



UNSW Business School

Never Stand Still

Australian School of Business

Dynamics of Post-Merger and Post-Acquisition Integrations

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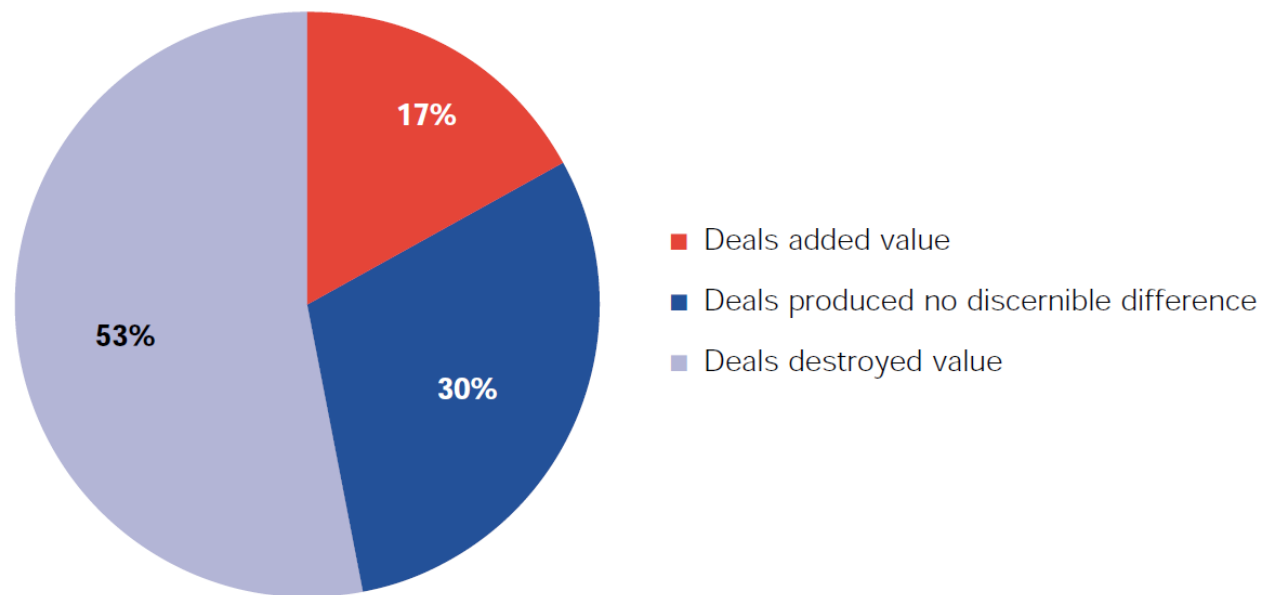
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Phenomenon: Increasing M&A activity and high performance variance

Value of worldwide M&A investments over US\$5 trillion during 2016, the highest on record

Research shows poor performance for acquirers



Source: Kelly et al. 1999. *Unlocking shareholder value: the keys to success. KPMG Mergers and acquisitions a global research report.*

“While there has been much research on the human, organizational, and cultural aspects of M&A over the last 30 years, there have only been modest improvements in the M&A success rate.” (Marks and Mirvis, 2011: 161)”

State of M&A Research and Theory

Existing theory incomplete and not integrated

Little focus on dynamics (i.e. changes over time)

Limited understanding about influence of strategy implementation decisions & processes on outcomes

Mixed Methods Study

Interviewed 26 specialists w\ 200+ integrations

- 21 semi-structured individual interviews
- Two group workshops

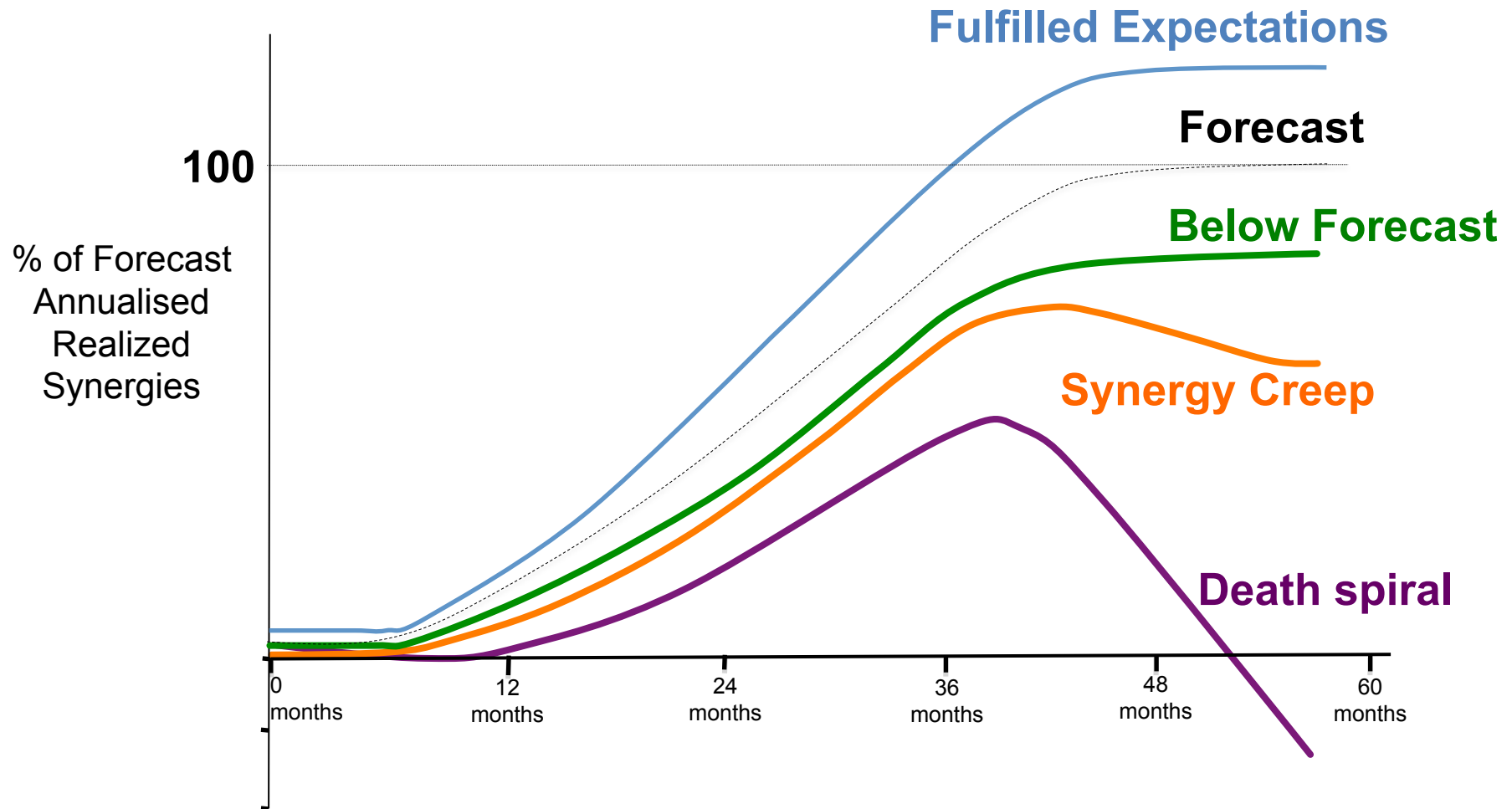
Developed causal diagram capturing process theory of M&A integration

