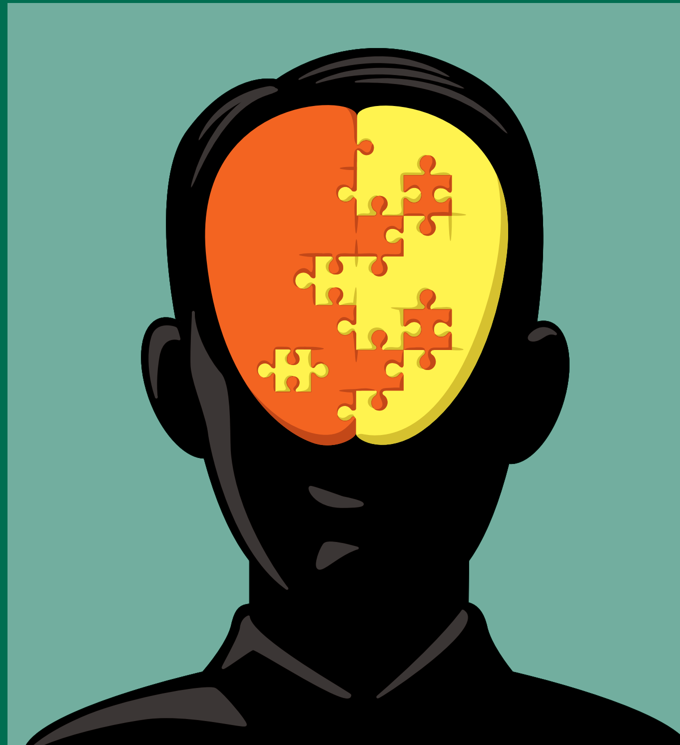
BCG

FOCUS

TRENDS IN POSTMERGER INTEGRATION I

Powering Up for PMI

Making the Right Strategic Choices



THE BOSTON CONSULTING GROUP

Since its founding in 1963, The Boston Consulting Group has focused on helping clients achieve competitive advantage. Our firm believes that best practices or benchmarks are rarely enough to create lasting value and that positive change requires new insight into economics and markets and the organizational capabilities to chart and deliver on winning strategies. We consider every assignment to be a unique set of opportunities and constraints for which no standard solution will be adequate. BCG has 64 offices in 38 countries and serves companies in all industries and markets. For further information, please visit our Web site at www.bcg.com.

Powering Up for PMI

Making the Right Strategic Choices

It is widely known that roughly half of all mergers and acquisitions (M&A) fail to create shareholder value and that about one-quarter actually destroy it. It is also no secret that there are tried and tested methodologies for successfully integrating companies. So why do so many deals—especially those that appear to offer substantial cost and revenue synergies—produce such disappointing results?

One of the biggest pitfalls is that companies tend to treat postmerger integration (PMI) as a mechanical process that occurs *after* the deal is done. Although a PMI has to be systematically and rigorously controlled at the implementation stage, it is the strategic and tactical choices that are made *before* the deal is legally closed—and often before the bid has even been made—that ultimately determine whether the integration will succeed or fail, as well as the particular approach needed to bring it to life. There is no such thing as a one-size-fits-all PMI. Each has its own speed, style, focus, and rhythm. A merger that is driven primarily by cost synergies will require a very different approach than one in which revenue synergies are the main goal.

This Focus report, which is based on BCG's experience helping clients undertake hundreds of integrations, is the first in a series on PMI. It addresses the key strategic and tactical issues that should be considered before and during any integration, as well as their implications for developing a PMI game plan. Subsequent publications in this series will deal with more specific issues, including the challenges and opportunities in particular industries and business functions, and specialist topics such as carve-outs. In each publication, our goal is to provoke fresh thinking, not to provide a mechanical guide to executing a PMI. Such a guide not only would be superfluous (standardized approaches exist for many aspects of an integration) but also would be futile, because each PMI should be as different as the two organizations involved.

Finding the Strategic Pulse of a PMI

It is an ostensibly simple yet critical question that is sometimes overlooked in the pressure cooker environment of an M&A: What is the strategic logic of the deal? Is it to consolidate and generate cost synergies by reducing capacity overlaps? Or is it to grow more rapidly by acquiring new technologies and capabilities or by entering new markets? Or is it to do both?

