

Mergers and Acquisitions

I. Introduction

Learning Objectives

By the time you have completed this module you should understand:

- what a merger is and how it differs from an acquisition;
- some of the reasons why companies merge;
- the underlying merger rationales;
- what a merger driver is;
- what the primary merger drivers are;
- the difference between horizontal integration, vertical integration and conglomeration;
- the basic merger lifecycle and lifecycle phases;
- some basic measures of success for mergers;
- the difference between long-term and short-term measures of success;
- the basic scenarios for failure;
- the concept of merger waves and the major waves that have occurred since 1900.

This module acts as an introduction to the EBS text in *Mergers and Acquisitions*.

Note that most of the areas discussed in this module are developed in more detail in subsequent modules. This module provides an introduction and overview to some of the main issues and considerations relating to mergers and acquisitions.

Sections

- 1.1 The Concept of Mergers and Acquisitions
- 1.2 Why Companies Merge and Acquire
- 1.3 Integration and Conglomeration
- 1.4 The Merger and Acquisition Lifecycle
- 1.5 Measuring the Success of Mergers and Acquisitions
- 1.6 A Brief History of Mergers and Acquisitions

Learning Summary

The text has considered the following areas that candidates should now be familiar with

- what a merger is and how it differs from an acquisition;
- some of the reasons why companies merge;

- the underlying merger rationales;
- what a merger driver is;
- what the primary merger drivers are;
- the difference between horizontal integration, vertical integration and conglomeration;
- the basic merger lifecycle and lifecycle phases;
- some basic measures of success for mergers;
- the difference between long-term and short-term measures of success;
- the basic scenarios for failure;
- the concept of merger waves and the major waves that have occurred since 1900.

It should be appreciated that mergers and acquisitions are complex high-risk operations. Even very large companies with previous experience of mergers and acquisitions face dangers during the merger/acquisition process, with the probability that the eventual outcome cannot be classified as entirely successful.

In the preceding sections, the text has sought to provide an overview of the key influences. As in most areas of management, there will be exceptions to the general 'rules'. However, these tend to be small in numbers.

2. Strategic Focus

Learning Objectives

By the time that you have finished this module you should be familiar with some of the primary drivers behind merger failure, including the:

- basic reasons why companies merge and/or acquire;
- underlying logic behind the strategic rationale;
- concept of strategic alternatives;
- concept of national and international regulation;
- concept of strategic focus;
- idea of aligning focus with performance;
- concept and operation of the value chain;
- rationale behind the objective of strategic fit;
- effects of change and strategic drift;
- concept and process of characteristics mapping.

Sections

- 2.1 Introduction
- 2.2 Some Common Questions about Mergers and Acquisitions
- 2.3 Some Common Misconceptions about Mergers and Acquisitions
- 2.4 Business Strategy and Corporate Strategy
- 2.5 National and International Regulators
- 2.6 The Concept of Strategic Focus

- 2.7 Aligning Focus With Performance
- 2.8 Change and Strategic Drift
- 2.9 Characteristics Mapping

Learning Summary

Having studied the text the reader should now be familiar with the:

- basic reasons why companies merge and/or acquire;
- underlying logic behind the strategic rationale;
- concept of strategic alternatives;
- concept of national and international regulation;
- concept of strategic focus;
- idea of aligning focus with performance;
- concept and operation of the value chain;
- rationale behind the objective of strategic fit;
- effects of change and strategic drift;
- concept and process of characteristics mapping.

3. Why Mergers Fail

Learning Objectives

By the time you have completed this module you should understand:

- shareholder rejection;
- negotiations failing to reach an agreement;
- regulators and regulatory practices;
- strategic failure;
- inadequate strategic focus;
- cultural incompatibilities;
- ineffective cultural due diligence and integration;
- failure to achieve financial synergies;
- integrative failure;
- information technology failure;
- inappropriate leadership and leadership style;
- inappropriate team-building;
- globalisation issues.