Constructed simulation model to test internal validity of the process theory and enable policy tests

Four Performance Patterns Identified

1. Fulfilled Expectations
2. Synergy Creep
3. Below Forecast
4. Death Spiral

Four Performance Patterns Over Time



Performance Pattern 1: Fulfilled Expectations

Integration rolls out as planned & target synergies achieved as forecast

“The best run processes feel very simple...it is about having people on the hook all the way through...the people who are ultimately responsible for doing the integration.”

Performance Pattern 2: Synergy Creep

Synergies initially achieved as planned but over time poor tracking/monitoring results in reversal of synergies

“As soon as you turn off the tracking mechanism, you can guarantee you can see the payroll increasing month to month to month. ... after 12 months you can see it just creeps up straight away. They bring contractors in first and then there are more contractors, then permanent employees.”

Performance Pattern 3: Below Forecast

Synergies achieved are below expectations

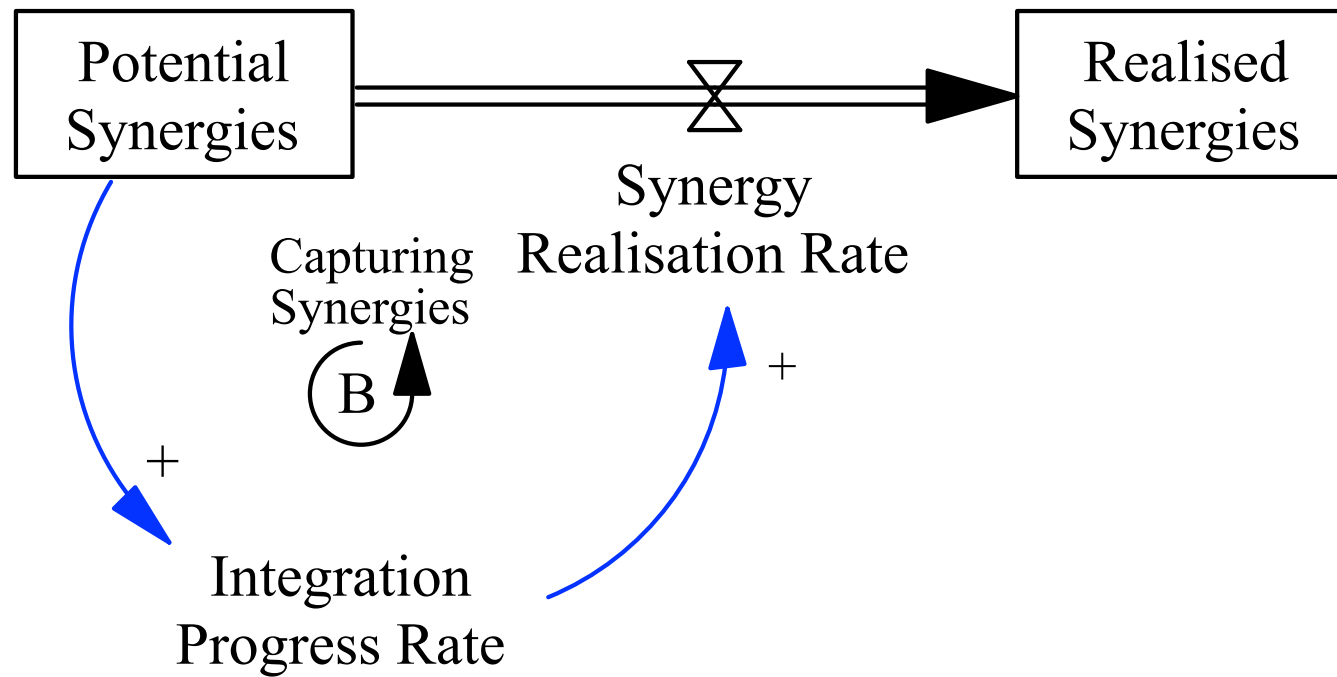
“If the synergies that you came up with up front aren’t right, if your assumptions were bad, you need to go out and find some more synergies, because we still need to realise that. People get fatigued and tired of continually trying to find and chase synergies.”