The answer to this question—together with a firm grasp of where in the two businesses the cost or

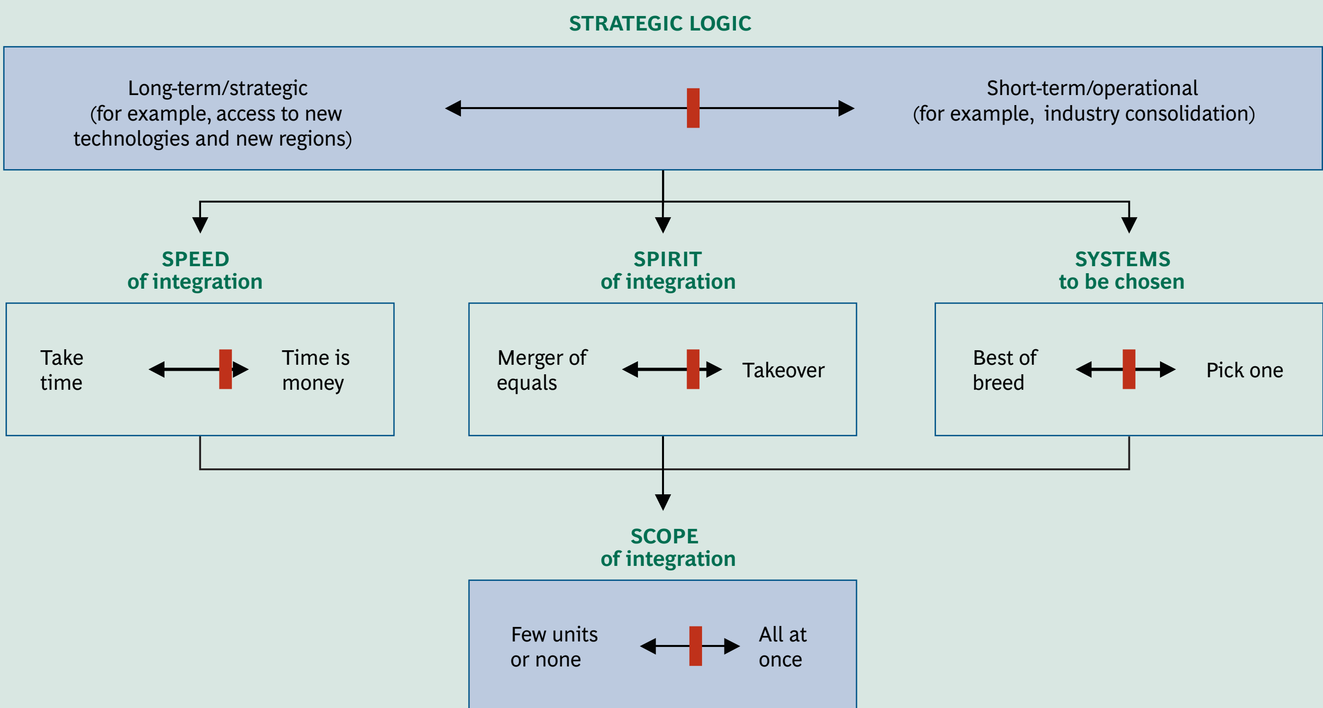
revenue synergies will be greatest—is not just essential for the acquirer to formulate a robust negotiation strategy, including the top price it should pay for the target. It will also determine virtually every aspect of the integration, including its speed and leadership style. Different strategic goals require different types of PMI.

Consolidation or Growth? In a consolidation merger, for example, integration has to be rapid, with an aggressive timeline. (See Exhibit 1.) As a general rule of thumb, if the lion's share of the cost synergies is not delivered 12 to 24 months after a deal is signed, the merger is unlikely to be successful. To meet this deadline, acquirers need to approach the merger in the spirit of a takeover—with a highly directive, top-down leadership structure. Put another way, when it comes to consolidation, there is no such thing as a merger of equals. It is also advisable to establish an advance guard, known as a *clean team,* to identify quick wins ahead of a deal's completion date so that the synergies start to flow as soon as humanly possible after a deal is legally closed.

Growth mergers require a more gradual, arm's-length approach, with the target treated much more as an equal. The top priority is to "do no harm" and to maintain the growth potential—the ideas, people, and customers—of the acquired business. In the pharmaceutical industry, for example, many companies have acquired small biotech firms in order to gain access to new drug-discovery technologies and have allowed these firms to remain largely autonomous.

Taking an arm's-length approach, however, is not an excuse for inaction. Because revenue synergies are much tougher to calculate—and to deliver—than cost synergies, investors tend to be skeptical about growth mergers and to monitor their progress closely. To satisfy investors' appetite for steady, tangible progress, the integration of a growth merger should be mapped out like a business plan, with

Exhibit 1: The Five S's of PMI Establish the Proper Mindset



Source: BCG analysis.

clear milestones and deliverables, and the step-by-step advances should be regularly communicated, internally and externally. Communication in growth mergers is especially important since many of the financial fruits will not be visible for several quarters or even years.

