

## How to prevent M&A heartburn

Many champions of the pharmaceutical industry achieved scale and global reach through mergers and acquisitions. Indeed, the M&A remains a robust strategy for companies of all sizes looking for innovation, greater efficiencies or commercial advantage. Yet the integration of separate organisations is fraught with challenges that can undermine the drivers for doing the deal, explain Dorene Lynch, Greg Kain and Alvin Doss, Jr

There is a lot of hunger on the pharmaceutical scene. Big firms are gobbling up their competitors and cash-starved start-ups are on the hunt for peckish suitors. M&A deals surged in 2009, with the top 15 transactions valued at more than \$180 billion.<sup>1</sup> But while snapping up a tasty morsel may satisfy at the time, it may cause queasiness shortly thereafter.

According to the Harvard Business School, “more than two-thirds of transactions that fail do so at the execution stage”.<sup>2</sup> Integrating technologies, products, processes and staff is a hugely complex activity fraught with hidden pitfalls, which may not be top of mind when dealmakers are toasting a freshly-signed contract. Without a smooth transition, timelines can slip, the rate of innovation can slow and millions of dollars may be lost in needless redundancy or missed opportunities.

### a well-ordered process

Managing the integration process effectively requires exclusive dedication and project management expertise. One common mistake is to make integration management an “add-on” to an employee’s regular responsibilities. That is a recipe for failure. A successful integration requires thousands of interdependent activities to be organised and driven, often within a tight timeframe. One error can affect many activities further down a complex, interrelated chain.

It is nearly impossible for someone to perform their day job, as well as lead



**TASTY TARGET:** But acquired organisations can be difficult to digest

### Box 1: Why integrations falter

Many factors can cause post-merger integrations to go off the rails, including:

- The integration leader having the wrong skill set/competing duties;
- Insufficient planning, oversight and communication;
- Employees being distracted or waiting for the “other shoe to drop”; and
- Problems and conflicts being allowed to fester.

a flawless integration, without making mistakes and stepping on other people’s toes. As one hapless “civilian” related about her assignment as integration leader for a merger between two pharmaceutical behemoths: “For me, it was brute force and schmoozing and persuading and cajoling and begging people to do their part in order to get things done.”

Conversely, a trained project manager, who is dedicated solely to the task at hand, orchestrates an integration using a well-ordered process coupled with honed facilitation skills. The project manager will:

- Identify every person who needs to be involved;
- Generate buy-in up front to create a cohesive team;

## Box 2: The right skills for the job

A management consulting firm knows how to structure a merger financially. That is not the same as knowing how to plan and manage the daily on-the-ground activities required to push two business units together – particularly when anxieties abound and corporate cultures clash.

Project management, on the other hand, is about how to get from “here” to “there” in the best way possible. An effective project manager possesses both hard and soft skills: excellent organisational and business acumen, as well as the ability to generate employee trust and buy-in under stressful conditions.

An effective project manager is:

- An exceptional facilitator and communicator;
- Viewed as unbiased and impartial;
- Highly organised with acute attention to detail;
- Disciplined about process, schedules and deadlines; and
- Able to lead without explicit authority.

## Box 3: Merger motivations

Strategy-driven mergers are focused on:

- Innovation – does the acquirer need a fatter pipeline?
- Commercial drivers – does it need more marketing muscle or better distribution channels?
- Operations – does it need more capacity or specialised equipment?

Cost-driven mergers, meanwhile, are about efficiency. Companies may be motivated by achieving lower overheads or greater throughput.

- Plan who is doing what and when, within and across functions;
- Drive plan execution, closing the loop on each activity every day;
- Facilitate problem-solving quickly and objectively; and
- Track and communicate progress, transparently and frequently.

Assuming they are equally skilled, both internal and external project managers will be equipped to lead an integration project. However, an internal project manager will often confront additional challenges.

