TRENDS IN POST-MERGER INTEGRATION (PMI)

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The post-merger integration (PMI) process is one that heavily influences the success of M&A transactions and therefore requires detailed execution. Considerable value in M&A transactions is often lost due to the poor – or even lack of – integration strategy. According to a study published by the Financial Times Press, the failure rate of M&As is more than 50 percent, with 83 percent of companies unable to accomplish the goals of the merger[1].

In a heightened state of risk aversion in the current conditions, companies can no longer afford to lose such vast synergies. Therefore, as financial services organizations re-engage internal discussions on potential mergers or acquisitions, the approach to forming a strategy should include defining an approach to post-merger integration (PMI) which encompasses the current market sentiment and has built in assurances in meeting their PMI goals. In the financial services industry, several new trends have emerged, such as agile adoption and dependence on data, among others. The PMI process must continue to evolve by adapting to these trends, and moreover, firms must position PMI at the forefront of the M&A process.

In 2019, the financial services industry witnessed numerous M&A deals take place with an overarching 'merger of equals' trend. As 2020 progresses and looks to pick up where the 2019 trends left off, M&A activity will likely increase as a direct result of firms seeking opportunities to rebound from the economic impacts from COVID-19. Through this M&A activity, for firms to truly unlock the maximum value of their deal, they must both incorporate the post-merger integration process early on as well as to adapt their integration strategy to involve industry changes.

CURRENT STATE OF POST-MERGER INTEGRATION:

According to research, a majority, 68 percent, of corporate strategists believe that **poor integration is the primary source of lost deal value**[2].

A well-structured and successful integration can help companies achieve the goals of the M&A transaction – for instance when entering into an acquisition for scale, companies can expand into new markets by obtaining new products or accessing new customers, acquire new talent and/or technology, or improve market position by eliminating competition. Most importantly, successful integration can help **achieve synergies** between the merging entities.

In recent transactions, two key themes have emerged in financial services that firms should be mindful of while conducting post-merger integrations:

1. An increased focus on cultural trends

2. A significant push towards realizing technology synergies

CULTURAL AND TECHNOLOGY TRENDS:

The trends that financial services firms have been experiencing fall largely under the post-merger integration themes that span the areas of culture and technology.

CULTURAL TRENDS:

Adoption of Agile

The agile management style that allows cross-functional teams to work in iterations, which promotes adaptability and flexibility.

Adaptability

Firms and their employees are more adaptable than ever to changing landscapes, employees retooling and building upon existing skill sets. Building upon this trend, talent can be shifted among integration work streams to support a more efficient delivery of milestones.

TECHNOLOGY TRENDS:

Increased dependency on data

Financial service firms are increasingly dependent on data across their middle and back-office functions. Firms leverage enterprise systems as databases to store and analyze their large quantities of data.

Process Mining

Process mining is a method of analyzing an end-to-end process and gaining visibility into activities performed. These insights can lead to improvements in process efficiency of integrated services or functions.

IMPACT ON PMI:

Post-merger integration work should maintain traditional best practices but be adaptable in the context of new trends.

1. Successful integration involves having a **culture-focused approach**, as incompatible culture is a significant source of lost deal value. By taking advantage of the acquired organization employee's abilities to adapt and conform to change, these employees can be deployed to fit in an integration model traditionally segmented by siloed skill sets. Building a team's ability to continue to deliver both customer and operational excellence requires a periodic review of the existing culture and employee drivers. Organizing workshops that focus on Design Thinking and other proven thought methods measure employee's abilities to adopt to change, leading to refocusing objectives and goals based on a group or team.

2. Equally as prudent to a culture-focused approach, the recent trends in technology and the ability to bring large change to scale should be a driver in embracing **technology and data-driven approaches** as a critical component of the overall PMI strategy. Access to better technology but deciding to choose best in breed, implementation and conversion to an upgraded, scalable processor (if legacy systems are archaic), modernize architecture to enable near to real to time interfaces, flexible architecture to introduce plug and play with fintechs to enhance capability and speed to market, etc. – this should drive efficiencies and cost savings. Getting away from a traditional waterfall model and shifting towards an agile model as implications more than just at the delivery level. Outside of managing how software patches and updates are ingested, organizations must consider how their new approach affects other aspects of the business. An organization's delivery and vendor partners will have to also adjust their existing operating models to support the organization's transition into an agile based approach. Technology and data are areas where firms can achieve significant synergies through strategic consolidation, where the merging entities may overlap.

3. **Effective planning/execution** traditionally begins even before the deal closes during due diligence with a 100-day plan outlining the stages of the integration. Effective planning/execution remains a key pillar, but in the context of agile, the 100-day plan should serve as an overarching guiding roadmap rather than a strict schedule. The PMI team should **work iteratively in sprints** to achieve the various stages of the integration. This will allow the team to continuously reassess their current status and allow the integration to evolve should challenges arise.

4. **Clear direction, decisive leadership, and effective communication** are other influential factors in PMI work. Traditionally, this has meant effectively navigating the organizational hierarchy; however, in modern agile-oriented organizations, the integration team should leverage **cross-functional networks** within the merging companies. Agile teams, which are typically flatter and smaller than teams in a traditional hierarchy, will allow the PMI team to have more points of contact to streamline processes and avoid bottlenecks in communication.

CONCLUSION

It is likely that the financial services industry will proceed with M&A activity in 2020 and the following few years. Firms that put transactions on hold during COVID-19 may look to resume this process, and firms that have been impacted by COVID-19 may seek opportunities to revitalize through M&A transactions. In any circumstance, it is essential to execute the post-merger integration process properly. The PMI process will continue to evolve while still maintaining some essential traditional best practices.

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