Sections

- 3.1 Introduction
- 3.2 Some Common Questions about Mergers and Acquisitions
- 3.3 Some Common Misconceptions
- 3.4 Merger Failure Drivers

- 3.5 The Development of a Process Model
- 3.6 Characteristics of a Successful Merger
- 3.7 Rules for Avoiding an Unsuccessful Merger

Learning Summary

Some Frequently Asked Questions

- Merger success and failure can be measured in numerous different ways. Failure on one measurement scale could be interpreted as success on another measurement scale. Most analysts look primarily at shareholder value.
- The problem with this approach is that mergers often do not improve short-term shareholder value and therefore can often be classified as failures, when in the longer term they may in fact be successful.
- Mergers go wrong in three primary areas:
 - the underlying strategic rationale;
 - valuation and fixing a price;
 - implementation.
- Implementation is often designed and managed by in-house people who are not necessarily project implementation specialists.
- Mergers often encounter difficulties during implementation because this phase is not as glamorous or high profile as the earlier stages.
- Senior managers tend to have more visionary (strategic rationale phase) than finisher (implementation phase) attributes.
- Merger success and failure rates appear to be more or less standard across nearly all sectors and industries.

Some Common Misconceptions

- Mergers do not always create increased market share.
- Merged companies sometimes actually lose market share, especially during integration or in the period immediately following the conclusion of the merger.
- Proposed economies of scale are not always realised as mergers often create new administrative requirements.
- When a merger is announced, acquirer shareholder value usually diminishes whereas target shareholder value usually increases.

Merger Failure Drivers

- Shareholders can reject mergers or acquisitions. In most countries there is a minimum majority that have to vote for or against for the move to be carried.
- In some cases acquirers launch long campaigns aimed at persuading target shareholders to sell.
- Merger negotiations can be complex and protracted. The process usually involves the two companies in negotiating the characteristics of the combined company.

- Negotiations are usually completed to a preliminary level before the proposed deal is put to the shareholders.
- Companies sometimes try to protect their cost investment in negotiations by the use of withdrawal or walk-away clauses. These require the terminating party to pay a withdrawal fee that recompenses the other party.
- Regulators act as a control against companies making mergers or acquisitions that would allow the combined company to exercise any significant influence over the market price of the goods or services involved.
- Regulators can be international, national, or specific to a particular industry or sector.
- In the US and UK, regulators can object to a proposed merger or acquisition if they feel that the move would be detrimental to free competition within the continent, country or sector concerned.
- There can be significant differences of opinion between regulators. There are a number of cases of large proposed mergers that have been approved by US regulators only to be subsequently rejected by EU regulators.
- EU regulators can block a merger between two US companies if the effects will be felt in the EU.
- Mergers often fail because they do not demonstrate sufficient strategic alignment. Unrelated acquisitions do provide a means of spreading risk across a number of different sectors or industries, but they can also be very dangerous. In any case, shareholders can spread risk for themselves by adjusting their share portfolios.
- Mergers and acquisitions have a much better chance of being successful if the companies produce related products and if the acquired company skills and other assets act to complement those of the acquirer.
- Related acquisitions make it much easier for companies to exploit areas where the skills and assets of one company complement those of the other and where synergies can be exploited.
- Mergers and acquisitions sometimes render the achievement of one or more strategic objectives obsolete, simply by virtue of the fact that they take place at all.
- Unrelated diversification tends to result in organisational structures that are more difficult to control.
- Hostile takeovers are not always successful. Target companies often defend successfully against them.
- In terms of long-term cultural integration it is advisable, where possible, to choose a friendly takeover rather than a hostile takeover.
- Shareholder hostility tends to be most powerful when the shares are held by a small number of shareholders. This situation arises frequently in the case of attempted hostile takeovers of family-owned companies.
- The cultural aspects of mergers and acquisitions are very often underestimated when the implementation process is being both planned and executed.

