Merger Integration Project Management
Fundamentals and Common Mistakes

Introduction

Acquiring and merging involves more than just integration management. The coming together of two companies should be handled as a single, coordinated process. Too many companies make the mistake of separating the major phases of a deal (for example, due diligence, agreement, integration) when in fact these phases are always interconnected. Figure 1-1 shows the basic phases associated with any merger or acquisition.

The particular timing of these phases will vary from situation to situation, but the relative timing is not the point here. Integration cannot be divorced from any of the other phases and should not be treated as though it can be. Even in due diligence, there are important analyses and decisions being made that have an impact on the integration.

The success of a deal is usually predicated on being able to carry out certain integration actions. Whether it is the consolidation of facilities in a particular region, the transfer of
technologies needed to get a new product to market, or the enhancement of margins through increased purchasing power, these objectives need to be well documented from the outset. This helps create a common thread throughout all of the major phases, and that is an important step in preparing for the many management challenges sure to come.

**Figure 1-1**

In order to maintain continuity from the courtship to the union of the organizations involved, the various phases should be dealt with under a single management umbrella. Putting a management structure in place early, and adding resources to it as activity increases, allows merging entities to get the head start they need in planning an integration and meeting the challenges head-on.

**Assessing the Challenge**

Managing the marriage of two companies is certainly one of the most difficult assignments one can face in the corporate world. Anyone who has led the implementation of a large information system or the relocation of a facility knows how many headaches can be associated with those sorts of challenges. But leading integration involves all the problems of those projects plus an even longer list of management demands. In addition, all of these challenges must be handled in an environment characterized by complicated, high-pressure conditions. Table 1-1 details some of the difficulties that management must face during integration and describes the unique circumstances that make it an unusually tough exercise.
TABLE 1-1 Management Challenges and Complicating Environmental Factors

<table>
<thead>
<tr>
<th>Management Challenges</th>
<th>Complicated By</th>
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<tbody>
<tr>
<td>• Meeting aggressive deadlines</td>
<td>• Sagging morale</td>
</tr>
<tr>
<td>• Achieving tough financial targets</td>
<td>• Low trust level</td>
</tr>
<tr>
<td>• Restructuring quickly with limited information</td>
<td>• Productivity drop-off</td>
</tr>
<tr>
<td>• Merging a variety of systems applications and architectures</td>
<td>• Widespread uncertainty</td>
</tr>
<tr>
<td>• Retaining key employees</td>
<td>• Heightened competition</td>
</tr>
<tr>
<td>• Maintaining adequate communication</td>
<td>• Culture clashes</td>
</tr>
<tr>
<td>• Managing relocations and consolidations</td>
<td>• Rumors</td>
</tr>
<tr>
<td></td>
<td>• Politics and positioning</td>
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<td></td>
<td>• Intense media scrutiny</td>
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</tbody>
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Because the convergence of these challenges occurs in a different environment than normally exists for managers, different approaches are required. Managing a merger, regardless of size, is distinctly different from managing an ongoing operation.

The first step one can take toward being an effective manager of mergers and acquisitions is to understand what a unique event they represent in the life cycle of an organization. As a method of corporate growth, they are revolutionary rather than evolutionary. And it is important to recognize that uncommon growth calls for uncommon solutions. This often means managing the transition in a fashion that seems counterintuitive or completely different from established organizational norms.

**Organizing for Integration**

Mergers and acquisitions heat up the management atmosphere. There is so much to do at once and so much at stake. It is crucial to proceed with a clear sense of priorities, and this calls for a carefully structured approach.

Good integration management is characterized by discipline, focus, and dedicated resources. A project group should be formed to manage the transition, and it should operate as a parallel organization focusing purely on the integration process. This organization needs to be adequately staffed, with people’s roles and responsibilities clearly defined. Several individuals should plan to devote their time fully to the project during the transition so that the integration process has the necessary direction and continuity.

Disorganization gets dangerous during transition. Let’s face it; merging is confusing enough even when good project management practices are in place. Without that kind of discipline,
the situation can all too easily spin out of control. This is a highly charged political climate where people operate with very different, personalized agendas. There are so many pressure points, conflicting points of view, and management distractions. Unless you employ a carefully orchestrated project management approach, it is almost impossible to get through the integration without damaging the potential of the deal.

