IN RESPONSE TO THE structural shifts in the business environment caused by COVID-19, many companies will need to launch large-scale change programs. Evidence suggests that many such programs are already underway: S&P 500 companies spent 64% more on transformation in Q2 2020 than they had the prior year.1 Additionally, some firms have struggled to remain competitive through the crisis, creating attractive new M&A opportunities for potential buyers. A recent BCG survey suggests that 71% of investors believe healthy companies should actively pursue acquisitions.²

The combination of these trends means that many businesses will be conducting a major transformation and a postmerger integration at the same time. Though this challenge has been accelerated by the COVID-19 crisis, it will likely outlast it—as organizational change becomes an ongoing priority, acquisitions and integrations are more likely to take place against the backdrop of a transformation program, especially during periods of disruption.

Companies that transform and do M&A at the same time, and do it well, can create significant value. However, success is hardly guaranteed. In order to attain the full potential of ambitious dual-change programs, leaders should apply a more scientific approach to change management, reflecting empirical evidence of what works and what doesn’t.

Evidence-Based Transformation and Integration

Our earlier evidence-based research on large-scale organizational change analyzed what drove success in transformation and M&A separately in various contexts by examining externally visible signals across hundreds of companies. We found that both types of large-scale programs are individually challenging, with a majority of companies failing to create sustained total shareholder return (TSR) outperformance compared to their industry in the majority of situations. To understand why some succeed, we used regression analysis to identify several success factors—spanning the company’s strategic orientation, target selection for acquisitions, and program design for transformations—that point to some starting points for a playbook when combining integration and transformation.
To identify more specific insights for M&As during transformations, we analyzed 625 mergers and acquisitions between 2005 and 2018 that occurred while the acquiring company was conducting a major transformation. We found that success is rare: only 36% of the deals generated a positive TSR outperformance compared with their industry average over a three-year horizon. On average, they were associated with underperformance of −7 percentage points (pp) compared with the average TSR generated over the same period by firms within their sector. Consistent with earlier research, we found that deals made during economic downturns (in this case, the global financial crisis) were more likely to succeed, but even then a majority underperformed.

The underperformance likely stems from the fact that mergers taking place during transformations are more complex, with both entities needing to change simultaneously. Even in relatively stable conditions, it is hard enough to integrate an M&A target; it involves understanding the target’s products, capabilities, and resources, and minimizing the disruption caused by weaving them into the existing structure. When the acquirer’s operating model is in flux, the integration complexity is compounded. At its worst, the complexity can derail both change initiatives.

For the companies that do succeed, however, the reward is high: outperformers in such situations exceeded their sector average TSR by 11 pp annually. To improve the outcomes of mergers amid transformation, leaders must therefore look beyond the anecdotes, personal experience, and common practices that often shape change management beliefs. From the evidence-based change literature, as well as our analysis of companies undertaking PMIs and transformations simultaneously, we see that the outperforming companies do three things to capture the full potential of their integrations while transforming: they pursue long-term strategic value as rigorously as they do short-term opportunities, they invest heavily in the success of the integration, and they put culture high on the agenda.

**Take a long-term approach to strategy.** It might be tempting for leaders who are juggling an integration and a transformation to focus on short-term priorities. After all, both postmerger integrations and transformations are complicated processes that involve lots of granular operational decisions, which inevitably means a lot of urgent issues that demand attention. However, our earlier research shows that firms that take a long-term perspective tend to be better at both M&A and transformation processes, considered separately. These firms don’t lose themselves in the detail of their day-to-day operations; instead, they make sure that their short-term objectives align with their long-term vision. Successful acquirers select M&A targets for the strategic advantage they confer, not simply their potential to unlock short-term cost synergies; they keep their strategic intent in mind while considering operational questions like where to streamline; and they go beyond preserving their target’s existing capabilities and invest in technology, talent, and other areas that will drive growth. Similarly, companies that succeed in transformations don’t cut corners or over-optimize for short-term gains at the expense of longer-term vitality and resilience.

