

## **Podcast Transcript: Integration can make or break deals**

**Narrator:** Welcome to the Industry Intersections podcast series, where Grant Thornton shares information through an industry-specific lens about the most important business issues of the day.

**Lisa Walkush:** Hello, I'm Lisa Walkush, Grant Thornton's National Managing Principal of Industry. Mergers and acquisitions remain key growth strategies, but finding the right target is only the beginning. Effective integration – people, culture, systems and operations – often determine the success of a deal. Today I'm talking with Angela Nalwa, a Managing Director and the Leader of our People and Organization Practice, and Sonny Origitano, a Managing Director in our Strategy and Transactions Group, about what makes integrations work. The first question that I have, what are some of the most important factors that lead to successful M&A integration?

**Angela Nalwa:** I would say people. In organizations people are critical to success and equally critical to the success of an integration. An integration talent strategy should start early, even at the time of diligence. And that strategy should focus on identifying your key talent, aligning your key talent to the right roles in the combined organization, and retaining your key talent. And while compensation is a significant contribution to retention, there are other levers that should be considered. Often, frequent communication, opportunity for more responsibility and visibility, creating new opportunities in the combined organization, and including key talent in the integration workstreams have provided to be equally powerful at retaining talent.

**Lisa Walkush:** If I could sum that up, when we're working with clients and going through integrations from a people perspective, really being transparent about what's going on, what's going to happen to them and what the opportunities are can really help in a successful integration from a people perspective.

Sonny, thoughts on what are some of the most important factors that lead to a successful M&A integration?

**Sonny Origitano:** I'd like to add on a little bit to what Angela said. Diligence is a really important part, and it's twofold. One, starting to get a good appreciation and understanding of a system's landscape — typically whoever is doing the acquisition has a good foundation of their applications and systems but they need to start to understand the applications landscape of the target. All of that is started during diligence, and however far they can get through diligence, that needs to then get picked up once they effectively sign an agreement and start doing the integration planning.

And they're going to need their people, which builds off what Angela talked about. The key people within both organizations need to be working through and understanding and identifying the various systems, the differences, and trying to get to a set of applications that get rationalized for the new, integrated entity going forward.

**Lisa Walkush:** I'm going to build on that, Sonny with my next question. What are the factors that contribute to adding complexity in a given industry? So maybe you can talk about different issues that we've seen from a systems perspective when we're doing integration work?

**Sonny Origitano:** I'd say there are a few different areas, the first being data. Data is extremely sensitive as you go through the different types of industries. So if you think about it in say, healthcare, you have patient data that's throughout different healthcare organizations and they've got to get to a set of patient records that is complete. Data is a big area for healthcare. Additionally, in financials, accounts and account data, and then in tech you start thinking about what they have, which is intellectual property in the form of possibly code. Data becomes really sensitive as one key area. The other, I would say, is business processes. When we get into business processes, those are core to the various industries. So as you take a look at a healthcare industry, there are key systems that support healthcare. We need to bring in practitioners who understand healthcare, and those are going to be different from practitioners we would bring to a financial organization. So business processes core to that particular industry is the other. And then lastly, size of the organization plays a role, and it's primarily because of policies and procedures. If you're an extremely large organization with lots of policies and procedures that you're attempting to implement on a smaller organization, that's going to put a big strain on the smaller target. So size plays another role into adding complexity into any particular industry.

**Lisa Walkush:** Thank you, Sonny. Angela, maybe you can add on from a people perspective. When you're looking at doing integrations across industries, what are some of the different complexities that you've seen?

**Angela Nalwa:** I think the biggest complexity is skill set that's particular to an industry. So it's identifying whether you have the appropriate skill set, identifying gaps, looking to the future combined organization to fill gaps with key talent, and ultimately the retention strategy of that talent.

**Lisa Walkush:** What do we see from an M&A perspective when we're bringing organizations together, and Angela, when you're assessing what are the skills that the combined organization has with what are the gaps, is it still kind of challenging now in the marketplace to fill those gaps?

**Angela Nalwa:** It is somewhat challenging in some industries, but it has gotten a bit better than it was the past two years. I think ultimately, though, people are still looking for some of the same aspects of work that they were during the last two to three years, which is the ability for remote work, work/life balance, career development, more accountability and responsibility and just more visibility into the organization's strategy. So that has not changed, Lisa.

**Lisa Walkush:** What are some lessons learned that apply to integrations across industry? So basically, what are some of the fundamentals of integration and what are some of the lessons learned that you've seen during your career?

**Sonny Origiano:** A few factors, I think, from an IT perspective. First is really program management with structure and rigor across all industries. And one of the keys here, IT should be following the overall program structure. There are nuances to IT, but the rigor that's brought at the program level should be implemented.

Secondly, dedicating people to the effort. Oftentimes, people have a full-time day job, and if they don't identify and dedicate folks to that integration effort, they're not going to be successful in getting it done by the time horizon they set out to do. The Day One event is critical. As you bring the organizations together, what do you want the Day One event to look like? And oftentimes, the speed of the transaction and integration is of importance, you don't have a lot of time to integrate systems.

