experience suggests that culture and change management should be among the first aspects to be considered and the last to be fully integrated. Culture and change, therefore, mark the beginning and the end of the integration cycle.

Project governance



Why balanced project governance matters

Post-merger integration requires a lot of time, resources and effort. Companies tend to overlook the complexity of this process. When it turns out to be more challenging than initially expected, they might not be well prepared to manage the transition. Poor planning can lead to business interruptions and loss of revenues or opportunities.

The complexity of the PMI process increases with the size of the transaction. For the process to go smoothly, companies need well-defined guidelines to assign accountability, define functional authority, establish role clarity and to focus resources and capital efficiently. A plan optimising

the use of time, resources and budget of post-merger integration is generally referred to as project governance.

Even for deal makers who are successful at achieving synergies, choosing the right speed for the integration process and managing culture and change management well, PMI success is not a given, unless they set up a balanced project-governance regime. The study reveals that almost all successful deal makers implement strong project governance whereas among unsuccessful deal makers this is much less common (figure 24).

Fig. 24 Strong project governance implemented

Successful deal makers



Unsuccessful deal makers



Characteristics of a strong project governance

Successful deal makers include all vital aspects of the integration setup, such as establishing the project organisation well in advance and involving employees from both the target and buyer (figure 25). Their project governance and decision-making processes are generally superior.

Low performing deal makers manage some important topics nearly equally well: they involve top management almost as often since most companies have realised top management support is key. This aspect is not a differentiator between high and low performers anymore.

There are three aspects of project governance, in which the results show a particularly wide gap between successful and unsuccessful deal makers. Superior performance in these areas helps to explain why high performers are generally more successful at integrating:

- Including both target and buyer employees in the project organisation. This is still not common in all deals. In some cases, the acquirer feels overconfident and fails to involve target employees. Nevertheless, taking this success factor into consideration when setting up a project is easy, and a quick win for every

PMI manager. Including employees from the target in the integration task force teams will make them feel valued and appreciated, and consequently less likely to leave the company.

- Designing the target operating model (TOM) with special care. Completing this task early in the project will pay off during later phases of the integration. It is key to sit together with senior management in order to develop a blueprint of the combined business. This will provide functional and country workstreams with the necessary guidance to work out concepts that are more detailed.
- Establishing the project organisation well before closing. If it is uncertain whether the deal will close or not, the acquirer might postpone integration planning until right before closing, a mistake that will result in a delayed start to the integration and a waste of time, resources, budget and opportunities. Employees need guidelines for action from day one in order to avoid uncertainty and resistance.

