Lesson learned on managing successful post-merger integration processes

Mr Alexander Ankel of **Avicennia Capital** says that companies tend to forget about the people factor in M&A deals. He shares his experience on the actions companies should take during and after the takeover.

Much has been said and written about mergers and acquisitions, about the pursuit of external growth opportunities and the art of choosing the right asset for the right price. Countless companies have been evaluated, measured, seized up – and down – analysed and subjected to rigorous due diligence exercises with sometimes favourable and sometimes not so favourable results.

A whole industry of investment bankers, accounting companies, law firms, strategy consultants, HR advisory and other consultants has formed itself around this special niche in our industry and there is an abundance of very useful and sometimes – frankly speaking – rather useless expertise sold for good money.

Portfolio valuations, book values, in-force values, market-consistent embedded values, net asset values, capital adequacy ratios, combined ratios, new business margins, overruns and internal rates of return are being projected and sometimes – given there is a willing buyer/willing seller proposition – a transaction is concluded and a deal is done.

Time will show whether assumptions made were right, whether agreed upon distribution agreements are living to their expectations, whether consultants and management did a good job – in short, whether financial value has been created.

The People factor

As much as I would like to elaborate on the art of financial projections and also investigate the question of whether complicated actuarial models truly hold their promise of promoting visibility into the future, a crystal ball reading-like capability to see what's coming, I would rather spend some time and thought on the question of how much a successful merger and integration is dependent on the most forgotten, undervalued and under-analysed asset in this entire process: PEOPLE.

It is people who create successful businesses, it is people who ensure smooth transition, it is people who make distribution agreements work and again it is people who execute plans and strategies set and laid out to conquer new strategic terrain or to defend bottom lines.

And yet for all of us who have experiences in M&A and post-merger integration, we all would most likely agree that it is people who are being looked at, at a point rather late if not too late and that indeed it is people who can destroy a successful transaction for the simple reason that they have not been made part of the journey.

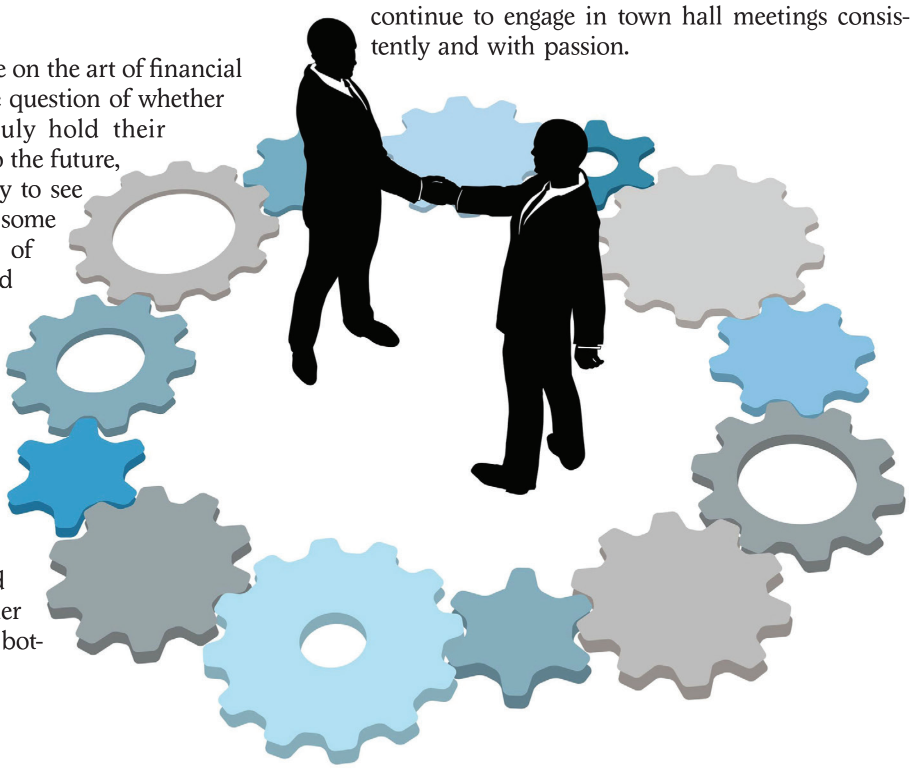
Lessons

Simple learnings from personal experience in post-merger integration are the following:

1) Engage with management and senior staff levels of the acquired company as early as possible point.

   Listen actively and learn as much as you can about the culture and the DNA of the acquired company. Embrace the fact that you depend on engaged, motivated and passionate missionaries, people who connect with your set of values and become active communicators and sharers of your belief system. Understand them and make them feel understood, for sure they have some best practices in their company that you do not have in yours.

2) Engage with all staff of the acquired company in frequent town hall meetings at the earliest permissible time and continue to engage in town hall meetings consistently and with passion.



Embrace the fact that discriminating between senior staff and other staff, between semi gods and mortals, is ill advice if you want to run a successful post-merger transformational change programme and make the valuations and expectations set become reality. It is the people on the floor that matter and who will create this much-needed energy and passion that truly transforms an organisation.

3) Communicate good news and bad news in the same constructive, respectful, transparent and equitable manner.

Embrace the fact that people struggle with many anxieties in a takeover situation, so taking them seriously and treating them with respect is the least we should do.

In my two experiences as a CEO who has led an acquisition of businesses under rather different cultural circumstances in Malaysia and in Turkey, I started my first two town hall presentations with a very simple statement: "We bought your company because your company was up for sale. Somebody would have bought your company anyway and now it is us. I believe it is good for you and good for us because.....".

4) Make early promises that you can keep and once you have kept a promise, do not fail to remind everyone again and again, and again.

The power of a "promise made and a promise kept" cannot be underestimated, even if it sounds simplistic. In change processes, people need orientation, motivation and the ability to establish trust.

We all know the simple analogy that people tend to share bad experiences with a larger crowd as compared to good experiences that they also like to share, however with a much smaller amount of people. Building trust is a constant uphill battle and repetition is a powerful tool in making those important steps upwards toward the peak.

5) Speed matters.

Take everyone on board and make the journey a fast and furious ride. Develop and communicate a clear transition plan, ensure that you have competent owners of all work streams well distributed amongst all staff and with measurable targets and make it happen in 100 days.

Make sure that you have obtained all post-acquisition relevant regulatory approvals before you start the race, otherwise you will not be able to deliver on your promise of delivering a measurable transformation result within 100 days.

6) Get rid of complacency in your own ranks.

It is funny to observe how in takeover scenarios, senior management and staff from the acquiring company always feel safer and sometimes superior to the people in the acquired company.

Make sure they do not. The principle of merit always works best if applied to everyone. There is no guarantee that all new positions are filled with people from the acquiring company as there is no guarantee that "our ways of doing things" are any more superior to "theirs".

It's all about people

In all the transformational post-merger change processes that we might have experienced ourselves or observed in the market place, there is no recipe for success. But there will most definitely be no success at all if the core asset of every company which is people, irrespective of rank, title and seniority, are not being taken on the journey from early stages.

Great financial performance cannot be the strategy in itself, it can only be the result of a well planned and executed strategy run by motivated, passionate and skilled people.

Mr Alexander Ankel is the Group CEO of Avicennia Capital, the insurance holding arm of Khazanah Nasional Berhad, the Sovereign Wealth Fund of Malaysia.