DÜNYA executive

Integration after mergers or acquisitions

In 1998, Daimler-Benz, the German carmaker, purchased Chrysler for $36 billion. Chrysler was then the third largest automobile manufacturer in the U.S. This transaction was, at the time, the largest cross-border transaction in the world and was expected to become a textbook example of how two giant global operations could be combined but instead, it became an example of post-transaction integration failure. After the acquisition, the differences between the two companies' corporate background triggered a deep rift and, after several troubling years, in 2007, Daimler sold Chrysler to Cerberus Capital Management. This mammoth transaction evidences how the integration process is crucial for each M&A transaction.

The main driving force behind an M&A transaction is investors' desire to enhance the target company's value. Investors, by using the synergy that they believe would arise through a combination of different operations, aim to reduce risks, increase their profits and achieve a competitive advantage in the market. Therefore, most companies prefer pursuing various M&A opportunities instead of following the path of organic growth. While an M&A transaction has many upsides compared to organic growth, the essential goal can only be realized if the process is handled with professionalism and care before, during and after the deal.

In each transaction, a pre-deal - the target company's activities - should be examined in detail and the transaction only executed if the outcome of this research is satisfactory. During this preliminary research, the target company's legal structure, its financial status, compliance with applicable laws and operations should be examined in detail with a view to determining, as much as possible, all risks associated with the target company's operations. While these preliminary investigations are necessary to understand the potential implications of the M&A, the process of creating value over the target company, which is the primary motive behind the transaction, begins after the completion of the transaction. If a similar process is transferred to the post-completion stage and is managed as effectively and diligently as the preliminary studies, investors would likely reach the value increase they foresaw. This is where a post-completion integration plan steps in.

A post-completion integration plan consists of complex procedures that require the rearrangement of business practices, as well as the corporate traditions of two separate and independent companies. It not only involves combining the ongoing systems of the two organizations, it also requires creating a completely new plan that fits both companies. When handled with care, the integration process can yield immense success on both ends of the corporate spectrum. Conversely, if the integration process is not well planned or implemented, it may distress productivity and result in complications with employee engagement and value creation, while also disrupting relationships with customers and clients. It is also worth remembering that a failed M&A transaction will no doubt require costly legal solutions. So, what principles do investors need to pay attention to?

In order to complete the integration period with success, certain initiatives must be taken before the completion. The first key element would be preparing a comprehensive yet realistic business plan to implement after the completion. It is also critical that all theoretical studies and possible scenarios have been evaluated during this preliminary study. Steering committees are especially important in the implementation of the business plan following the completion, where senior executives personally participate and determine the systematic approach for the integration. On top of that, the transaction contracts should clearly determine how and by whom the management power of the target company will be used. A failure to make such a determination may result in a serious disruption of decision-making mechanisms, hence creating a serious predicament for company operations.

The second key component of the integration process is the bridging of the corporate cultures and organizational structures of the two companies, essentially constructing an environment that works for employees. Instead of imposing a completely different corporate culture after the completion, step-by-step changes within the framework of the current culture of the target company would support a successful integration. Conducting a thorough examination of the target company's human resources department and identifying the skeletal aspects of the company's corporate culture would prevent any incompatibility that may arise after the completion.

The third pillar of the integration process is that the customers, suppliers and brand value of the target company are not adversely affected by the transaction. A successful integration plan should include full-scale PR work to ensure the value creation expected from the transaction and to eliminate negative public perception. Parties can also get professional support to manage all these post-completion aspects. Considering that the integration process has diverse dimensions, such as commercial, legal, financial, human resources and public relations, the support of professional advisors is important in subjects requiring expertise.

Closing the deal is only the first step toward full-scale success. Integration, although it is an exhaustive process that requires a high level of attention, effort and coordination, is a necessity for every transaction. If the integration process cannot maintain the same dynamism that started the deal in the first place, it becomes difficult for the transaction to create the expected value.

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