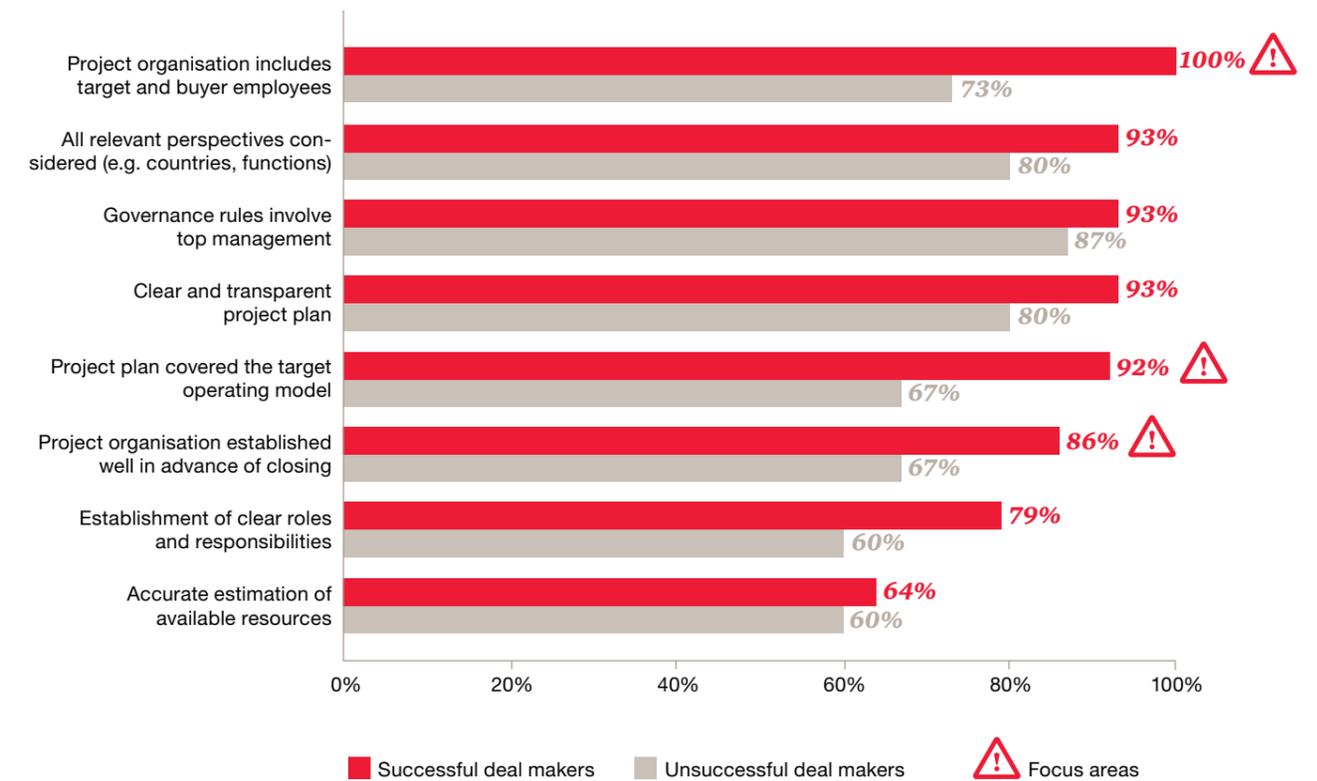


“The study reveals that almost all successful deal makers implement strong project governance”

Fig. 25 “Did the following properties apply to your integration setup?”

Percentage of answers ‘Yes, absolutely’ and ‘Yes, to a larger extent’

Components of the integration setup



Project governance and risk management

Why do mergers and acquisitions fail? Many things can go wrong. Most of the time it is sudden and unexpected challenges that the project team did not account for, in brief, risks. It is very difficult to foresee when risks will occur and what might cause them. This is why proactive risk management is vital to the success of a deal.

Survey results show that deal makers who succeed in establishing robust project governance are more likely to identify and manage risks. Over three-quarters of respondents boasting strong project governance consider risks proactively; among companies with weak project governance only half do so (figure 26).

This finding underlines the importance of good project governance. Establishing rules and guidelines helps businesses to recognise risks early on, to prevent them from happening or, in case of an emergency, to guarantee effective measures and mitigating actions.

Ideally, risks will not even materialise and harm the acquirer's business. Having an effective risk management in place, a company will most often recognise the source of a threat before it becomes too big to control. Businesses with proactive risk management benefit from smooth business continuity. They can proceed with their day-to-day operations and minimise the negative influence of events that are outside of their influence.

Top three risks during the PMI process

The three risks occurring most often among companies with weaker project governance are incorrect or insufficient qualification of internal resources, tight timelines or delays in implementation, and dissatisfaction or loss of key employees. Acquirers with strong project governance are far less likely to encounter those risks during their PMI process (figure 27).

These findings illustrate that strong project governance correlates with the other success factors of post-merger

Fig. 26 "Did you identify and manage risks proactively?"



integration discussed in this survey: speed of integration as well as culture and change management. Without a clear plan of action established in advance, companies risk allocating their resources in an incorrect and inefficient manner, causing delays in implementation as well as dissatisfaction among employees. Strong project governance does not mean everything will go smoothly, but it is a helpful tool to identify and mitigate unexpected risks and events.

Fig. 27 "In which areas did risks materialise?"