Performance Pattern 4: Death Spiral

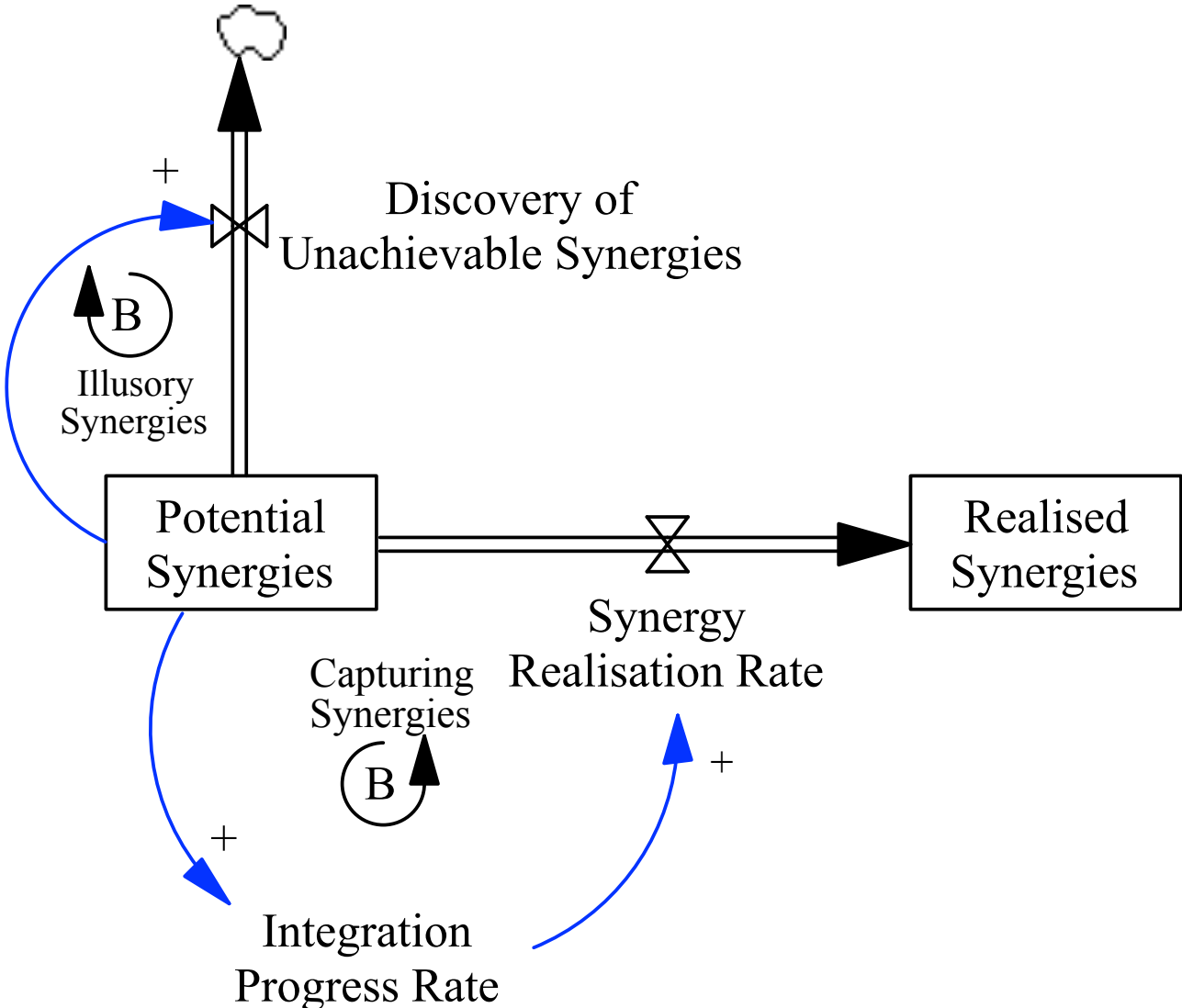
Poor integration decisions & processes create a downward spiral that “break the business”

“it is a cancer...it is debilitating...it creates a negative vibe that impacts value and performance...it is a distraction to everything and people do not want to be there and it is usually your star performers that leave...it is like a death spiral effect and it is hard to get momentum around the business to drive the integration program”