So it becomes less around the integration of back-end, but more on the front end of, what does it look like from a branding and strategy perspective. So there are some things you can do very quickly, potentially around emails, but there are other things when you're starting to take systems and try to integrate them that take longer on the scale. So really, what do you want that Day One event to look like?

The last thing I would say, that we've seen more in the last 12 to 24 months is, if you're a target and you're being acquired, cybersecurity also will become a pretty important component. As integrations and mergers are making headlines, there are folks that will be looking to get the target from a cybersecurity perspective whether it's ransomware or other activities. That becomes pretty important to lock down pre-Day One, before an announcement, as much as you can from a cybersecurity perspective.

**Lisa Walkush:** I'm just kind of curious, too, Sonny, based on your experience, have you seen any industries that handle the systems integration piece better than others?

**Sonny Origiano:** I would say the technology industry is definitely a leap ahead because they have folks that are technologists. Whichever function you want to call it, whether it's R&D or pure IT, they have technology and are typically performing from an agile perspective. I think they do it better than other industries that may take a more structured approach and it takes them longer to get there.

**Lisa Walkush:** Thank you for that, and Angela, what are some of the lessons learned that you've seen when doing integration work across various industries from a people perspective?

**Angela Nalwa:** Sure. Lisa, you might have heard the saying that "culture eats strategy for breakfast."

**Lisa Walkush:** Yeah!

**Angela Nalwa:** In my opinion, culture and strategy are equally important. But your company's culture really defines how you're going to execute on that strategy. Culture is an organization's values, goals, decision-making process and accountability, collaboration and teamwork, and diversity of people and of thought. Misaligned cultures can be the cause of an unsuccessful integration, so it's really critical to understand early on, and again through diligence, the shared aspects of culture across the integrated companies to understand your combined strengths, but also understand the differences that need to be addressed.

**Lisa Walkush:** And again, I'm just kind of curious, too, have you seen any industries where, when you're doing integration work and merging two companies, where the cultures tend to be similar, or are there some industries where you can definitely get really varying cultures across companies that are in the same industry?

**Angela Nalwa:** It's a great question, Lisa. I would say that no two companies have the same culture. Culture is made up of people. If you're acquiring within the same industry, you typically have more strengths, combined, than gaps in culture. It's when you're making acquisitions to fill a need and it might not be in the same industry, where you'll have bigger cultural gaps, especially if it's a large organization acquiring a small organization, the way that you do the work, the way you collaborate, the way you make decisions and the way you execute can be tremendously different.

**Lisa Walkush:** So what areas of an integration are organizations having the most difficulty with?

**Angela Nalwa:** I would say the one area I have seen companies struggle with the most is around communications and change management. There are so many competing priorities as we all know when integrating two organizations that sometimes change management and communications does not get the focus that it should. And that becomes really obvious when you're in the middle of the integration. A merger can create a lot of anxiety across the board with people. There are so many changes to navigate, starting with culture, structure, new leadership, who you're going to report to, how you go to market. And effective change management would help you understand the stakeholders, the employee population, set direction with one vision for the entire organization, and engage the entire organization while you execute.

**Lisa Walkush:** I do think most organizations realize the importance of change management, but when it comes down to doing integration work and what the cost is and budgets, it seems to be an area that always gets trimmed. So from your opinion, your expertise, how much of an integration budget would you recommend setting aside for change management efforts?

**Angela Nalwa:** Lisa, that's a great question. It really depends. It depends on the size of the acquisition. So if it's a large organization acquiring a smaller organization, sometimes the need for extensive change management and communication is not as great as when there's a larger acquisition taking place. It also depends on the budget of the organization in total. We have seen anywhere from 10% to 25% of integration budget go to change management and communications.

**Lisa Walkush:** Sonny, I'm going to turn it over to you. Again, based on your experience, what areas of an integration are organizations having the most difficulty with?

**Sonny Origiano:** I would concur with Angela, and financial is a big aspect. One-time cost is an area that oftentimes they don't necessarily account for pre-deal. And it's post-deal when they start going through all the various projects and they identify and realize that there is a significant one-time cost to do all the IT and systems integration work.

**Lisa Walkush:** Angela and Sonny, I did want to give each of you an opportunity just for some closing thoughts. Sonny, I'll start with you.

**Sonny Origiano:** If people go through an integration, most importantly it's really understanding why are they doing the transaction. What was the value? What's the thesis of the deal? And then making sure that all of the workstreams, IT being one of the most critical, understand what that thesis was. Because they can then align to all of those investment goals and objectives to have a successful IT integration.

**Lisa Walkush:** Angela, closing thoughts?

**Angela Nalwa:** People can make or break an integration and it is critical to really focus on identifying who your key talent is and coming up with retention strategies and engaging your entire workforce throughout the entire integration process.

**Narrator:** Thanks for listening. Find out how Grant Thornton goes beyond expectations at [GT.com](https://www.gt.com)