To study how this plays out specifically in PMIs during transformation, we used a proprietary machine learning algorithm that scores companies’ long-term thinking on the basis of semantic patterns in their annual reports. Companies that scored above average on this measure generated 7-pp greater TSR outperformance. This is a large effect, which indicates how important it is to make sure there’s a clear long-term rationale in any M&A done during a transformation. Of course, this does not mean that leaders should take a laissez-faire approach regarding short-term execution—it means that companies must always hold the long-term perspective in mind while focusing on short-term execution. That is, leaders need to adopt a multi-timescale perspective on strategy in such situations.

**Commit to the change.** A successful transformation can involve redesigning processes,
reallocating staff, and even behavior and mindset change. A successful integration usually means grafting the processes and people of one organization onto another. Both are complex tasks individually. Combining them compounds the complexity because the target must meld with an acquirer that is itself changing shape. To improve their chances of successfully combining a PMI and a transformation, leaders must acknowledge the complexity and ensure that their employees have adequate bandwidth to take on the challenge.

One way leaders can improve their odds of a successful integration during a transformation is to ensure they invest in their integration program. To determine whether or not companies did so, we looked for a significant increase in restructuring spend in the year of their acquisition close over the normal restructuring cost fluctuations within their industry. Among the firms in our sample, 28% did not increase their restructuring spend significantly during the year of their acquisition close, and these companies generated 3 pp less total shareholder return outperformance (TSRO) than the 72% that did increase spend. Leaders should ensure that they commit the resources needed to their integration efforts, even if they are already spending on transformation.

Another way leaders can improve their PMI/transformation outcomes is by not taking on too many integration initiatives at the same time. In 10% of the PMI/transformations in our study the acquiring company attempted to close multiple deals simultaneously. These created average TSRO 2 pp less than that generated by companies that took on one PMI at a time, perhaps because some of these firms overestimated their capacity for change and hence overstretched their managers.

By committing to a formal integration program, leaders ensure that the initiative stays visible and has top-level support, increasing the likelihood that employees will fully buy in. And before taking on multiple integrations at one time, they should make sure that there is a consistent strategic goal being served. Otherwise, a multitude of different initiatives can create conflicting priorities and undermine buy-in for any particular program.

Keep an eye on cultural fit. Our previous research revealed that transformations in companies that pay attention to soft factors are more successful. We also learned that M&A acquirers with a clear corporate purpose create more shareholder value. Cultural fit also matters in integrations that take place during transformations, and if this fit does not exist, it must be created.

Culture is usually assessed through surveys, but this data is not readily available for outside-in analyses. In its place we use target and acquirer ESG score similarity as a proxy for cultural similarity. ESG scores reflect a firm’s commitment to stakeholder value rather than just shareholder value. Consequently, firms with similar ESG scores are likely to have similar value systems and cultures.

We found that, during acquirer transformations, M&A that took place between companies with similar ESG scores generated TSRO 3 pp higher than when the activity involved firms with different ESG scores. This might be because employees of companies that focus solely on profit at the expense of their broader stakeholders are likely to make different decisions than employees of companies that value employee well-being or serve a broader societal purpose. Differences in culture and values can create missteps, frustrate employees, and increase the number of iterations decision makers must go through before taking an action. These sources of friction can decrease shareholder value.

Leaders should consider culture when assessing potential targets for acquisition. This starts with developing an understanding of their own company’s cultural profile. Then they should assess the differences between their culture and that of potential targets. All else being equal, leaders should prefer targets whose cultures are compatible with their own. If an important target
has a very different culture, leaders should understand the risks this poses and price these risks into their target valuation. These risks should also be factored into their integration plans—by including, for example, an explicit focus on creating a new shared culture, perhaps via a separate workstream. Although it’s hard to get right, a new shared culture can become a source of strength. If absorbing a target diversifies the set of perspectives and opinions held within the acquiring organization without creating decision making friction, it can enhance the acquirer’s vitality.