A Complex Hybrid. In reality, of course, relatively few mergers are exclusively about either consolidation or growth. Most are a complex hybrid of the two. Although the dominant strategic source of value will define the overarching style and speed of the integration, a more granular approach will be required, reflecting the mix of cost and revenue synergies. More specifically, the PMI should be segmented by function, business unit, product line, and geographic region—with different approaches, depending on the types and scale of synergies on offer and the nature of the products and services.

In a growth merger, for example, high-speed consolidation might be necessary in certain functions, such as IT and purchasing, to reduce staff overlap. Conversely, even though speed is normally vital in a consolidation merger, there might be situations in which a longer time frame is required—for example, when dealing with certain design-to-cost activities in the manufacture of complex engineered products, such as automobiles and steam turbines. Likewise, in a cross-border merger, the integration may have to move quickly in regions where there are large overlaps between the two companies, but more slowly in regions where a single company dominates. The overarching principle always is, What is best for the business? The regulatory environment can also affect the pace. In Germany, for example, companies are legally obliged to consult with workers' councils about the staffing implications of mergers, which can delay the integration.

An Opportunity to Challenge the Status Quo. Whether the primary objective is growth or consolidation, most mergers simply prolong the past: they enable companies to do what they have always done, but a bit more efficiently and expansively than before. However, mergers also provide an unrivaled—and underutilized—opportunity to question and transform the entire business model and unlock new and richer sources of value. During a PMI, not only is there an appetite for change—and usually the funds to support it—but there are also two often different views of the industry, providing a potentially powerful melting pot for novel, breakthrough ideas.

Take the example of a recent merger that combined two midsize companies into the new number-one player in the industry. The combined company consolidated its back-office administrative functions and created a centralized service center that allowed it to support a far broader range of product lines far more cost-effectively than any of its competitors. It then used its newfound cost advantage to seize price leadership in its industry and squeeze out smaller competitors. Finally, it leveraged its now-dominant scale advantage to invest in value-added services and offer customers a significantly more attractive value proposition. The effect of these changes was to rewrite the rules of competition in the company's industry.

PMI can also provide a good opportunity to fix long-standing problems in an acquirer's own organization—problems that executives could never afford to address before. But it is important to be prudent. No PMI can transform everything. Instead, an acquirer needs to understand which specific changes will provide the most leverage for improving business performance—and then pick its shots carefully.

Optimizing Synergies as Rapidly as Possible

Mergers can create extraordinary value. A recent consolidation merger, for example, cut costs by nearly 25 percent, saving $1.2 billion, and growth mergers can produce substantially higher returns in the long run. However, one of the biggest challenges acquirers face is setting realistic, yet stretch, targets. How far—and how quickly—can you go? Set the bar too high, and the markets will punish you if you fail to reach it. There are also limits to how far you can push cost synergies and still grow. Set the bar too low, and value will be squandered.

Getting the speed right is equally critical, especially for liberating cost synergies. As mentioned earlier, investors expect to see cost synergies delivered rapidly, typically 12 to 24 months after a deal is signed. And as regulatory reviews become more extensive—lengthening the time between winning and legally closing a deal—this already narrow window of opportunity is becoming, in practice, much smaller.

To compound this pressure, acquirers rarely have full access to the target's financial and commercial data until the deal is legally closed. This, of course, makes it difficult to develop an integration plan ahead of the completion date, and valuable time may be wasted. A common solution is to estimate potential synergies and targets using industry benchmarks. But benchmarks can be dangerously misleading. In purchasing, for example, average cost savings are around 9 percent, according to BCG analyses, but can be as high as 32 percent and sometimes close to zero.

However, these difficulties can be overcome, enabling acquirers to set and hit feasibly ambitious targets. There are three key ingredients for success: creating a clean team prior to closing, establishing a dedicated PMI team with a strong project-management office at its heart, and setting ambitious yet realistic synergy targets that have been validated through an iterative top-down, bottom-up approach.

Creating a Clean Team. A clean team is PMI's secret weapon for unlocking synergies as rapidly as possible. In fact, we estimate it can give an acquirer a one- to three-month head start—with a payoff in savings (and related boosts to market value) that more than covers the costs of the clean team itself. The team—which operates in strict legal isolation, in a *clean room* that is physically and electronically separate from the acquirer and the target—is given privileged access to both parties' data, including competitively sensitive information, before the deal is closed. This enables the team to pinpoint, analyze, and quantify potential synergies, to set provisional targets, and to prepare a preliminary plan to realize those targets so that the acquirer can hit the ground running on day one.

However, because the team has open-book access to competitively sensitive data from both parties, it is governed by stringent legal protocols—and these protocols need to be taken into account when deciding the scope of the information the team analyzes. For example, the team is not allowed to share one company's data with the other until the deal is closed. Everything that goes into the clean room stays in the clean room until the transaction is done. The only thing that the team can report back to the acquirer is a checklist of the analyses that have been completed—but not the results and conclusions. As a result, the team should deal only with truly sensitive data. (See Exhibit 2.) Many routine aspects of integration planning can be addressed safely and more flexibly by other teams outside the clean room.