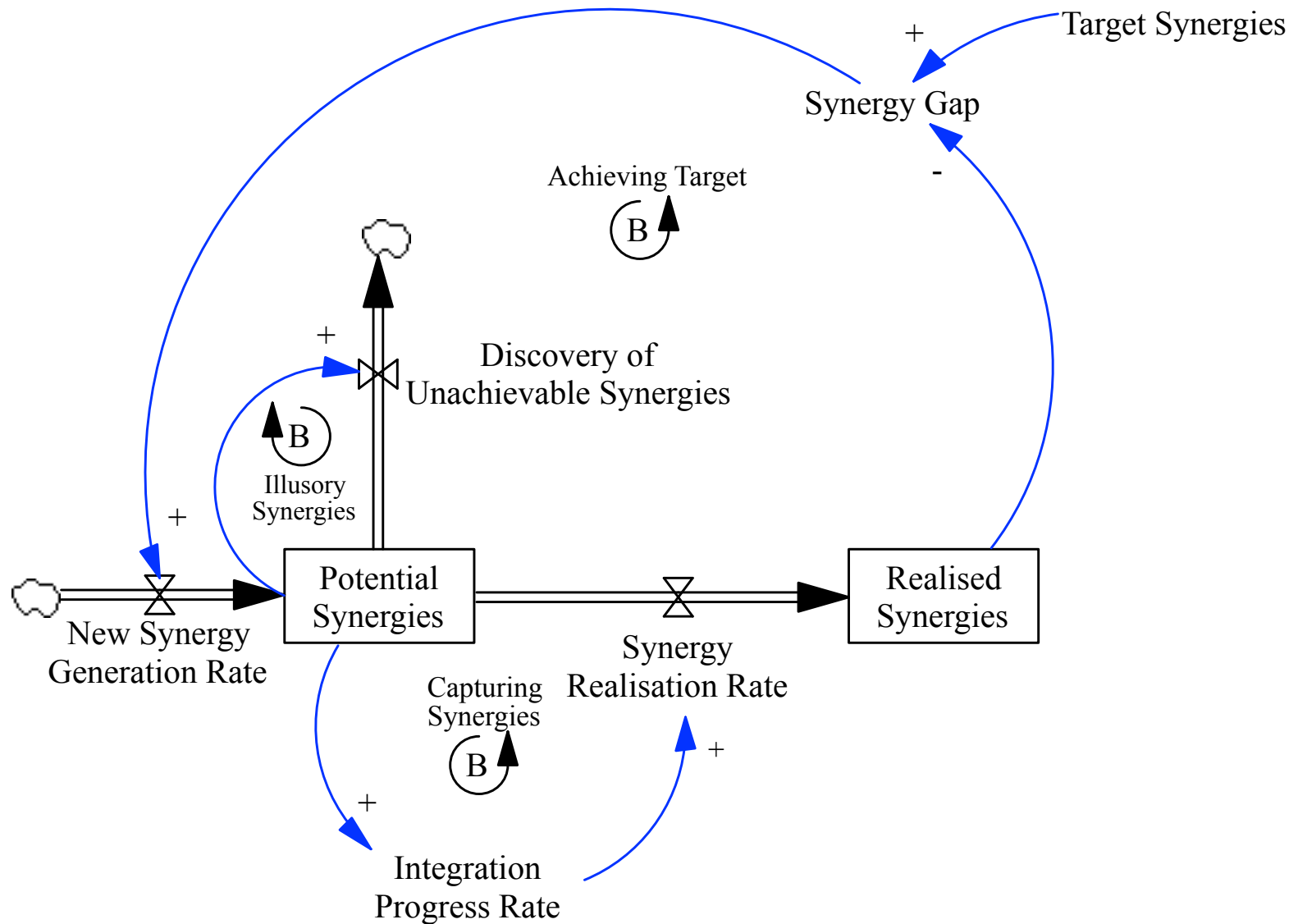
Causal Diagram: Capturing Synergies



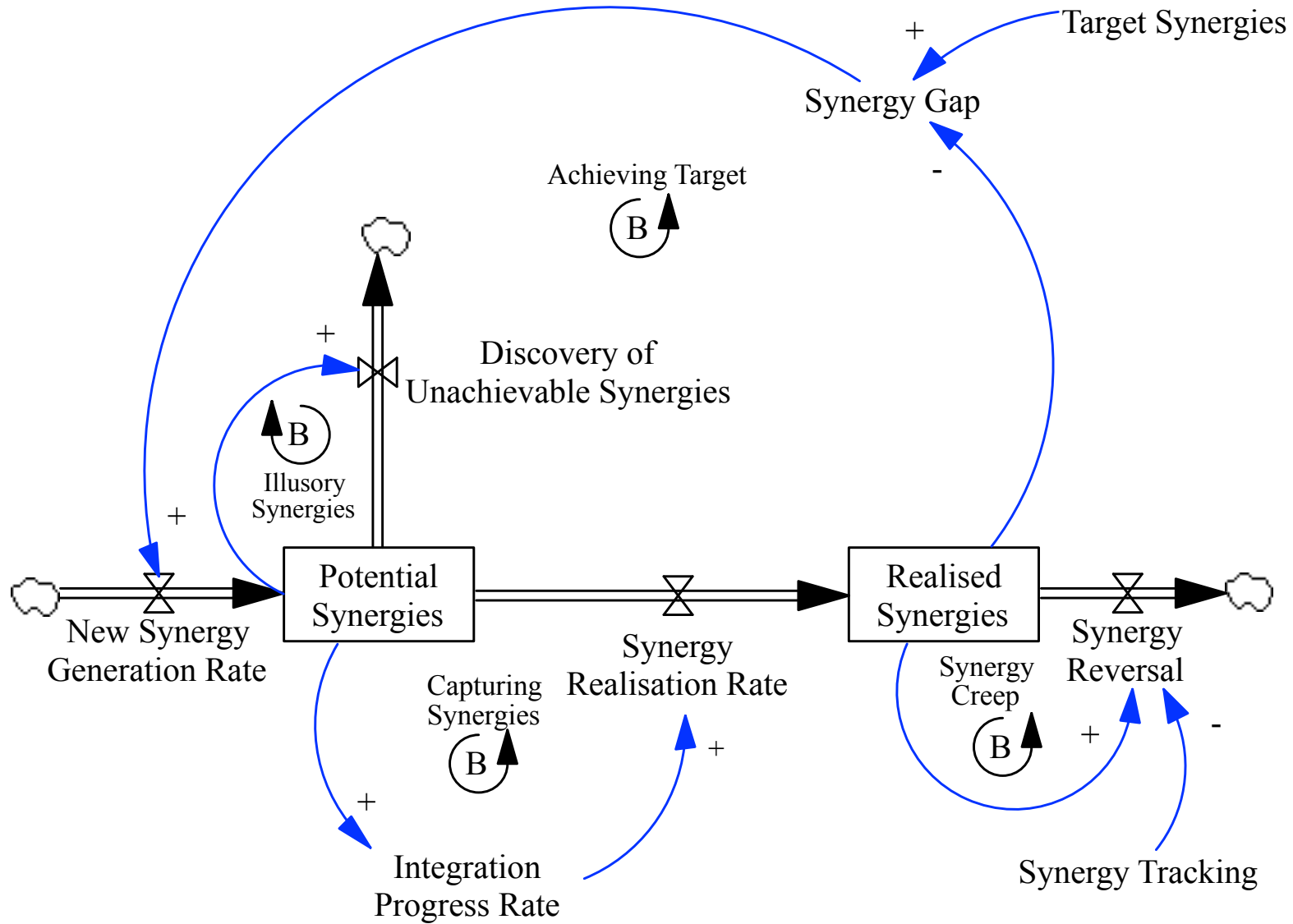
Discovering Unachievable Synergies



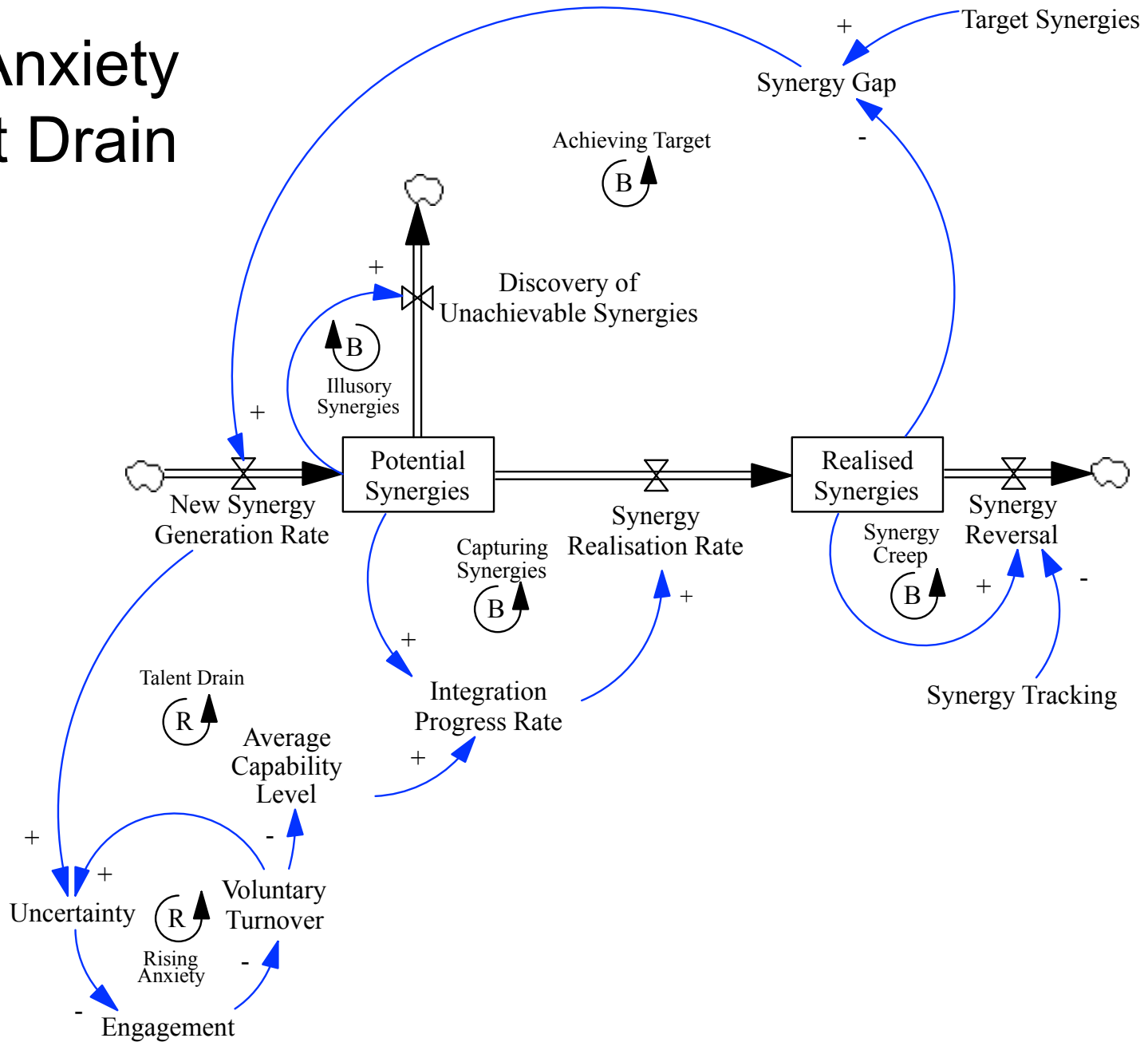
Achieving Target by Generating New Synergies