**Case Study: Konecranes**

Konecranes, a global supplier of industrial and port crane equipment and services, provides a good example of profitable use of the success factors we’ve outlined. In 2016, Konecranes acquired Material Handling & Port Solutions (MHPS) from its competitor Terex, while undergoing a transformation to strengthen its industrial internet services offering.4

Konecranes took a long-term perspective on its acquisition of MHPS. Konecranes was able to cut costs by reducing procurement spend through increased volume, consolidating service locations, and streamlining some corporate functions. However, it never lost sight of the role MHPS could play in supporting its long-term transformation goal of becoming a technological innovation leader and bringing a wider range of products and services to customers around the world. It aligned the Konecranes and MHPS technological standards and platforms to enable future innovation, expanding its global footprint and identifying new avenues of revenue growth.

Konecranes was very committed to the MHPS integration. Between 2016 and 2020 it took on no other M&A and focused instead on creating shareholder value through a well-executed integration that connected tightly to its transformation strategy. Even before Konecranes closed its deal with MHPS, its leaders had drafted a formal integration program with nine major workstreams spanning 350 distinct initiatives.

The integration plan made allowances for any cultural differences between Konecranes and MHPS. Konecranes began with a survey to assess both companies’ cultures. This was used to define a joint target culture. Finally, as part of the integration and transformation efforts, an extensive cultural development and communications plan helped move both acquirer and newly acquired target toward the new joint culture.

Since its acquisition of MHPS was announced, Konecranes’ share price has increased by 50%. The rise was likely driven by the promising progress reports given to investors throughout the integration and transformation, and the fact that Konecranes hit or exceeded its performance targets over the transformation period. Leaders contemplating a PMI during a transformation could learn from the Konecranes playbook.

When a company attempts M&A/PMI in the middle of a transformation, it combines two of the most challenging episodes in a business’s lifespan. Companies that capture the full potential of their integrations while transforming—by taking a long-term view of strategy, committing to their integration efforts, and keeping an eye on culture—are more likely to unlock the benefits of both initiatives.

**Notes**

1. Using restructuring costs as a proxy for transformation spend.
2. BCG investor sentiment survey, August 9, 2020.
3. Transformations were identified by restructuring spend greater than 0.5% of revenue, in line with our previous research.
**About the Authors**

**Martin Reeves** is a managing director and senior partner in the San Francisco office of Boston Consulting Group and chairman of the BCG Henderson Institute. You may contact him by email at reeves.martin@bcg.com.

**Chris Barrett** is a managing director and partner in BCG’s Dallas office and global leader of the firm’s work in postmerger integration. You may contact him by email at barrett.christopher@bcg.com.

**Salman Bham** is a senior Gamma data scientist and ambassador to the BCG Henderson Institute. You may contact him by email at bham.salmon@bcg.com.

**Ask Heje** is a consultant in BCG’s Copenhagen office and an ambassador to the BCG Henderson Institute. You may contact him by email at heje.ask@bcg.com.

**About BCG Henderson Institute**

The BCG Henderson Institute is Boston Consulting Group’s strategy think tank, dedicated to exploring and developing valuable new insights from business, technology, and science by embracing the powerful technology of ideas. The Institute engages leaders in provocative discussion and experimentation to expand the boundaries of business theory and practice and to translate innovative ideas from within and beyond business. For more ideas and inspiration from the Institute, please visit https://www.bcg.com/featured-insights/thought-leadership-ideas.aspx.

**About BCG**

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we help clients with total transformation—inspiring complex change, enabling organizations to grow, building competitive advantage, and driving bottom-line impact.

To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change. BCG delivers solutions through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive.

© Boston Consulting Group 2020. All rights reserved. 10/20

For information or permission to reprint, please contact BCG at permissions@bcg.com. To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcg.com. Follow Boston Consulting Group on Facebook and Twitter.