- Likely cultural failure can to some extent be foreseen in the pre-merger stages. There are normally a number of indicators that show where the existing culture may be somewhat weak and where the extreme pressures of a merger or acquisition may push cultural integrity beyond breaking point. These indicators include:
 - high staff turnover;
 - difficulty in keeping hold of key staff;
 - increasing unfair dismissal claims;
 - increasing assertion of harassment;
 - increasing employee conflict and stress;
 - decreasing employee motivation, energy and commitment;
 - deteriorating employee feedback survey results;
 - apparent misalignment between production goals and strategic goals;
 - increasing pressure to consolidate or integrate functions and departments.
- The largest single failure driver in mergers and acquisitions is ineffective cultural integration.
- The degree of integration that is required depends largely on the extent to which the merger or acquisition will involve transitional change within the organisational structures of one or both companies.
- In a takeover, the usual assumption is that one management team will become dominant and the other management structure will be absorbed into the dominant structure. In such cases it is common for a significant proportion of the target company's senior managers to leave either during or immediately after the merger is concluded.
- The highest risk of cultural failure occurs where the degree of cultural integration required is greatest. This scenario tends to occur in the case of a merger of equals where the culture of each company is largely retained but a new senior management structure is created.
- The value generated by a merger is sometimes reduced because key people leave. These key people often leave because they become disillusioned or uncertain about their future within the company because of the merger or acquisition.
- In most cases uncertainty is a function of communication. The more a company communicates with its employees the lower the degree of uncertainty will be.
- It is usually advisable to initiate an effective communication system as soon as possible after the announcement of the merger. This should be initiated with a circular that is passed to all members of staff in both companies.
- Mergers and acquisitions tend to result in job losses. The combined company tends to experience a net migration of people in the period immediately following the merger.
- The net effect of a merger or acquisition announcement tends to be a steady shedding of employees in the periods preceding, during and immediately following the merger or acquisition. Competitors are fully aware of this and are always searching for suitable people, and especially any key people that leave the merged companies.

- The human resources (HR) function in each of the merging organisations has to appreciate the danger of key staff leaving and take action to prevent it wherever possible. It is also vital that any preventive action be taken by HR at the earliest possible time.
- The price that an acquirer is prepared to pay for a target depends on the potential that the target has to add value to the acquirer. This variable is sometimes known as the value-creating potential of the target.
- The asking price is equivalent to the stand-alone price of the target plus the value of any acquisition synergies that can be developed as a result of the acquisition. These synergies act to create value.
- The value created by the acquisition (VCA) is equal to the combined value of the acquirer and the target after the acquisition has been completed less the stand-alone values of the acquirer and the target before acquisition. The difference between the collective and individual values represents the synergistic benefits of the acquisition.
- In most cases the stand-alone value of the target is equal to the minimum acceptable sale price, or floor value. In practice there will always be a floor price because the target shareholders always have the option of continuing as they are with no change to the ownership of the target.
- Failure to achieve the original objective synergies is a classical driver behind merger or acquisition underperformance.
- Debt and debt position may have a significant impact on the success or failure of a merger or acquisition. In successful mergers or acquisitions the acquirer is able to achieve a low to moderate debt position within a relatively short time of the merger or acquisition being completed.
- As acquisition debt increases, the overall cost of the acquisition increases as a result of the interest that is payable on the finance. Increased debt and lower debt to equity ratios generally also imply increased business risk. High debt also means that the company has less flexibility and freedom of action.
- Implementation processes often run into trouble because the team that is placed in charge is not entirely suitable and/or because the merger process is not planned and controlled using formal project management tools and techniques.
- Change experience and flexibility are powerful drivers in achieving successful integration. Companies with previous acquisition experience are better at analysing potential new acquisitions, planning them, and then being flexible enough and able to apply sufficient control in detail to actually make them happen.
- Even with inexperienced acquirers, those acquirers with the greatest previous experience of change management appear to have a higher acquisition success rate than acquirers with a low-change history.
- IT incompatibility is a primary driver of merger or acquisition failure.
- It is advisable to consider IT integration carefully from the earliest stages of the merger process. A detailed risk analysis should be carried out so that all of the possible costs associated with IT integration can be established at an early stage and included as part of the overall estimated cost of the merger.

