M&A Integration Challenges: The Process Doesn't Stop at Closing

By Lee H. Eisenstaedt and John L. Montgomery

The pace of change within the accounting profession has accelerated dramatically, creating notable repositioning in the hierarchy of the profession's structure and rankings by size. The 2010 edition of Accounting Today's list of the top 100 firms showed a 2.85-percent decrease in revenue among the firms for the first time since 1993, when the survey began. Among other things, the decline was driven by difficult economic conditions, the waning effect of the boon in revenue from Sarbanes-Oxley, the wave of retiring Baby Boomers and a shift in market focus by the "Big Four" as they again targeted mid-market clients, which they had neglected during the accounting industry's boom years. For these and other reasons, second- and third-tier firms are finding they must make significant, sometimes game-changing, structural and operational adjustments in order to achieve their growth and profitability objectives.

In response to the myriad challenges they are facing, many firms have adopted a merger and acquisition strategy.

What many firms fail to realize is that regardless of the underlying purpose of the merger, once a merger happens there will be a momentous and enduring effect on the firm's future. When effectively planned and executed, the transaction can have a powerful positive influence on a firm's success, growth and sustainability. Conversely, a failed merger or acquisition can be disastrous and jeopardize the firm's development for years to come.

Our experience has been that firms following a disciplined, comprehensive formula through the life cycle of the transaction are more likely to achieve the goals, synergies and long-term success they envisioned. When firms come together, they need the undivided attention of the firm's chief executive officer, as well as key members of the firm's management team. The true presence of this level of leadership—as opposed to lip-service appearances—will help emphasize the crucial nature of the transaction and serve to energize and focus the partnership.

The purpose of this article is to introduce key elements of a proven process that will enhance the probability that the transaction will be successful and increase its ultimate value.

Good planning = success

Ensuring the success of a merger or acquisition begins when the decision to pursue the transaction is made. Once that happens, it's time to develop a comprehensive plan that identifies the decisions and action steps for each phase of the integration process:

- Communicating with internal and external parties:
  - Pre-announcement
  - Post-announcement and pre-closure
  - Post-closure
- Anticipating and planning for new challenges arising from the transaction:
- Creating a project management office (PMO)
- Establishing priorities, assigning responsibilities and setting milestones for actions to be taken within each phase
- Identifying all stakeholders to the transaction and executing a comprehensive communication plan tailored to their respective needs
- Completing the integration of the merger or acquisition at all levels of the organization as quickly as possible to avoid the adverse effects of two unique firms co-existing within one structure

Each phase needs attention. Planning each phase of the merger or acquisition is fundamental to the effectiveness of the overall plan. And it is vitally important that members of management and selected key partners and staff be involved in formulating and executing these plans.

- Pre-announcement Phase:
  - Structuring the deal
  - Conducting due diligence
  - Defining and prioritizing the tasks of the pre-announcement phase
  - Communicating with internal management and key partners
  - Reaching agreement with the leaders of the firm being merged or acquired regarding:
    - Goals and fundamental strategy underlying the transaction
    - Firm governance and management structure

- Individual management roles for the combined firm
- Announcing the transaction within both firms concurrently
- Beginning the process of partner and professional staff retention
- Defining the leadership structure for managing the transaction
- Publicly announcing the merger/acquisition
- Creating a new Web presence for the combined firm (*e.g.*, Web site, LinkedIn, Facebook, Twitter, *etc*.)

- Post-announcement/Pre-close Phase:
  - Defining and prioritizing the tasks for the post-announcement phase
  - Announcing the transaction, using the appropriate media, to the remaining stakeholders at both firms
  - Beginning the process of client retention
  - Centralizing responsibility for implementing all aspects of the transaction (PMO)
  - Continuing the process of partner and professional staff retention
- Post-closure Phase:
  - Defining and prioritizing the tasks for the post-closure phase
  - Continuing the process of client retention
  - Planning and executing the integration of the merger/acquisition up, down and across the combined organization

Stay alert for new challenges. Multiple new challenges and issues will arise from a merger or acquisition, creating distractions from the day-to-day operation of the business. These usually include:

- Reduced attention to existing clients
- Greater focus on internal, rather than external, issues
- Increased levels of anxiety among clients, partners and employees of both parties to the transaction

Such distractions further emphasize the need to carefully plan all phases of the merger or acquisition and move quickly to complete the integration of the firms. Distractions from the demands of operating the business can be managed most effectively by creating a project management office (PMO), an organization and staff dedicated to managing the transaction as a separate project.