Treating the transition period like a special project helps management achieve adherence to schedule, effective use of resources, a focus on true priorities, and responsible management of risk. That certainly makes it worth the effort. But beyond all that, taking a project management approach actually makes it much easier to get through the demanding integration process successfully. It helps prevent the haphazard, floundering efforts so often seen where a lack of good organization results in wasted motion, false starts, and divergent initiatives that emotionally drain the people involved while producing very poor outcomes.

**Projects versus Operations**

Implementing a project management approach doesn’t come naturally to some people. After all, most organizations are built around ongoing operations. And the skill set or techniques required to run a project are quite different from those that might make someone a star as an operating professional. Table 1-2 highlights some of the key differences between projects and operations.

**TABLE 1-2**

<table>
<thead>
<tr>
<th></th>
<th>Projects</th>
<th>Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time frame</strong></td>
<td>Clear start and end date</td>
<td>Ongoing</td>
</tr>
<tr>
<td><strong>Resources</strong></td>
<td>Constant change</td>
<td>Optimized/predictable</td>
</tr>
<tr>
<td><strong>Risk management</strong></td>
<td>Consolidate risk</td>
<td>Diversify risk</td>
</tr>
<tr>
<td><strong>Reporting</strong></td>
<td>One time</td>
<td>Repetitive</td>
</tr>
<tr>
<td><strong>Success management</strong></td>
<td>Based on final results</td>
<td>Based on constant review</td>
</tr>
</tbody>
</table>

What happens when there is an absence of the discipline and structure that a project management approach makes possible? Typically, the result is a poorly run integration that results in a resource drain, loss of focus for both organizations, and serious slippage in productivity.
A Fortune 50 company experienced this firsthand when it acquired a small semiconductor manufacturer with a reputation for strong design skills but weak manufacturing. The organizational fit seemed to be obvious since the acquirer had a strong manufacturing capability and had identified semiconductor growth as a strategic objective. The acquisition appeared to be a win-win situation from the start. But because management felt the benefits would be easy to achieve, there was no formal integration risk assessment and no project plan created for managing the integration. Months later, it was still unclear how the integration would actually occur. A frustrated engineer in the parent company was heard to complain about the engineers in the acquired firm: “They act as if they acquired us!” Essentially, the two companies continued to operate as separate entities, and the potential benefits of the integration were never fully achieved.

"Dollarizing" the Cost of a Poorly Managed Integration

You develop a higher respect for the value of using a project management approach by putting a dollar value on the cost of lost productivity. Research shows that a company can reasonably expect a 25 to 50 percent drop in productivity when going through large-scale change. Basically, people become preoccupied with the “me” issues, the organization’s attention is focused inwardly, and all this results in a loss of corporate momentum and operating effectiveness.

It’s easy to design a simple example that highlights the financial implications of this productivity downturn. Let’s say “Roberts, Inc.” is a small manufacturing company that has 262 employees with an average hourly labor cost, including benefits, of $32. If we assume a drop in productivity of only 1.5 hours each workday (a conservative estimate), the daily cost that can be attributed to the merger will be 262 x 32 x 1.5 = $12,576. If the integration is poorly managed, and thus takes two months longer than would be necessary with good project management, the total climbs up to $528,192 (assuming 20 business days per month).

If the organization is operating at an 8 percent profit margin, the sales force will need to generate an additional $4,225,536 in revenue to offset the drop in productivity. But keep in mind that it’s far more likely that revenues will be sagging rather than hitting new highs.

Project Structure and Roles

An efficient and serviceable structure for the project group consists of three different layers: a steering committee, a merger team, and a variety of task-force teams. Assuming that the appropriate people (in terms of personality, management ability, technical talent, and time to devote to the process) are assigned to these slots, the group is in a position to do a good job of integration management.

Typically, the steering committee is small, consisting of two to four individuals, all of whom are senior-level people. The focus of this group is to provide direction to the integration effort as
it relates to strategy and policy. While not committed full time to the process, this group should meet on a regularly scheduled basis to approve integration plans and review progress.

If it is a true merger situation, the group may benefit from equally balanced representation from the two organizations. If it’s better defined as an acquisition situation, the steering committee may have a majority, or even all of its members, coming from the acquirer. But representation from both organizations helps ensure that key financial, operational, or cultural aspects are not overlooked during the integration process.

