

beyond... the mbh newsletter



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Major Announcement

MBH's Fundamentals of Managing by Project has been endorsed by the Australian Institute of Project Managers. The course is the back bone of the MBH Managing by Project rollout. This three day course looks at all aspects of project management as well as adding on the key Managing by Project elements of corporate vision, corporate strategy, benefits management and program management.

Course dates for December - 16th to 18th Wesley Conference Centre 225 Pitt St Sydney.
[Book here](#)

Editors Comment

Over the past two years MBH has been either directly or indirectly involved in no fewer than 5 integration projects. The companies involved have ranged from funds management, medical insurance, manufacturing and Agriculture. In some cases, the companies themselves did not even realise they required the formality running an integration project to merge the two entities together. MBH has spent the last month collating all the issues and risks associated with these projects and have identified a top ten of each. Read on below to find out what they are.

Finally, this is our last newsletter for 2002. I hope your year was a successful one and that the New Year is even more successful.

Many thanks for your support throughout the year.

Merry Christmas from everyone at MBH!

Article - Managing an Integration Project

MBH has been indirectly involved in 5 acquisition and integration projects. Of these 5, 3 of them would not be deemed to be successful and the other two are still ongoing with the jury out as to how successful they will be. This is not necessarily a criticism. They may still have added value to the business, but none of them added as much as was first thought in the original business case or as much as was possible.

It is not difficult to work out that Integration projects are the most difficult projects for a project manager to implement successfully. They are the most expensive projects (i.e.: they usually involve a substantial investment to kick them off and have a considerable budget once kicked off to be implemented), they cover a broad range of technical problems to overcome (eg: the merging of IT systems, geographic locations, facilities and headcount) and they also involve a massive change element to them (eg: the merging of two cultures into one culture).

One thing often missed is the true life cycle of an Integration project. Integration projects begin with "Lets put the numbers over company x" as spoken by the CEO to the day when the culture of the previous two entities no longer exists and the new company has established its

own. There are two things that can be gleaned from this birth till death statement. The first is that the financial feasibility of the project is never more important in an integration project and that once acquired, the biggest project management issue is culture.

Typically, the technical aspects of mergers go reasonably well, and even when they don't, the financial impact is not half as big as a resistance to change by the remaining workforce and the lingering legacy of a two cultured company. Project Managers are use to managing technical projects and are able to obtain resource that are skilled for this particular job. However, they never have to manage a cultural change that is as big as that which is created when one company acquires another. Added to this fact is a general lack of understanding within project management of change management practices. The MBH series of newsletters have focused on benefits management as a missing link to a project managements armory and with integration projects, change management can be added.

One of the important keys to effective integration projects is realising that the new entity will have a new culture, both the acquiring and the acquired cultures will meld into one. Often, most acquiring company employees initially feel there job is safe and that they have some sort of cultural and technical superiority over the acquired company employees. Acquired employees on the other hand, have immediate job insecurity. This insecurity creates a resentment towards the acquiring company. Put the two together, one arrogant the other insecure and resentful, and you have a cocktail ready to cause significant disruption to the workplace. To deal with this, a project manager must communicate often and in a variety of ways. This communication must emphasise what is in fact the truth, and that is that the acquiring company has seen value in the acquired company and therefore will want to keep those bits it sees has having value. These sections should be communicated immediately so that those who fall outside these areas know they will either be retrenched or divested to another company. Uncertainty is the biggest cause of workplace unrest. The next thing that needs to be communicated is that the new business will have a new culture. This culture will be the best elements of both organisations existing cultures.

Some of these elements can be very obscure, but are important to highlight none the less. For example, one multi-national company MBH has consulted to acquired a company in Australia. Although the multi-national had a presence in Australia, this acquisition changed its Australian revenue from \$200m to \$1B. Two cultural effects of this purchase was that Melbourne employees of the multi-national could now move the NSW (where the acquired companies head office was located) while the acquired employees now had the possibility of business trips to Europe, where the multi-national was located. Not all people in the employ of the acquired company found this appealing, but there were several that were interested. These people could be used as champions of the new entity, spreading positive opinions around the organisation and talking up the opportunities that the new business created.