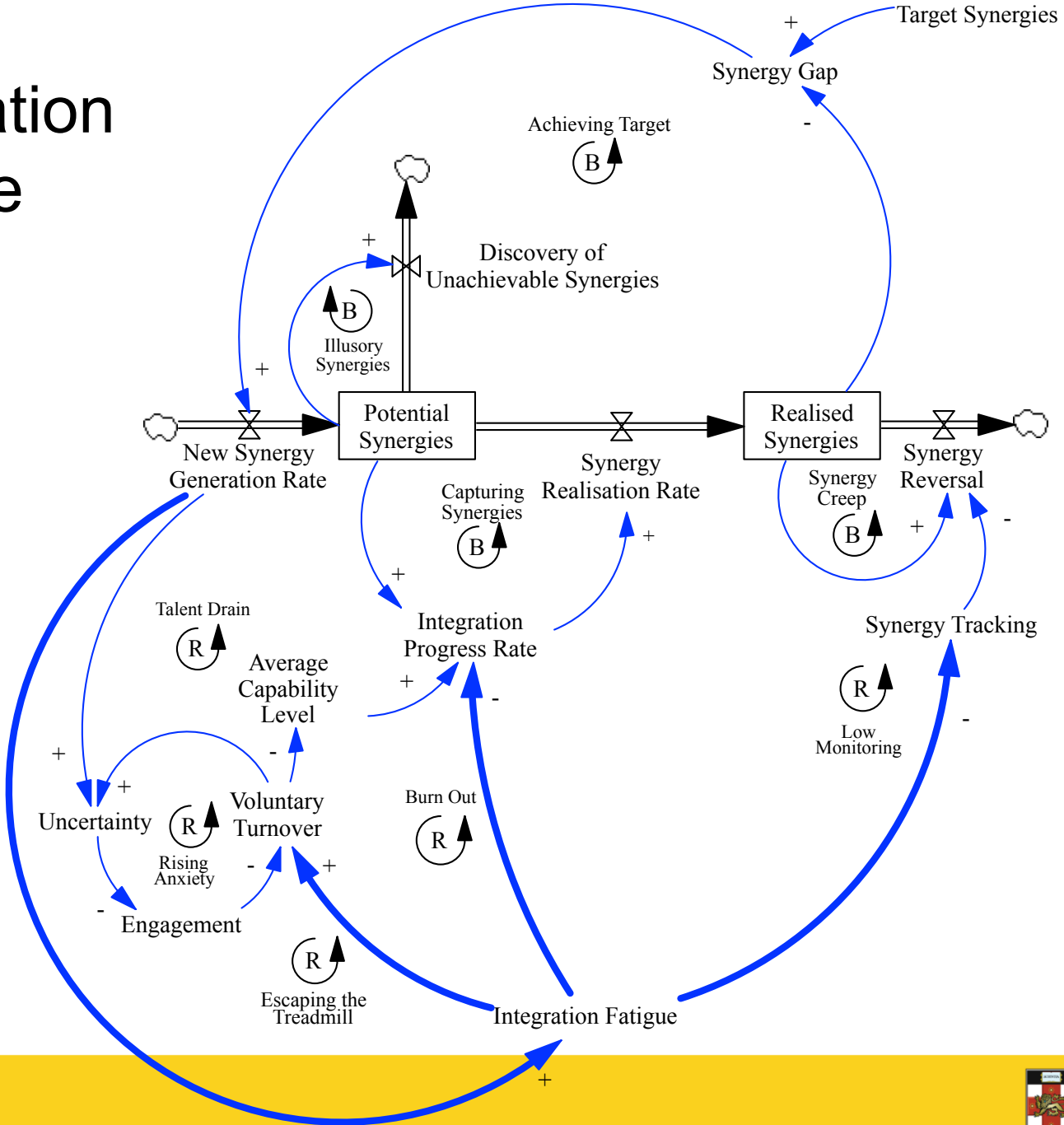
Synergy Creep or Reversal



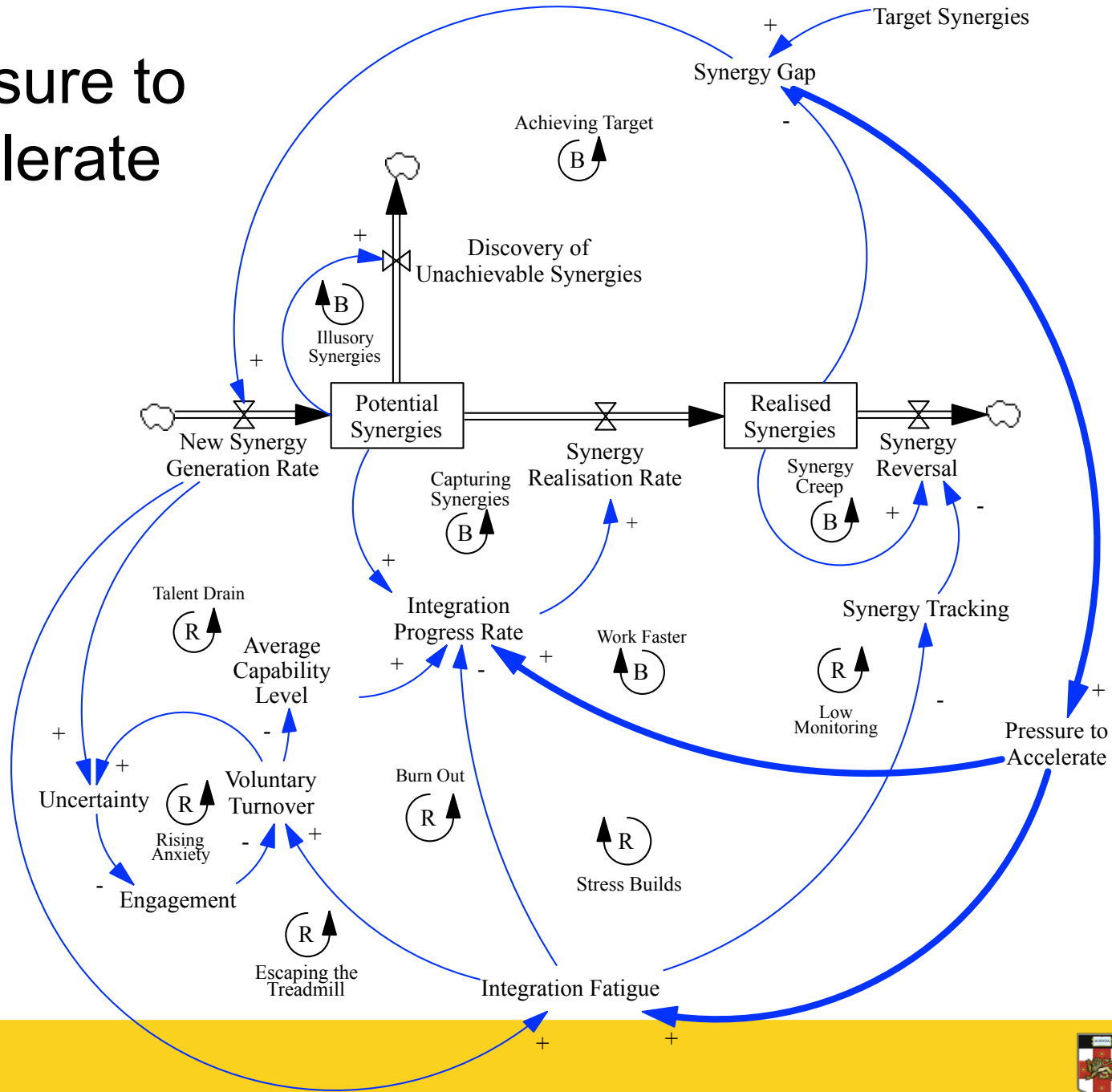
Rising Anxiety & Talent Drain



Integration Fatigue



Pressure to Accelerate



Simulation Experiments

Parameters Varied

