

M&A integration: Adaptive planning can minimize risks

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An adaptive approach to planning that acknowledges the unknowns and uncertainties and has a built-in flexibility will facilitate right decisions during integration and help realign the plan to the strategic goals of the acquisition



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Risks are integral to M&A

Acquisition integration is a very fascinating topic from strategic, financial, legal, branding, leadership, people, and culture perspectives. Integration is a highly complex activity given that every acquisition is unique and the progression of integration depends on a number of dynamic variables. Despite all the advice and expertise available, attention directed and effort expended, acquisition integration is an inherently risky endeavour that has singed

many a company. Nevertheless, there is no shying away from the need to acquire and integrate companies given that many and especially large companies are less likely to be able to spawn the next innovative growth engine organically. To realize value from M&A it thus becomes imperative to identify the risks of post-merger integration and address them proactively.

Categorization of post-merger integration risks

We can classify integration risks in multiple ways. To begin with, there are business risks that arise due to changes in markets and technologies. Business risks are mostly external and have a far-reaching impact on the success of the acquisition. Addressing these risks often requires a nimble recalibration of the integration strategy in response to the evolving situation.

RSS Then there are compliance risks that arise out of non-compliance in areas such as data privacy, financial reporting, and anti-corruption measures. The fines and remediation costs for non-compliance can run into hundreds of millions of dollars and also damage the reputation of the acquirer significantly.

Acquirers should prioritize compliance as an area for quick integration. Among other things, functions and processes around procurement, cash expenses, and regulatory approvals for infrastructure have to be audited and brought under effective control very early in an integration.

In addition to Business and Compliance risks, integration interventions themselves can induce new risks. It is important to note that these would not be significant when there is no need to integrate. Ignoring cultural differences, insufficient change management, introducing processes that delay decision making, wrong choices of technological platform are some examples of integration induced risks.

Integration induced risks are all the more relevant in the case of digital acquisitions where the acquirer has a technology platform, brand, culture and ways of working which are very different from those of the acquired company, which often is much smaller.

Anticipating the risks early enough and planning to mitigate them contributes significantly to the success of an acquisition. However, it is often the case that the information available

early in the integration stage is insufficient to anticipate risks. Further, a certain degree of uncertainty is inevitable in a dynamic internal and external environment leading to new risks.

Planning needs to be adaptive

A rigid and inflexible approach to planning discounting the unknowns and uncertainties may actually be counter-productive and lead to faulty moves on integration. Instead, an adaptive approach to planning that acknowledges the unknowns and uncertainties and has a built-in flexibility will facilitate right decisions during integration and help realign the plan to the strategic goals of the acquisition.

There are three useful levers that enable an adaptive planning approach. These are planning iterations, the team composition and the level of planning.

Planning iterations

After an acquisition there are many activities and changes that happen in a short span of time. In this scenario, leadership bandwidth should be conserved to focus on priority activities. Also, despite a detailed due-diligence exercise prior to the acquisition, a true appreciation of the risks surfaces only during further discussions after the deal closure. Factoring this, integration can be planned in multiple iterations. Detailed planning of various areas should only be considered as and when necessary. This will lead to improved planning incorporating the most relevant environmental context and feedback from earlier iterations. Further, this approach will reduce rework effort and wasted time and also help in absorbing change in manageable doses.

Team composition

M&A integration involves intensive decision making and in the acquisition of smaller companies that are nimble, the bloated bureaucracy of acquirers gets exposed. To address this, it is necessary to involve empowered functional team leaders to plan and implement various integration activities aligned to the business objectives. This would ensure that there are no delays in decision making and there is true ownership of the integration objectives. A team with empowered representatives from every function and entity is also more likely to respond and make changes based on evolving situations thereby increasing the chances of successful integration.

Planning Level

The integration plan becomes an evolving document given the iterative nature of planning. An agreement on a few high-level milestones may be appropriate to get started and even manage on an ongoing basis. Having empowered teams with ownership of objectives enables working effectively even with higher level milestones. In the integration execution phase, it is often easy to miss the wood for the trees and become focussed on reporting and control. What really needs focus is value realization and higher-level milestones are ideal for this.

Summing up, integration should not be done with a one-size-fits-all approach. Executives involved in acquisition integration should be aware of the levers available to them for building an adaptive planning approach. This greatly improves the chances of a successful integration particularly of digital companies as these are quite challenging to integrate.

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