Although the team's findings cannot be revealed to the acquirer until the deal closes, data can be shared with regulatory agencies—a move that can ease the progress of a transaction. In a recent U.S. merger, for example, data and arguments developed by the clean team completely changed the regulators' understanding of the competitive dynamics of the industry—dispelling concerns that the transaction would concentrate market power unduly and enabling the deal to be approved.

Because of its strict isolation, the clean team must develop its recommendations and integration plan without any input or feedback from line managers and functional executives. So it is important to remember that its plan—including suggested targets—will necessarily be preliminary. It is equally important that the clean team not fall into the common trap of making the plan overly detailed and prescriptive. The details should be developed by the line managers who will be responsible for implementing the PMI, and the fleshed-out plan should be based on concrete targets agreed on after the deal is closed.

Confidentiality constraints raise another, equally important issue: who should be included on the team? Although acquirers sometimes assign their own managers to the team, this practice can be risky, especially when there is a significant chance

that the deal may not go through—for instance, owing to regulatory reasons. If the merger is not approved, the managers who have been exposed to a competitor's data may not be able to return to their previous positions and, in some cases, may even need to leave the company.

The best solution is usually to outsource the staffing of the team. Retired company executives, such as the former heads of manufacturing or procurement, are good candidates because they tend to have deep industry knowledge and good business judgment—essential for identifying synergies and designing a new combined company. Their insights should be complemented by individuals with strong analytical and financial modeling skills.

Establishing a Dedicated PMI Team. Most companies underestimate the complexity of PMI. As a result, they often make two key mistakes. First, they delegate responsibility for the integration too far down the organizational hierarchy. Second, they try to fold the managerial tasks associated with a PMI into the existing management practices and processes of the company. But successfully executing an integration requires *best-practice management in time compression,* especially when cost synergies are paramount. And this demands not only top-flight senior leadership but also a dedicated PMI team.

Particular attention should be paid to selecting the PMI team leader: more than anyone, this individual will determine the fate of the integration. Ideally, he or she should be a high-performing, widely respected executive and confidant of the CEO. The team leader must also be a strong independent thinker, tolerant of ambiguity, and capable of making fast decisions on limited information. Moreover, he or she should be willing to wade outside his or her area of traditional specialist expertise—often in circumstances of high tension and conflict.

Surrounding the PMI team leader should be a tightly knit team made up of five entities or subteams. Each subteam will play a different yet integral role in formulating specific synergy targets and ensuring that these targets are reached as rapidly as possible.

Exhibit 2: Clean Teams Should Deal Only with Sensitive Information

Sensitive information	Nonsensitive information
Specific customers • Prices • Volumes • Terms	Job assignments and requirements
Specific suppliers • Prices • Volumes • Terms	Administrative locations
Specific product performance	Customer service organization
Specific R&D projects	Brand surveys
Specific plant and equipment performance	HR systems and policies
Specific distribution-center performance	Financial reporting formats
	IT systems
	Aggregated and generalized information about customers, suppliers, products, R&D, manufacturing, and distribution
Clean teams	**Other teams**

Source: BCG analysis.

At the head of the PMI team is the *steering committee,* which acts as the key decision-making body in the PMI and ensures that all aspects of the integration come together as a coherent whole. One of its most important roles is to set the top-line targets, on the basis of data provided by the clean team and the project management office, and to monitor progress against these goals regularly. Depending on the size of the deal, either the CEO or the business line leaders should head up the steering committee, supported by operational executives in charge of line businesses.

Line teams are responsible for executing the integration in the line organizations. Usually organized by function, business unit, and region—or by a combination of these—they identify and analyze critical issues, develop options, and recommend courses of action to the project management office or the steering committee, depending on the importance of the issue.

Platform teams provide specialist support to core functions, such as finance and HR, and have to wear two hats at the same time. For example, an HR platform team will typically be responsible both for consolidating the HR organization itself and for providing information and assistance, such as full-time-equivalent counts, to support the broader integration effort.

Most PMI efforts will also involve a series of *special-issue teams.* These teams are temporary units that address and resolve specific short-term issues—for instance, disposing of excess real estate. Their charter is not to get to the perfect answer but to develop options quickly and then move on.

Finally, there is the most critical link in the chain: the *project management office,* which is the beating heart of any large integration. (See Exhibit 3.) The project management office, which is headed by the PMI team leader, is responsible for chartering teams and tracking their progress, and for orchestrating and coordinating the entire PMI effort. It is also responsible for the communications team—a key component in the PMI mix.