The role of the project management office

Most firms go through only a handful of mergers. For at least one party to the event, it's likely to be a one-time event. Consequently, firm leaders need to be prepared for the new and unfamiliar pressures and challenges they will undoubtedly find themselves facing. They will be juggling stress of the merger along with the demands and responsibilities of managing the day-to-day operations of the firm. Both are equally important to the firm's well being, and both need 100 percent of the management team's time and attention.

The only way to manage these conflicting claims on firm leaders is to follow the example of industry and establish a PMO. These offices, which generally are mandated for a finite amount of time, are created specifically to create an appropriate focus on an extraordinary singular event. PMOs encourage an organized and disciplined approach to balancing the two equally demanding responsibilities firms face as they become integrated. Oversight of the PMO should be assigned to a senior member of the new firm's management team. It should be staffed by a team of qualified professionals from both parties to the transaction and charged with the responsibility of establishing the priorities and overseeing the execution of the tasks essential to the efficient and effective integration of the two firms.

Communicate, communicate, communicate

A commitment to compelling, direct and honest communication must be pervasive at all levels of the plan for integrating the merger/acquisition. This commitment extends to clients, partners, professional staff, centers of influence, vendors/suppliers, competitors and all other key stakeholders in the transaction. As your communication strategy is formulated, keep in mind that the core issue for each internal and external client is the same: "How is my life going to be impacted?"

Clients and professional staff are always a priority, and the need to communicate with them is intensified during the merger process. Although different messages must be tailored for each audience, they must be equally compelling and delivered by appropriate and able messengers.

Clients. Clients typically select a firm based on criteria that includes proximity of resources, relative size, technical and industry expertise and chemistry with the professionals who will serve them. The combined firm is likely to have diminished compatibility with some of their original criteria, which may result in

some clients feeling they have been taken hostage by the transaction. The potential resentment must not be allowed to fester.

Communication with selected top-tier clients, and with as many others as time permits, should be conducted by the CEO of the partnership in conjunction with the partner with whom the client has the strongest relationship.

Partners and professional staff. The issue of partner and staff retention is as important as client retention. Demands for communication and attention will intensify dramatically once the formal announcement of the transaction is announced. This group will want to be reassured that they are valued and important to the future of the combined firm. Their questions must be addressed promptly and sincerely.

Communication with the partners and staff must be carefully planned and delivered. Initially, it should be conducted within each firm and repeated as a part of the integration process within the surviving structure. The new CEO of the partnership should deliver the first message. Doing so in person is the best alternative, but if personal contact is not possible, consider using live video or pre-recording a video message that is sent to everyone at both firms. E-mail is the least personal and should be used when the other options are not viable. Also assume that all the messages you send or handouts you distribute will be shared with clients, the press, firm alumni, *etc.*, and manage their content accordingly.

Following the initial communication, professional and administrative staff, including partners, should be assembled in groups sharing common interests and at comparable stages of career development. Examples of these groups include equity partners, income partners, directors and managers, and administrative staff. A member of each group, one who enjoys the respect of its members, should be appointed to deliver the message and lead the discussions. The leader should act as a mentor for the members of the group, providing them with career counseling and advice.

In our experience, better results are achieved when small groups of professionals with similar interests are utilized. Small groups encourage a more candid and free-flowing discussion.

The leaders should assemble their groups on a regular, periodic basis to share information, report progress, address rumors and make adjustments to the integration plan. Representatives from human resources and/or marketing should also be included because of their expertise at managing internal and external communications.