Executive sponsorship is critical to the success of the integration. As the integration moves forward, there will be resistance from both individuals and departments. This opposition may result from a conflict with some operating priority ("You’re interfering with our annual planning cycle.") or protection of the status quo ("It’s always been done this way, and we don’t need to change it now."). Senior-level personnel who serve on the steering committee may be the only ones with the necessary clout to get past these obstacles. The steering committee will also need to act as the final decision point for resource allocation and prioritizing of the recommended initiatives.

The merger team, consisting of some three to five full-time people, is the real workhorse responsible for driving the integration forward and keeping good project-management discipline in place. One member of this team should be designated as the integration project leader and given the overall responsibility for the project’s progress. As a whole, this team’s purpose is to provide the guidance and day-to-day decision making that will allow the integration process to move forward on a timely basis. This group also should include members of both organizations. A fairly balanced representation generally fosters better buy-in from the people in the two organizations while also improving the odds that plans for integration can be implemented effectively.

The third level of the project management structure is comprised of a number of task-force teams. These units ordinarily are comprised of three to five people and are formed to address specific organizational issues needing attention because of the merger/acquisition event. They can be either resource driven, such as finance, human resources, information technology, and so on, or operations driven according to business unit, product line, or perhaps geographic location. The resource-driven teams will have tasks of their own to complete but also will need to support the operating groups in the completion of their respective tasks. The task-force teams commonly have individuals working both full-time and part-time on the integration and should have one person designated as the team leader.

The assortment of task-force teams take their marching orders from, and report to, the merger team. In turn, the merger team is ultimately accountable to the steering committee. Under the day-to-day direction of the integration project leader, the merger team has responsibility for coordinating all of the analyses and recommendations for action that the task-force teams generate.
Common Mistakes in Integration Project Management

As a quick wrap-up on the subject, six frequent errors in the way organizations handle the integration process will be highlighted. These are seen all too often even in well-run companies with highly capable executives at the helm.

1. **Lack of a clearly defined project leader.** Make sure one person is put in charge of the integration effort. Assigning individual accountability and responsibility is the best way to get a strong action orientation in support of the integration project. Some organizations choose one person from each organization to serve as co-leaders in the process. While this may seem equitable, it can lead to confusion as to who has formal sign-off over a given task or activity, or who is ultimately responsible for the success or failure of the transition effort. Generally it’s a good idea to make sure that individuals from both organizations are present on the team, but it works best when only one person is in charge.

2. **Failure to execute against plan.** Transition teams often find it is easier to develop a plan than it is to execute one. The program for action should not be so complicated that it cannot be carried out. The role of the merger team is to ensure that the plan is manageable and that the task-force teams do not become sidetracked.

3. **Declaring victory on the 20-yard line.** Avoid the temptation to proclaim that the merger is over just because some important, top-level issues have been settled. The chairman of a large managed care company came before his people, stating that the integration was complete once the senior management team had been identified. He felt that each executive would handle integration concerns within their respective operating areas. For lack of a coordinated ongoing effort, the integration proceeded at different speeds in different parts of the organization. The result was a clumsy, poorly executed integration.

4. **Skimming on the investment in the integration effort.** Companies often invest heavily in due diligence, then get remarkably stingy in terms of their willingness to spend on the integration effort. This helps explain why so many good deals go bad. A strategy for growth through mergers is carefully conceived but poorly implemented. The economics argue strongly in favor of allocating sufficient resources—money and people—to support a sophisticated integration process.

5. **Presuming that all people are at the same point.** Senior management typically spends months planning a merger or acquisition. Invariably, they are way ahead of the rest of the people in terms of having adjusted to the situation. They’ve had access to information, time to wrestle with the issues, and—likely as not—already have closure on how they personally will be affected by the deal. Other folks will be lagging far behind. Remember this when communicating to the rest of the organization. Design an aggressive communication plan to get people the information they need. Move at
top speed to give them closure on the "me issues."

6. **Leaving too much on the table.** Too many integration efforts are far too superficial. Often, companies are satisfied if they can merely get the benefits outlined in the initial deal announcement. But usually more juice can be squeezed out of the merger. For example, is there a technology in one of the companies that can be used in the product line of the other company? Has each task-force team taken a good, hard look at the combined organization to find every possible benefit? Did they seek out every possible synergy? Do they continue to look for cost cutting and revenue growth beyond what the deal makers originally identified?

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