Exhibit 3: The Project Management Office Has Five Core Missions

Role of the project management office	Description
1 Plan and prioritize initiatives	• Formalize integration strategy • Qualify and prioritize opportunities to pursue • Develop work plan together with work streams and aggregate into overall program plan
2 Roll out synergy identification and implementation process	• Elaborate baselines (financial, headcounts, and cultural) • Set up top-down targets • Develop and manage synergy-tracking tool
3 Coordinate across PMI initiatives	• Track initiatives' progress against predefined timeline and milestones • Manage interdependencies among teams
4 Facilitate communication	• Update key stakeholders frequently • Establish communications channels across teams
5 Identify and resolve issues	• Ensure that any new issues are promptly identified and resolved • Escalate if necessary

The precise content of each will depend on the project's context

Source: BCG case study experience.

A vital task of the project management office is to establish the working rhythm of the PMI—including creating a decision calendar, charting a road map, and ensuring that the right information gets to the right decision makers at the right time.

To maintain this rhythm, the project management office has to be adept at triage. A PMI is a dynamic, living entity with hundreds of small but important things happening every day. The project management office has to drive all this—shifting focus when necessary, directing information and data to the appropriate teams and individuals, and making sure that decisions get made in a timely fashion.

Setting Ambitious yet Realistic Synergy Targets. One of the project management office's most critical tasks, however, is to orchestrate the target-setting process. Although the steering committee ultimately decides on the final targets, the project management office plays three key roles to ensure that they are ambitious yet realistic.

The office's first responsibility is to translate the original top-level targets provided by the steering committee into concrete, meaningful metrics that line managers can act on. For instance, if a high-level financial goal is to decrease cash costs by 10 percent over the next 24 months, the project management office needs to create objectives that spell out the precise increase in EBITDA margin that each business unit needs to achieve in order to reach this goal. Whether the deal is a consolidation or a growth merger, relatively aggressive revenue synergies should also be included in the targets because cost synergies are often already factored into the price paid by the acquirer. All of these top-down targets have to be as demanding as possible. But are they achievable?

This is where the project management office's second role comes in. Each line team has to put forward bottom-up targets that it thinks it can achieve, supported by specific actions or initiatives, with clear milestones and responsibilities for delivering the targets. Qualitative objectives should also be included and brought to life in a granular and specific way. For example, if a key goal of the merger is to create "one face to the customer," then specific objectives might include creating an integrated customer-relationship-management database, supported by a coordinating committee to oversee its introduction across business units.

Finally, the project management office and the line teams compare, contrast, and discuss the top-down and bottom-up targets. Where there are gaps—inevitably there is a tendency for line managers to aim below the ceiling—the office has to challenge and question. As a result, it is essential that the office be made up of individuals who have not only strong analytical skills but also a good, experienced overview of the business. Line managers' compensation should also be linked directly to synergy targets in order to provide them with focus and incentives.

The project management office has to rigorously track the line teams' progress in hitting their goals. Given the complexity of integration, there will always be unanticipated problems and difficulties. The key question is, Are the line teams bringing these problems into the process so they can be addressed or are they covering them up? Under the pressures and tradeoffs of the PMI effort, it may be perfectly acceptable to decide not to do what a team initially said it would do. But it is unacceptable not to know if a line team is meeting its goals or not.

In addition to tracking financial metrics, it is also necessary for the project management office to monitor actions carefully—especially in the early days of a PMI, when it is too soon for integration efforts to show up on the bottom line. As teams materially achieve their goals, they either disband or are folded back into the line organization. The project management office, however, continues to track progress until it is time to "turn out the lights."

Thinking Hard About the Soft Side

One of the common mistakes in a PMI is to assume that logic and facts will win the day: communicate

the strategic rationale of the merger and most employees will see the light and throw their weight behind it. But an integration is quintessentially about change, and change is an intensely personal and emotional experience. Not surprisingly, three of the most common feelings at the start of any PMI are anxiety, uncertainty, and vulnerability. And three of the most frequently asked questions, reflecting these very human concerns, are, Do top executives know what they're doing? Can they pull it off? Is this company where I want to risk my future?

Cultural differences between the two companies invariably add to the emotional cauldron, sometimes with explosive effect. In a recent merger between a European and a U.S. company, for example, when a European executive proposed using a detailed system for tracking the merger's progress, his U.S. counterpart snapped back, "Cowboys don't fill out forms"—signaling the start of a long and rocky journey.

How these "softer" human issues are managed is arguably the most decisive factor in the integration. And two key aspects will determine a company's relative success in this field: how it communicates and how it manages the organizational aspects of its people, including selection of the top management team, initiatives used to retain star performers, and restructuring the work force.