Base Unachievable Synergy Fraction

Time for Synergy Reversal

Quality of Communication

Fraction of new synergies from redundancy

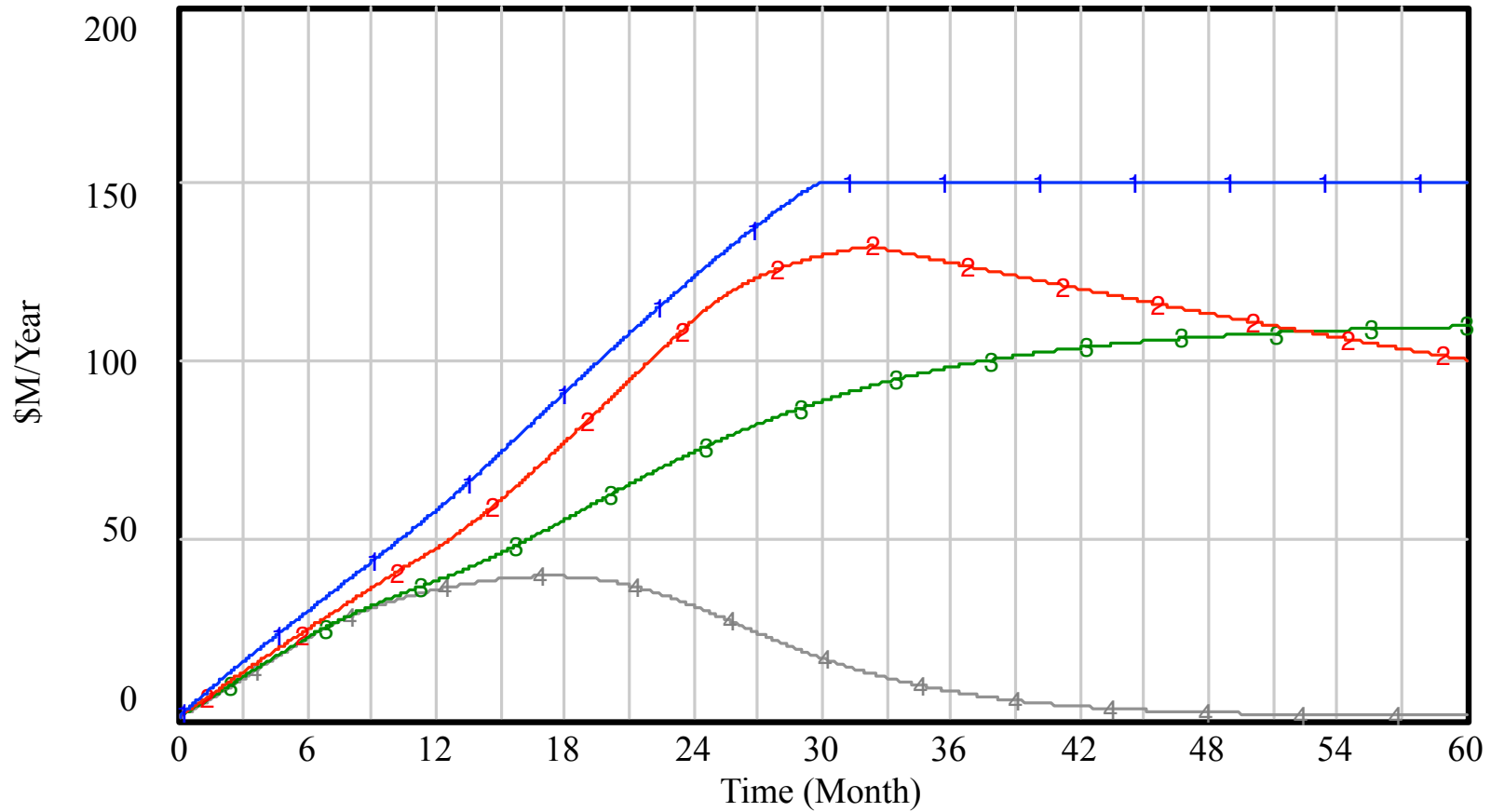
Normal fraction of achievable synergies captured