Mergers are deeply unsettling. After such a deal is announced, employees become paralysed for a time while they wait to hear how the nature of their job will change, who their new boss will be and if they will have to relocate – or worse. An internal project manager may be automatically perceived as taking the side of the legacy company. Trust may be harder to win, yet it is critical to enlisting the co-operation necessary to harmonise complex processes or to move operations physically. Staff may not share information openly or easily, especially if they feel their own positions are in flux or at risk. An “us versus them” mindset may be harder for an insider to dispel.

### Integration strategy

The best integration path will vary from one merger to the next. M&As generally fall into one of two categories: strategy-

driven deals or cost-driven ones. Even if there is a mix of the two, one motive usually predominates. Strategy-driven mergers usually centre around the need for innovation, new commercial channels or expanded/complementary operating capabilities, while cost-driven M&As are prompted by the need for greater efficiencies.

While a swift integration is desired in all cases, strategy-driven mergers require more delicacy and sometimes more time. If one firm has acquired another for its promising new RNAi platform, to disrupt ongoing research by reorganising teams and sensitive equipment in the name of efficiency may undermine the very purpose of the deal.

For cost-driven mergers, however, timely transition is of the essence. Otherwise, the efficiencies that propelled the deal will turn into double burdens.

### the case of the financial squeeze

Post-acquisition, a large biomanufacturer had just six months to complete the integration of five separate financial systems to meet its CEO’s promises to Wall Street. Not only did all five systems have to be rolled into the firm’s primary system, the primary system itself was to be migrated from one software platform to another, according to pre-merger plans.

*What makes this so complex?*

- **Volume of data.** A customer orders an assay kit. An incubator is returned

for refund. An employee buys a box of rubber bands. For a global company, many thousands of such transactions occur every day at sites around the world. Multiply daily totals by months or years, add the transactions contributed by merger partners, and the volume of data to blend becomes mountainous.

- **Mismatched transaction categories.** It would be convenient if all organisations classified maintenance as “maintenance.” But what if one company calls it “maintenance” and the other calls it “repairs”? Or if it lumps maintenance under “office expenses,” along with stationery? Merging records at face value will lead to data gone haywire – often discovered in a panic at the eleventh hour, when there is little time to trace and fix errors. Accurate consolidation requires the identification of incongruities, the creation of a single classification system and the re-filing of each transaction into its new “home.”
- **Different reporting schedules.** One firm may report transactions on the first of every month, and the other on the 15th, adding yet another dimension to records reconciliation. Each firm may have had a business reason for its choice of closing date, to be considered before creating a new reporting calendar.

*The project management approach*

- **Big picture first.** Instead of scrambling to get a jump on the job, the project manager will step back to take the broad view: What do we need to accomplish and how will we do it? What issues might we encounter and how can we overcome them? Where are our constraints? Do we have enough accountants to analyse the data? Enough IT personnel to execute the transfers?
  - **A deliberate process.** The project manager does not have the answers. His or her core competency is being able to ask the right questions of the finance team, IT, the tax department and other subject matter experts within the merging firms, and then determine the requirements of the integration programme. That becomes the base upon which to build a robust plan, which the project manager drives day by day, trouble-shooting along the way. Cross-functional sub-teams look to the project manager as both team-mate and welcome taskmaster.
- In addition to producing a higher-quality result, this ordered approach

speeds up the project by closing gaps and minimising mistakes and repetition of work. The biomanufacturer was able to meet its consolidation deadline, including a full-scale system migration – to the satisfaction of both the firm’s CEO and its investors.

## the case of the monster move

Two biopharmaceutical companies merged and then sought to consolidate their research operations. The task was immense, requiring the relocation of hundreds of scientists across two continents, along with 500 pieces of equipment. The stakes were high: the success of numerous development projects depended upon the transfer of technologies without disrupting ongoing research.

