Smooth transition: How to increase your chances of merger success

In today's competitive energy sector, a merger can be an excellent way for local distribution companies (LDCs) to reduce costs, expand their offerings and better serve their respective communities. But like many things in business, successful mergers don't happen by accident. In fact, only 10 to 30 percent of mergers and acquisitions (M&As) stand up over the long-term.[1]

Yet, if you look at the 70 to 90 percent of M&A deals that do not achieve their potential across industries, you'll notice that many of the causes are preventable. Often, companies simply don't have a clearly-defined integration plan, which can result in misaligned expectations and a lack of accountability. Without clear communication and well-defined roles, major things can get missed, causing deals to miss the mark.

Understanding this, it's clear that, to come out on the right side of the odds, you need an integration strategy. The details of such a plan will be unique to your particular merger—and should be scalable and customizable to evolve with your new company even after the merger is complete. That said, there are a number of components that are universal, and that every LDC should consider if they're opting to go the merger route. These include an aligned vision, a cultural integration plan and a robust governance structure.

Align under one vision

Whether your merger is vertical or horizontal in nature, it should always be backed by a clear purpose. Identifying this purpose or vision early in the process not only allows you to ensure the merger makes sense, but it also allows the new company to stay focused moving forward.

So, for instance, if two energy companies from different markets are coming together to provide an offering that doesn't yet exist, their integration plan should be built around getting that new offering to market. With this aligned vision at the forefront of all merger activities, the new company will be able to complete the necessary back-end work—such as assimilating accounting processes, IT systems and organizational cultures—while ensuring progress is still being made in getting the new product to market within a viable timeframe.

To make sure this vision doesn't get lost in the shuffle, it's critical to appoint a single leader to lead the new organization. For example, if a new CEO is planned, that process should be undertaken as soon as possible.

Create a cultural integration plan

There's a belief that organizational culture naturally evolves over time, but this couldn't be farther from the truth. Of the 70-90 percent of M&A deals that miss the mark, 50 percent are due to culture misalignment.[2] When you bring two completely different organizations together, there is bound to be some form of culture shock—generally because the two organizations have deeply-rooted differences in how individuals digest information, how they communicate, how they demonstrate respect and appreciation, or something else entirely. Leaving these differences to resolve themselves over time can be a detrimental exercise—leading to miscommunication, discomfort and lost productivity.

A sound integration plan, therefore, should work to guide the melding of the two original organizational cultures and help create a new one that works for as many people as possible. It should not only align with your new organization's overarching vision, but also outline ways to deliberately manage cultural change and support those employees and managers who may be struggling with it.

In this context, transparency is critical. Leading up to the merger, and through the transition, it's important to have frank conversations with all employees and provide them with an avenue to raise concerns and have them resolved. You may also want to conduct a cultural analysis of both organizations, to help decision-makers better understand how they can manage change and address employee concerns effectively.

It's also important to note that cultural integration doesn't end when a merger is complete. In the months that follow, you want to make sure people still have the support structures they need to grow with the company. This can include HR coaching, which involves helping employees revisit their skillsets, identify attractive opportunities within the organization or access the resources they need should they choose to leave. It can also include retirement support—helping them gradually transition from the workforce to retirement—or change management sessions that use visualization exercises or other techniques to help existing employees adapt to the new cultural norms.

1 https://hbr.org/2011/03/the-big-idea-the-new-ma-playbook

2 https://www.grantthornton.com/library/articles/advisory/2018/M-and-A-assessment-key-avoiding-culture-clash.aspx

Implement strong governance

In addition to a strong leader at the helm, a transition also requires a robust governance structure. This involves creating an integration management office responsible for managing all transition planning—including Day One readiness/management, 100-day post-closing coordination and transition risk management. This full-time function is responsible for working with all management groups and providing regular updates to the organizational leader and relevant decision-makers. The integration team leader will also ensure every member of the team is held accountable and meeting relevant deadlines.

A strong governance structure may also include an external perspective—either in the form of an industry veteran or group of veterans that is capable of providing advisory services. This type of sounding board—which could consist of retired CEOs or COOs—should be able to flag relevant concerns, ask overlooked questions, assist the organization in maintaining its community roots, or help it address both known and unknown risks in an unbiased manner.

Facing the future

While mergers may seem like a daunting endeavour, the truth is they don't have to be. By devising a Integration blueprint that focuses on an aligned vision, engaged people and the proper controls and governance, you'll dramatically increase your chances of success—and be well-positioned to face the future.

To learn more about how Grant Thornton can help your LDC grow into the next era of energy, contact us.

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