Don't overlook the "softer" issues

The combined pressures of merging the firms and continuing to manage the businesses offer tempting justifications to postpone or even forgo some post-closure integration steps, steps that are vital to ensuring the continued and coordinated growth and development of the new firm.

The softer, less urgent issues that are often omitted or given a lower priority, must also be addressed if the merger or acquisition is to realize the synergies envisioned with the decision to pursue the transaction. Some examples of these "softer" integration issues are:

Cultural harmonization. Cultural harmonization has a "soft," even imprecise, meaning, which can be interpreted in multiple ways. And yet its influence on the combined firm can have a significant effect on the merger's overall success or failure. It is difficult, if not impossible, to avoid the reality of human nature, which often takes the form of messages and behaviors that signal an "our way is best" attitude.

Each of the parties to the transaction has a unique "personality," or culture, that has evolved over the life of the partnership. These characteristics were institutionalized as a result of their respective values, leadership, growth and success in the market. "Personality" will be revealed in a common language used within each firm and an unwritten acceptance of behaviors that will and will not be tolerated.

Here's an example. Working with a Top 10 accounting firm that had recently acquired another firm, we observed that the first two phases of the transaction were planned and executed without incident. However, during the integration phase, it became apparent that the cultures of the two firms were significantly at variance. Leadership styles, management practices and most troubling, the methods, language and styles of communication were unusually disparate. Had our client been more sensitive to the cultural disconnects from the beginning, it may not have proceeded with the acquisition or perhaps would have been much more aggressive in taking the steps necessary to ameliorate the discrepancies in advance, since members of the acquired firm are usually more pliant regarding such matters prior to closure.

These kinds of cultural con-

flicts can breed unexpected staff turnover, unnecessary client defections, diminished productivity and other inefficiencies, each of which result in incremental costs and pervasive morale issues.

Administrative policies & procedures

The integration plan cannot overlook the differences in the administrative policies and procedures of both firms. These areas include finance, accounting, human resources, marketing, business development, IT, proposal and report preparation and facilities. Consistency among the policies and procedures is essential to:

- Building a sense of fairness and equity among the staff
- Ensuring that financial reports, analyses and performance metrics are reliable and trusted
- Presenting a "common face" to clients, prospects and other key stakeholders
- Realizing operational efficiencies and cost savings

Human resource policies and practices are particularly visible within the new firm. Consistent with the actions recommended for partner and professional staff retention, human resource organizations and the policies and practices related to this vitally important function must be harmonized as soon after the close of the transaction as possible and communicated quickly throughout the new firm. For example, foremost on the minds of everyone, regardless of their position or level, will be the questions: "by what criteria, by whom, and how often will my performance by evaluated?"

A "harmonized" strategic plan

Another vitally important priority of the integration team must be the development of a strategic plan for the combined firm. A strategic plan not only documents the new firm's direction, but the planning process offers an extraordinary opportunity for cultural harmonization and relationship development. An environment usually evolves, which is conducive to open, forthright discussion, often providing profound insight into the philosophies, business acumen, wisdom and integrity of the participants. The agenda will likely include:

- Definition of the profile of an ideal client
- Client, partner and staff retention
- Industry and services priorities—defining them, the need for strategic hires within them, business-development priorities
- Recruiting practices for interns, recent college graduates, experienced hires and partners
- Training and professional development
- Messages to the market and building awareness of the new firm
- Operating synergies and cost savings
- Succession planning—for partners, staff and clients

A respected member of the new leadership team should lead the planning effort. She or he should assemble a small group of strategic thinkers from both firms to develop the plan's objectives, goals, strategies, and measures.

This article emphasized and illustrated the value and importance of anticipating, preventing and resolving some of the issues commonly encountered when melding one or more firms into a unified organization. A follow-up article will be included in a future issue of this publication that will present additional key components of a framework for developing a plan designed to ensure that a firm adopting a merger and acquisition strategy realizes the goals and synergies initially envisioned.

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