Willingness to Slip Schedule

Time to Change Uncertainty

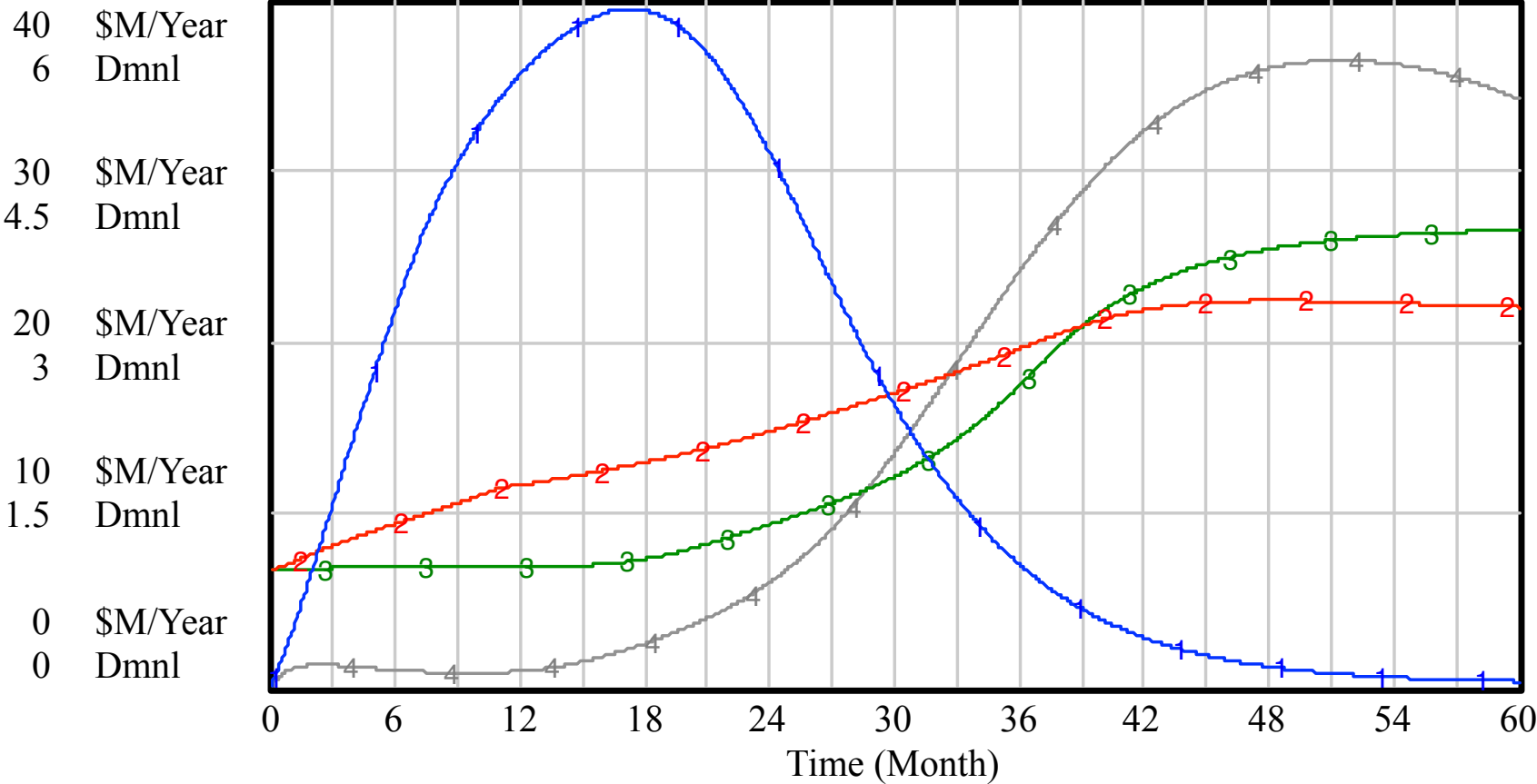
Time to Identify New Synergies

Simulation Results: All 4 Performance Patterns



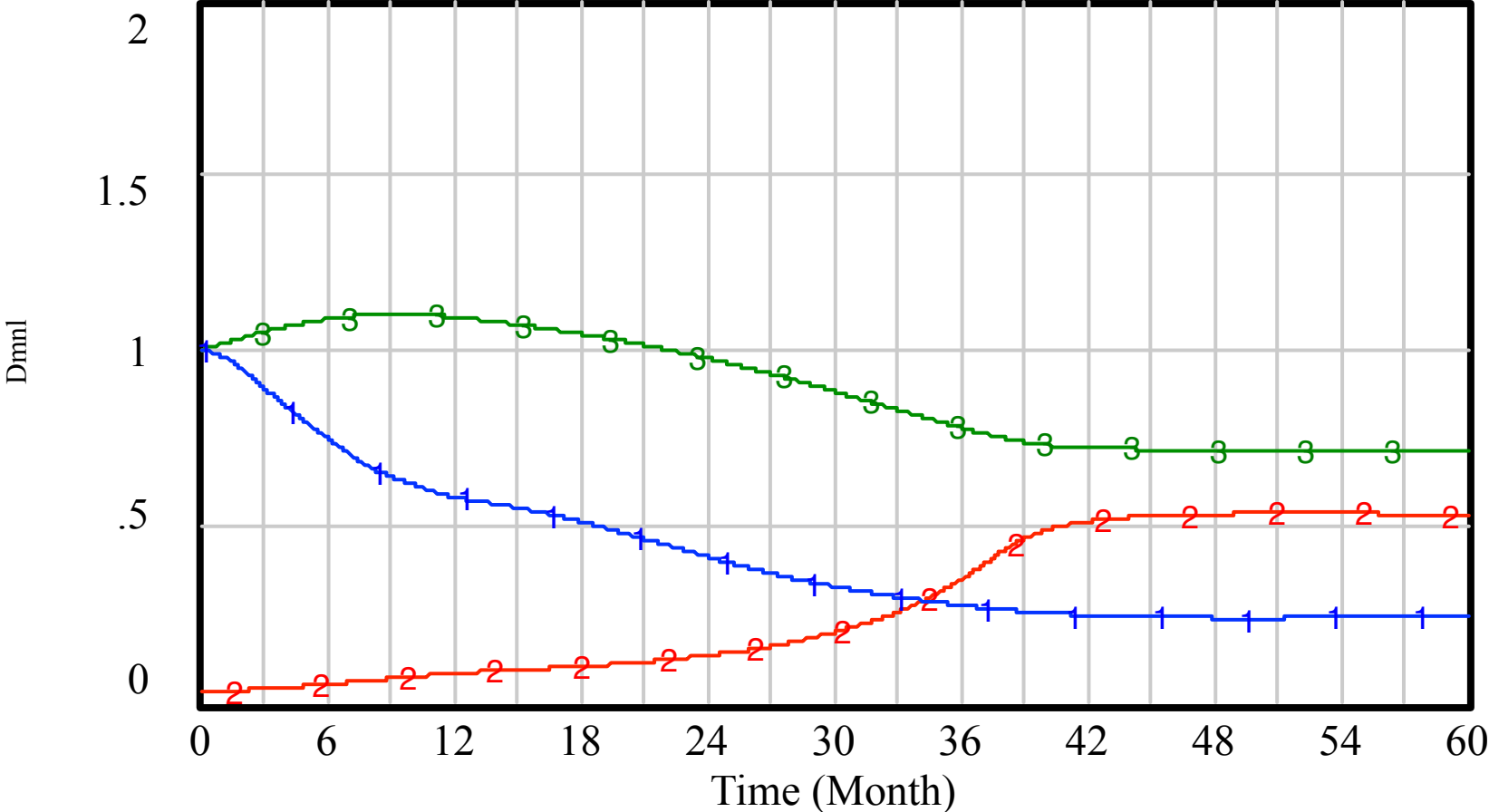
- Realised Synergies : Fulfilled Expectations ———+———+———+———+———+———+———+———+———+———
- Realised Synergies : Synergy Creep ———2———2———2———2———2———2———2———2———2———
- Realised Synergies : Below Forecast ———3———3———3———3———3———3———3———3———3———
- Realised Synergies : Death Spiral ———4———4———4———4———4———4———4———4———4———