Percentage of answers 'Issues actually materialised'

Top three PMI issues	Weak project governance	Strong project governance
1) Insufficient / wrong qualification of internal resources	75%	43%
2) Tight timeline / implementation delays	60%	48%
3) Employee dissatisfaction / loss of key employees	57%	28%

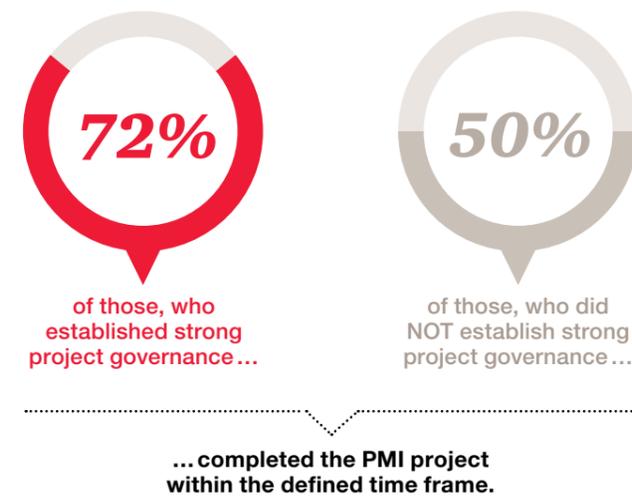
Project governance and timing

Strong project governance is the basis of every PMI project. Survey results indicate that it is a necessary precondition for the timely completion of the integration. Almost three-quarters of survey participants with strong project governance in place say they are able to complete their integration as initially planned. Having weak project governance significantly reduces the chance of sticking to the initial schedule. Among respondents with weak project governance, only half manage to keep to the defined time frame (figure 28).

Deal makers with strong project governance are more likely to finish their integration process as planned or even more quickly. The advantages of sticking with the original schedule are obvious: acquirers benefit from a more rapid return on deal investment, better capitalisation on post-deal opportunities, and lower levels of organisational uncertainty.

Fig. 28 "Did you complete the PMI as initially planned/ slower/quicker?"

Percentage of answers 'As planned' and 'Quicker'



“Almost three-quarters of survey participants say they are able to complete their integration as initially planned”

Project governance and the benefits for culture and change

Employees react differently to change: some openly resist it and reject any type of new rules or behavioural guidelines. Others are more passive and prefer clear guidance. The rest are somewhere in between those extremes. Companies might find it almost impossible to introduce new behavioural norms for the first group or convince them to try out values and principles coming with the new corporate culture. If this group has a high standing within the organisation, their revolt might spread widely and create a cultural clash powerful enough to impair deal value.

On the other hand, there are employees who need guidelines and structures. Members of this group dislike being left without directions. They look for strong leadership and

an example to follow. This group needs convincing messages and a well-designed integration setup. Members of top management from both the target and acquirer are in charge of communicating those messages to every single employee.

Culture and change management is particularly hard to plan and track compared to financial or operational aspects of an integration, which are more predictable and easier to steer and manage. The scenarios described above call for managing risks proactively, investing more time in planning for the unexpected and actively managing key stakeholders.

Good project governance correlates with cultural integration goals

Results show that deal makers with strong project governance are more likely to achieve their expectations regarding cultural integration: 43% of respondents with solid project governance were able to fulfil their goals regarding cultural integration. Among deal makers who do not have strong project governance in place, only 17% were able to reach their cultural integration targets (figure 29).

Fig. 29 “Did you achieve expectations with regard to cultural integration?”

Percentage of answers ‘Yes, absolutely’ and ‘Yes, to a larger extent’



These results indicate that for soft, people-related aspects of the integration, deal makers need to invest extra resources into even stronger project governance, equipping the acquirer well for various integration challenges resulting from organisational and people-related topics.



“Successful acquisitions depend on early synergy and timeline setting and tracking through thorough project management and focus on change management”

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Acknowledgement

We would like to gratefully acknowledge all the people in the team that have made this study possible:

Matt Brown, Florian Brugger, Lisa Machado, Ruben Erny, Verena Dorothea Gasteiger, Michael Kohler, Angelika Yuki Köhler, Katja Kröber, Jasmin Moser, Andrea Ostermeyer and Conrad Salm-Reifferscheidt.