Identifying the Points of Cultural Conflict. Understanding the cultural differences between the two companies—how their beliefs, behaviors, and expectations differ—is an essential first step in developing an effective, targeted communications strategy. In the U.S.–European merger mentioned earlier, the cultural gulf was huge. One company was marketing oriented and believed in empowering its teams, whereas the other was technology driven and adopted a command-and-control approach. And those were only some of the differences.

The critical issue is to identify and systematically map out the contact points between the two businesses where these differences can amplify difficulties and opportunities. For example, language differences are likely to be less important in areas such as procurement, where cost synergies are the goal, than in fields such as R&D, where close human interaction is essential to delivering revenue synergies. These insights will not only influence where the communications strategy should be targeted but also determine other interventions—such as incentives—that will be required in order to align behaviors.

Taking the Emotional Temperature. Regularly monitoring morale and confidence will play an equally important role in deciding what to say, to whom, and when. What are the main doubts and concerns? And where exactly in the business are these issues bubbling up? One way to answer these questions is through frequent, formal surveys of *opinion leaders*—widely respected managers and individuals throughout the organization. These surveys, which should typically be carried out once every two months, should track key indicators of the success of the PMI, such as staff's understanding of the combined company's strategic vision and whether employees believe there are clear roles and responsibilities. (See Exhibit 4.)

Another excellent way to answer these questions is through informal, grass-roots feedback from a group of *networkers.* Networkers are stalwarts of the water cooler—individuals who are plugged into the corporate grapevine and have a well-rounded view of the issues being discussed. Networkers should be given a special electronic mailbox and encouraged to use it to provide feedback on the latest rumors and concerns. Networkers can also be used to pretest communications messages.

Recognizing that Silence Can Be Deadly. Using the cultural and emotional insights gleaned from opinion leaders and networkers, together with the company's core strategic messages, the project management office's communications team should develop a carefully crafted and targeted communications strategy. The strategy must include a plan for a steady, regular stream of news—bound together by simple, clear, and consistent messages that are repeated again and again. As soon as a company loses "radio contact" with its employees, others fill the silence—and rumors and misinfor-

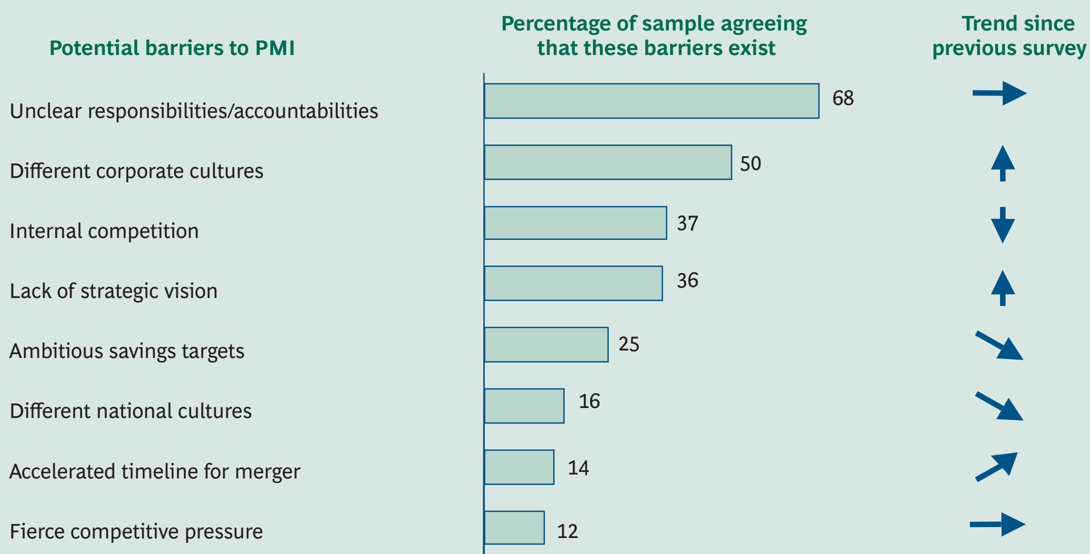
mation quickly spread. In one hostile takeover, the prospective acquirer announced its desire to buy the target and then fell silent, allowing the target to set up a 24/7 number to explain its side of the story. Members of the acquirer's staff naturally called the number and were so influenced by the target's story that they became hostile toward their own management, creating significant difficulties during the integration.

To enhance credibility and trust, everything that is said and done must be consistent with the merger's goals. For example, don't describe the merger as a "merger of equals" or "all about top-line growth" if the primary goal is consolidation, cost synergies, and job cuts. Similarly, don't emphasize "collaboration" and then turn around and appoint a hard-charging, command-and-control executive to head the new business. In short, it is essential to "walk the talk"—actions speak much louder than words. In a consolidation merger, where painful cuts often have to be made, it is particularly important to show positive progress—for example, by highlighting how new processes are making life at work easier and how concrete advances are being made toward realizing growth synergies.