Death Spiral Dynamics



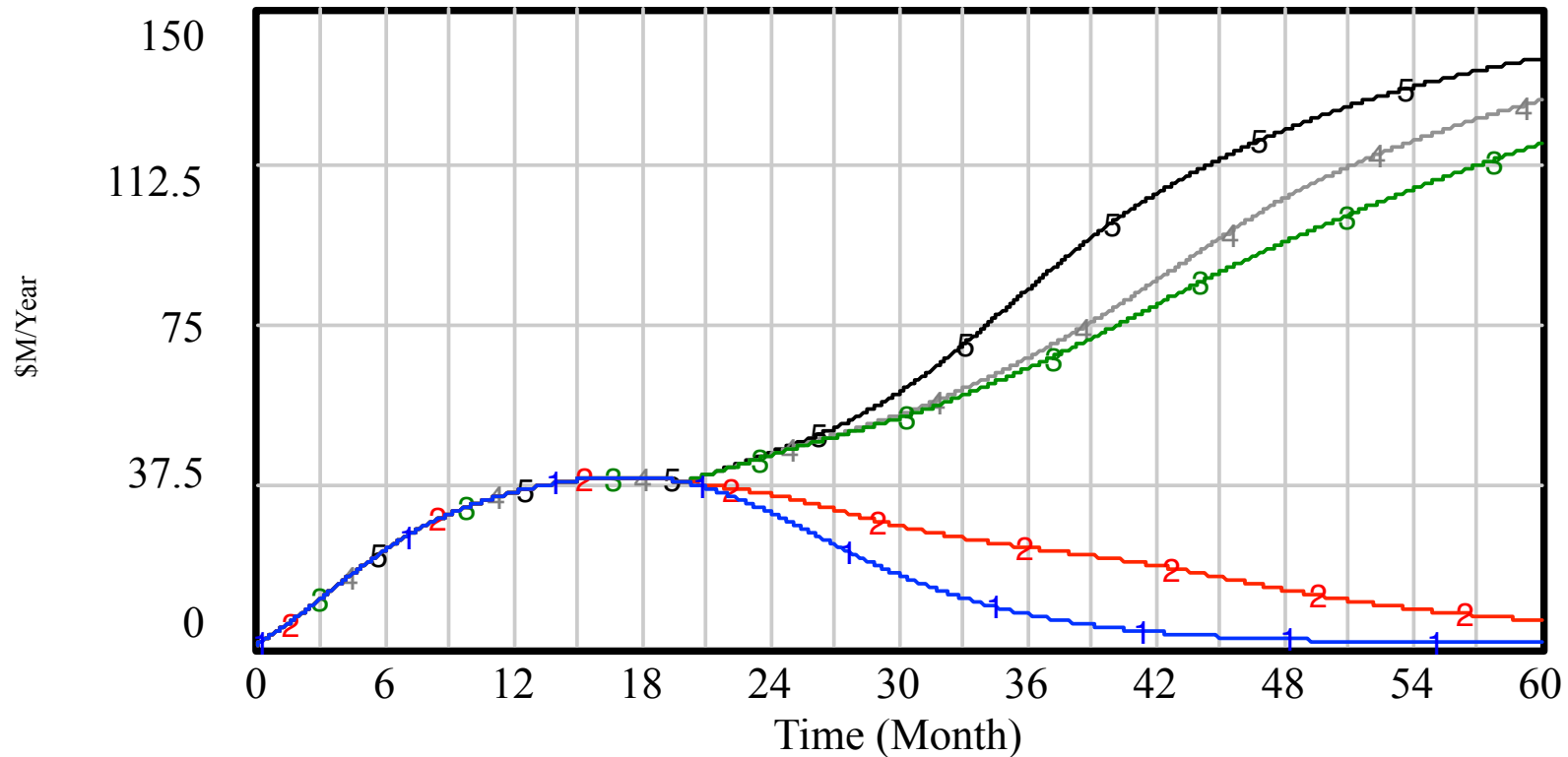
Realised Synergies : Death Spiral — 1 — 1 — 1 — 1 — 1 — 1 — 1 — 1 — 1 \$M/Year
 Uncertainty about Change : Death Spiral 2 — 2 — 2 — 2 — 2 — 2 — 2 — 2 — 2 — 2 Dmnl
 Integration Fatigue : Death Spiral 3 — 3 — 3 — 3 — 3 — 3 — 3 — 3 — 3 Dmnl
 Pressure to Accelerate Realisation of Synergies : Death Spiral — 4 — 4 — 4 — 4 — 4 Dmnl

Death Spiral Dynamics Continued



Commitment to Integration : Death Spiral +-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+
 Voluntary Turnover Fraction of Total Employees : Death Spiral 2-----2-----2-----2-----2-----2-----2-----2-----2-----2-----
 Experience and Skill Index : Death Spiral 3-----3-----3-----3-----3-----3-----3-----3-----3-----3-----

Policy Interventions: Turnaround Death Spiral



- Realised Synergies : Death Spiral ———— 1 ———— 1 ———— 1 ———— 1 ———— 1 ———— 1
- Realised Synergies : Death Spiral with double quality communication at 20 Months ———— 2 ———— 2 ———— 2
- Realised Synergies : Death Spiral with double quality communication and improve governance at 20 months ———— 3
- Realised Synergies : Death Spiral with double quality communication, improve governance, and slip schedule at 20 months
- Realised Synergies : Death Spiral with widespread intervention at 20 months ———— 5 ———— 5 ———— 5

Implications for theory & practice

Implementation decisions are not one-shot choices

- Degree of integration
- Extent of staff redundancies
- Speed of integration

Highlights previously unidentified feedback loops important in driving dynamics

- Achieving Target Synergy balancing loop
- Fatigue & Burn Out reinforcing loop
- Fatigue & Low Monitoring reinforcing loop
- Pressure to Accelerate & Stress reinforcing loop

Thank You!

If interested in collaborating on M&A Dynamics,
please contact: sgary@unsw.edu.au