- It is very important to fully analyse the potential synergies that can be developed by the integration of the two IT systems. In some cases it may be very difficult and expensive to achieve full IT integration, but the benefits of doing so may be considerable.
- Due diligence is basically the process of thoroughly analysing a target company or merger partner in order to make a full and accurate assessment of the value of that company.
- Many approaches to due diligence appear to underestimate the importance of the IT function.
- Leadership and especially leadership style are vital factors in increasing the likelihood of a merger or acquisition being successful.
- The most appropriate leadership style is likely to vary in relation to the lifecycle stage of the merger or acquisition that is under consideration. This concept is sometimes referred to as evolving lifecycle leadership, and is an important consideration in the successful use of teams in mergers.
- The risk profile of a large merger or acquisition may be extensive and complex. It is essential that a reliable enterprise-wide risk management system is designed and established so that the risks involved can be identified and controlled.
- A significant proportion of large-scale mergers and acquisitions go ahead without any formal risk management system being in place.
- The current global merger wave is sometimes referred to as the globalisation wave.
- The failure rate in international mergers is greater than that in national mergers.
- The largest single barrier to the success of international mergers is cultural incompatibility.

4. Valuation

Learning Objectives

This module is concerned with how to value an acquisition. In the final analysis, any decision to pursue an acquisition will depend on the value being created from combining the two firms. In the context of any positive decision, it is important to have a disciplined approach as to what constitutes an acceptable price. The key element is not the assessment techniques, although it is necessary to understand what they do, but how to define correctly in financial, rather than strategic terms, the advantage of merging.

By the time you have completed this module you should:

- know how to assess the advantage of merging in financial terms and what it means in terms of the valuation of the target firm;
- understand that an acquisition is a complicated form of capital budgeting;
- be able to apply the comparator method for determining the value of a target company;

- be able to apply the discounted cash flow method for arriving at a value for an acquisition;
- know how to determine the four key factors in a discounted cash flow analysis, which are:
 - the future cash flow profiles of a business
 - the estimation of the cost of capital
 - the time horizon for the analysis
 - the computation of the terminal value
- be able to take information on the attractions of an acquisition and convert these into a cash flow forecast;
- be able to determine the elements of the cost of capital, namely:
 - how to estimate the cost of equity using different methods
 - how to compute the cost of debt
 - how to determine the weighted-average cost of capital
- be able to value growth opportunities arising in an acquisition;
- know the main real options, or flexibilities, which exist in businesses;
- be able to price simple real options.

Sections

- 4.1 Introduction
- 4.2 Why Firms Merge
- 4.3 Valuation Methods
- 4.4 Growth Opportunities
- 4.5 Appendix 1: Determining Cash Flows from Accounting Numbers
- 4.6 Appendix 2: Accounting Treatment of Acquisitions
- 4.7 Appendix 3: Tax Depreciation

Learning Summary

This module has addressed a key element in the process of acquiring another business, namely: At what price does the takeover make sense from a financial perspective? The key is to correctly value the acquisition target in order to set a maximum price for the bid. The candidate should now understand:

- the financial approach to assessing the net advantage of merging;
- that valuing an acquisition is a complicated form of capital budgeting appraisal;
- that the value of an acquisition can be determined by comparing a business or assets whose value is known in order to estimate the value of the target company;
- that firm value can be determined by discounting the future net cash flows of the target company;
- that the discounted cash flow analysis method requires the user to be able to assess four key factors: (1) the future cash flow profiles of a business; (2) the cost

of capital; (3) the time horizon for the analysis and (4) the terminal value at the time horizon;

- that valuation involves transforming information on the costs and benefits, that is the strategic rationale of an acquisition, into the cash flow forecast;
- the cost of capital requires the analyst to know (1) the cost of equity, (2) the cost of debt and (3) the proportions of each to be used in financing the acquisition;
- that growth opportunities arising from an acquisition have a value;
- the main real options, or flexibilities, that exist in businesses;
- the pricing of simple real options.