Promoting Dialogue, Not Feel-Good Dictates. True two-way communication is another essential ingredient for instilling trust and credibility. Formal communications such as presentations and Webcasts are important, but they will never match the power and effectiveness of informal, face-to-face dialogue. At such an emotionally charged time, managers need to seize every opportunity to hear and allay employees' concerns. Face-to-face discussions also enable employees to connect live with leaders and to test their candor and sincerity up close. At one company, each member of the newly formed executive committee held a series of breakfasts with groups of 10 to 15 managers. This allowed the committee to connect directly and much more deeply with thousands of managers across the organization and to turn skeptics into missionaries.

Whether the communication is formal or informal (and a mix of both is essential), the entire communications process needs to be rigorously and sys-

Exhibit 4: Surveys Play an Important Role in Taking the Emotional Temperature



Source: BCG case experience.
Note: A bimonthly survey of widely respected opinion leaders can help identify and track progress in overcoming barriers to PMI.

tematically managed by the project management office's communications team in order to ensure consistency. One of the team's biggest jobs will be to provide management with communications support—such as briefing packages, background material to support key messages, and communications prep sessions. Particular attention should be paid to information gathering, message development, document production, approvals for releasing information, and how any information is distributed and to whom. As managers reach out to staff, the communications team should assess how staff reacts—including their doubts and concerns—and determine if additional action or communication is warranted.

Communicating must be a priority for each and every manager and supervisor at every level of the organization. Everything managers say—or don't say—delivers a message. One CEO was so aware of the importance of this—and of his managers' reluctance to communicate—that he made half of their bonuses dependent on how effectively they communicated.

Understanding that Management Appointments Send Messages. Deciding who the managers of the newly formed company will be delivers one of the first and most important messages in a PMI. Typically, the designated CEO and top executive team of the newly formed company appoint senior management (in a large-scale merger, this can be the top 50 to 80 executives) and review subsequent appointments closely. In some mergers—simple "tuck-ins," for instance—the choice is relatively straightforward: either continue with existing management or replace it wholesale with executives from the acquiring company. But for large mergers involving two companies of relatively equal size, the preferred approach is to identify the best people in both organizations. Where agreement cannot be reached, it is often advisable to use external consultants to gain additional insight.

The top appointments can send powerful signals about the future roles and responsibilities of individuals further down the chain. Therefore, it is vital to clarify the timetable and selection criteria for the next three to four hierarchical layers as soon as possible—to remove uncertainty and prevent employees' second-guessing, often wrongly, about who will stay and who will go. Any statements about future roles and responsibilities should also be crystal clear. One CEO told the top managers in the target company that they would all keep their jobs. What he forgot to mention was that they would have to relocate to a new headquarters several hundred miles away—an oversight that had understandably damaging repercussions.

It is equally critical that people perceive the appointment process as fair. At a minimum, the top executive team should systematically interview all potential candidates for senior management positions. Some companies go even further, using the merger as an opportunity to audit the skills, experience, and leadership capabilities of senior executives at either or both companies. One frequent global acquirer regularly assesses the top 80 to 100 people in the companies it acquires as part of its standard PMI process.

It is also important to sequence management appointments appropriately. Once the senior team is in place, it should take only a few weeks to shape the integration agenda and nominate the next layer of executives. These executives will then be responsible for appointing the next layer of managers. Line managers from both the acquirer and the target should be involved in the selection of these individuals to ensure that the best are chosen.

Retaining Key Personnel. Long before any formal appointments are made, the top executives need to identify and assure the best people in the two companies that they have a future in the merged entity. As soon as the deal is announced, headhunters will be circling, so it is essential to reach out to top talent quickly, systematically, and (ideally) personally. A clear, legally vetted "touch plan" should detail which executives should talk to which highfliers and what they can promise. If communication to top talent is not handled effectively, these stars are likely to ask themselves whether they have a future in the new organization. Admittedly, individuals who are not approached will ask themselves the same question, but whom would you rather reas-

sure—your stars or employees who are not key to the company's success?

One thing an acquirer should *not* do is hand out retention bonuses that are disconnected from concrete performance targets. Although retention bonuses have become relatively common in the United States and the United Kingdom, BCG has seen many companies waste millions trying to retain top people this way—only to see them leave soon after receiving the bonuses. A better solution is to link retention payments to clear performance objectives, including hitting synergy targets.