MBH has identified 5 action items that must be completed during the feasibility phase of a merger and acquisition. They are:

- Be specific about what the strategy of the combined entity will be. It has amazed use that all 5 have had no strategy for the combined company. This has been developed after the purchase. Knowing what the strategy is before purchase is essential. Without it, it is impossible to forecast benefits, and it becomes the best piece of information for project managers when communicating during integration.
- Be conservative on headcount savings. There will always be more staff required that a normal case scenario. No amount of de diligence can understand what process and infrastructure demons are in the target companies closet.
- Take the pessimistic case for integration costs. Integrating two businesses is extremely difficult for a number of reasons. We are yet to see an integration project be completed on time and under budget, so the pessimistic case often becomes the base case down the track, you may as well make it the base case up front, well

before it becomes sunk costs.

- Use the targeted companies cost of capital for the deal as you are essentially investing in its existing and future projects plus synergy benefits
- Use option pricing to value the various divestment options of unwanted assets and the call options of follow on investments related to the target company. Note that the standard deviation of the option forecasts are at least 70%.

On Integration, MBH has identified 5 key risks that must be mitigated. They are:

- Loss of talented staff from the acquired company. These employees can find a new job quickly and will jump ship if they feel there existing one is uncertain or if the acquiring companies culture is too stifling. These could be the very people they made the business and without them the original business case has no foundation. Mitigation steps include:
 - Communicate the new entity's vision and strategy immediately
 - Never use "us" and "them" in communications. Start using the collective us and we from the first communication
 - Outline the main reasons for the purchase, including areas of the business that will be kept AND areas that will be divested or removed
 - Explain that the new combined entity will have a new culture and that the employees can be a part of creating that culture
 - Limit the number of PowerPoint communications. Try to communicate in a more personal way eg: emails that come from the sponsor or CEO of the company, not from there PA's with word Memo attachments, Face to face, company wide addresses with no speaking aids besides a microphone.
- Making poor decisions. Often, the need for speed on integration outweighs the need for sensible decision making. As one client employee put it "this mob would rather make a poor decision on Monday than a good one on Friday". Integration is a project and therefore, like all projects, the more time spent planning, the less time spent executing and re-executing to make up for mistakes. The main mitigation to this is not communicating optimistic milestone dates to the business and the market.
- Lack of sponsor involvement. typically, the CEO feels his/her job is done after the purchase and delegates the dirty work of integrating to a COO or a Program Director. This is fine in terms of detail, but for cultural change to occur successfully, the CEO must be actively involved in communications. People are feeling insecure and lack direction early in an integration project, it is at these times that a leader seizes the moment and communicates pro-actively and effectively to inspire people to the vision and strategy of the new business. In an integration project there is typically considerable scope for this as the new entity has so much potential and should become fresh and energised by the integration process.
- Significant technical element missed during due diligence. Often the technology platforms that the two businesses work on are considerably different and as anyone working in IT & T would tell you, there are no true open source platforms. Integrating IT systems can blow the budget of an Integration project by as much as 1000%. Each due diligence team should get their IT director to create a checklist of things to discover before the deal is completed.
- Existing operations perform poorly. While the integration project will usually be the biggest project going on in the organisation, forgetting the need for innovation, customer service and other key performance functions will jeopardise the entire organisation. The main mitigation to this is not to disregard all non-integrating initiatives. Capacity may limit the organisation, but Integration is typically a program of projects and as such, some things can be delayed to free up resources to implement new initiatives while integration is progressing. For this to happen people need to realise that Integration does not have to be completed in warp speed, the existing

operations are generating the revenue and that business should always follow an Managing by Project philosophy even during a merger.

Listed here are some of the observations MBH has made during the last two years. As mentioned earlier, two of the integration projects are ongoing. We will update you all in a years time on how they went and whether any new experiences have altered our opinion or added to it.

Merry Christmas!