*What makes this so complex?*

- **Details, details.** From autoclaves to analysers, paint to plumbing, everything that the new labs would need had to be identified, catalogued, moved or procured. Meanwhile, lab design had to fit the scientists’ specific space and technical needs.
- **The human factor.** What might seem a complex yet clear-cut task was fraught with emotion that threatened to undermine the project. “People didn’t know if they would have a job the next week,” said the project manager. “We needed the scientists’ input, but they were understandably distracted.” For those whose positions were safe, there was deep pessimism about whether management would listen to their ideas for lab design. Pessimism translated into apathy.

*The project management approach*

- **In-depth co-ordination.** Organising the move itself, including its myriad details, was a three-month effort. A 67-page data worksheet listed every piece of equipment that could be needed at the site, as well as where each should be placed, along with choices for ventilation, power, lighting, flooring and other environmental necessities. This extensive up-front work ensured that the research team could continue their work unabated following the move.
- **A personal connection.** Ensuring that emotional turbulence didn’t derail the effort took an entirely different set of skills. Empathy and understanding played a big role in enlisting co-operation. One project manager said: “I tried to take the burden off people. I told them I would

do the heavy lifting and was not asking that they do this job on top of their existing ones, especially while they were uncertain about their futures. ‘Just point me in the right direction, and provide some confirmation on the back end.’ I had many dinners with people. I got to know them as co-workers and friends. They knew I really wanted to understand. And that went a long way.”

## Risk management served as an effective tool for defusing frustration

- **Objective risk management.** Risk management served as an effective tool for defusing frustration. Scientists wanted corridors built between labs to store the gases they used for experiments. The corridors would free up lab space and enable service workers to replenish the gas without interrupting research activities. Management, the scientists assumed, would reject their request for budgetary reasons, generating an “us versus them” mentality.

To jump-start a resolution, the project manager facilitated a contingency planning session. The scientists would recommend to management that every lab get a corridor – but they would have a scaled-back proposal as Plan B. Who needed the corridors most, and why? It turned out that some labs used gas every day, while others only once a week. Some experiments required absolutely no disturbance, while others were less sensitive. The answer quickly became clear. An objective exploration enabled everyone to be “heard,” and practical, consensus-driven solutions to be found.

## the case of the document dilemma

A pharmaceutical giant bought a smaller firm for its attractive product portfolio. Before it could benefit from its purchase, the firm had to integrate hundreds of thousands of pages of the acquired company’s regulatory documents into its own document system.

*What makes this so complex?*

- **Document structure.** As was soon discovered, the documents were extremely difficult to file. The purchaser had assumed, wrongly, that the acquired company had organised its regulatory repository into component parts for each drug: clinical, non-

clinical, CMC and other data sections gleaned from years of research. (To compile a new drug application, for example, the submissions group would bundle the requisite sections into one comprehensive package.) If that had been the case, migrating one repository into the other would have been relatively simple. Instead, the acquired firm’s repository consisted almost exclusively of gigantic PDFs – the unwieldy “end product” rather than its sortable components. There were various individual sections alongside the PDFs, but they were red herrings: obsolete or incomplete tracts that were irrelevant and unusable.

*The project management approach*

- **Teamwork and accountability.** The project manager started by getting the right regulatory and IT experts on board to fracture, sift through and sort the “gold” embedded throughout those PDFs. The keys to success were securing realistic, hard-and-fast commitments from each individual on the team; setting targets for defining and executing the migration process, step by step; and meeting regularly to problem-solve. The project dashboard, which was shared with senior management, was an important tool for charting progress against the baseline schedule – and ensuring accountability. It revealed areas of risk, and served as a tacit motivator to keep the project on track. In the end, the team migrated more than 11,000 documents successfully to the “home” repository within their six-month deadline.

The project manager summed it up this way, which applies not just to this but to all integration efforts: “When we play it by ear, we make a decision and hope for the best. By applying a process, we can better see – and hit – our target.”

Throw the antacids away.

## References

1. <http://www.currentpartnering.com/score-card/manda2009>.
2. <http://hbswk.hbs.edu/archive/5271.html>.

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