Overcoming Regulatory Stumbling Blocks. All appointments should be made and announced as quickly as possible to reduce uncertainty. However, the lengthening regulatory review periods mentioned earlier can create difficulties here. If an acquirer appoints senior managers too early and the merger is either rejected or substantially modified by the regulator, all or some of the appointments might have to be withdrawn. If an acquirer waits too long to make the appointments, it might not be ready to hit the ground running once the merger is approved. When there is a high risk that regulatory issues could delay or prevent the closure of a deal, the best solution is for the acquirer to appoint managers as project leaders in the integration effort, with the understanding that they will receive permanent positions after the merger is approved. In doing so, the acquirer also must take into account any legal constraints on how far down the hierarchy appointments can be made in advance.

Restructuring the Work Force Constructively. In any merger, how a company deals with a reduction in its work force—and often the cuts are substantial—can be as important to morale as how it deals with appointments. Many companies assume that the best way to approach restructuring is to make painful cuts as quickly as possible. But it is often not that simple.

The speed at which restructuring can occur is governed largely by the legal and regulatory environments in which that company operates. In the United States, for example, where employment regulation is minimal and companies have a large degree of freedom, downsizing can be done quickly and successfully with the help of good communication and appropriate levels of severance pay. To some extent, that is also the case in some European countries, such as the United Kingdom and Spain. But in Germany and France, as well as in Japan, the regulatory environment and therefore the downsizing process are far more complicated—often involving multiple stakeholders, such as unions, politicians, and government agencies.

Regulatory obstacles to restructuring, however, can be overcome. One solution might be to introduce a program of voluntary departures, supported by appropriate incentives. Managed properly, voluntary departures can enable an acquirer to restructure more quickly and constructively—from the perspective of everyone involved—than forced terminations. One French company, for instance, reduced its work force by 20 percent—equivalent to about 2,000 people—in only one year with no forced terminations. The key to the company's success was a dedicated team of 100 HR professionals who helped departing employees find new jobs—either in other companies within the group or with other employers.

There are many other facets of PMI that play a major role in its success, and we will deal with the most significant of these as our series of reports on PMI continues. But before a company initiates a PMI, it needs to lay effective strategic and tactical foundations. This has to be systematically thought through and planned well in advance, before the forward momentum of the integration takes hold and accelerates. By making the right strategic choices in powering up for PMI, executives will enable their companies to accelerate in the right direction and create value as rapidly as possible.

About the Authors

Peter Strüven is a senior partner and managing director in the Munich office of The Boston Consulting Group. You may contact him by e-mail at strueven.peter@bcg.com.

Jean-Michel Caye is a partner and managing director in BCG's Paris office. You may contact him by e-mail at caye.jean-michel@bcg.com.

Jeanie Duck is a senior partner and managing director in the firm's Atlanta office. You may contact her by e-mail at duck.jeanie@bcg.com.

Dan Jansen is a partner and managing director in BCG's Los Angeles office. You may contact him by e-mail at jansen.dan@bcg.com.

Joe Manget is a senior partner and managing director in the firm's Toronto office. You may contact him by e-mail at manget.joe@bcg.com.

Acknowledgments

The authors would like to thank their colleague Patrick Campbell for his contribution to this report. They would also like to thank the writing, editorial, and production teams, including Barry Adler, Katherine Andrews, Gary Callahan, Keith Conlon, Kim Friedman, Pam Gilfond, and Sara Strassenreiter.

For Further Contact

BCG's Corporate Development practice sponsored this report.

For inquiries about the Corporate Development practice, please contact the practice's global leader:

Daniel Stelter, Senior Partner
and Managing Director, Berlin
E-mail: stelter.daniel@bcg.com

For inquiries about PMI, please contact BCG's global leader for PMI:

Peter Strüven, Senior Partner
and Managing Director, Munich
E-mail: strueven.peter@bcg.com

For a complete list of BCG publications and information about how to obtain copies, please visit our Web site at www.bcg.com.

To receive future publications in electronic form about this topic or others, please visit our subscription Web site at www.bcg.com/subscribe.

© The Boston Consulting Group, Inc. 2007. All rights reserved.

6/07

BCG

THE BOSTON CONSULTING GROUP

Abu Dhabi
Amsterdam
Athens
Atlanta
Auckland
Bangkok
Barcelona
Beijing
Berlin
Boston
Brussels
Budapest
Buenos Aires
Chicago
Cologne
Copenhagen
Dallas
Detroit
Dubai
Düsseldorf
Frankfurt
Hamburg
Helsinki
Hong Kong
Houston
Jakarta
Kiev
Kuala Lumpur
Lisbon
London
Los Angeles
Madrid
Melbourne
Mexico City
Miami
Milan
Monterrey
Moscow
Mumbai
Munich
Nagoya
New Delhi
New Jersey
New York
Oslo
Paris
Prague
Rome
San Francisco
Santiago
São Paulo
Seoul
Shanghai
Singapore
Stockholm
Stuttgart
Sydney
Taipei
Tokyo
Toronto
Vienna
Warsaw
Washington
Zürich

www.bcg.com