5. Bid Tactics

Learning Objectives

This module examines the merger process from the initiation of the bid through to its conclusion. When seeking to acquire another business, acquiring firms must proceed through a bidding process that involves convincing the target firm's shareholders that it is in their interests to accept the offer. In this process the management of the target company plays an important role. In many instances, even if the management in the target company is broadly in agreement, there are many potential areas of conflict that can derail the transaction. These conflicts are multiplied many times over when the bid is hostile and the target is adamantly against the proposal.

At the same time, a bidder will have not only to negotiate and deal with a possibly recalcitrant management in the target but also to address issues raised in connection with competition policy and the conduct of the bidding process.

Firms under threat may seek to make themselves less vulnerable by putting in place a range of takeover defences that make the target less desirable or harder for an acquirer to succeed.

By the time you have completed this module you should understand:

- the need by an acquirer for a disciplined approach to the bidding process, particularly with respect to setting the maximum price for the target;
- the nature of the conflicts of interest between the acquirer's and the target's management and shareholders and their effect upon the merger process;
- the role of management in the bidding process and in particular how the takeover negotiation can be modelled as an economic game;
- how regulators, who are concerned with issues of public policy and the competitiveness of markets and industries, evaluate and identify acceptable and unacceptable mergers;
- the role and effect of market process regulation governing how target company shareholders should be treated and how the management in the target firm should act to minimise conflicts of interest;

- why takeover defences are instituted by firms as a means of deterring an aggressor and entrenching management;
- how the takeover process worked in practice in the case of Northern Electric plc.

Sections

- 5.1 Introduction
- 5.2 Bidding and Resisting as a Game
- 5.3 Offensive and Defensive Tactics
- 5.4 Northern Electric Case Study

Learning Summary

This module has addressed the steps involved in buying another business. The bidding phase of the acquisition process is when the intentions of the acquiring firm's management collide with the separate wishes of the target's management. In addition, there are competition and market process regulatory hurdles to overcome before the transaction can be completed. In promoting and resisting a bid, firms will employ a variety of tactics to secure their position. The candidate should now understand:

- The requirement for a disciplined approach to the acquisition process and the key requirements in mounting the offer.
- In particular, the importance of the bidder setting a maximum price to be paid for the target.
- The conflicts of interest that exist between the interests of the acquirer's and the target's management and also the shareholders in both companies and how these conflicts affect the results of the bidding process.
- The key role of the managements in both the acquirer and the target companies in the bidding process and specifically how negotiations leading up to the acquisition can be modelled using game theory.
- How regulators who evaluate the impact of mergers on the competitiveness of industries and firms identify acceptable and unacceptable mergers. That merger regulation is both based on competitive criteria and issues of public policy. Merger regulation also differs significantly depending on the jurisdiction of the regulating authority.
- The purpose and rationale for regulating the process by which firms tender in the market. In particular how target company shareholders should be treated, and how market process regulation seeks to minimise conflicts of interest between the target company's shareholders and its management by setting standards of behaviour to prevent managers acting in their own self interest. These regulations also affect how a bidding firm can act.
- The rationale for takeover defences by firms in order to deter an aggressor and to entrench the existing management in the target.
- How the takeover process in the United Kingdom affected Northern Electric plc in two separate bids situations.

The candidate should now be able to evaluate the difficulties a bidder will face in its attempt to acquire a target, and whether it succeeds or fails. Many factors ranging from how the target's shareholders and managers behave to the actions of regulators and the presence of takeover defences will impact on the success – or otherwise – of the process.

6. Due Diligence

Learning Objectives

This module is concerned with the stage of the acquisition process that takes place after a bid has been successful and before the acquiring firm completes the legal steps to acquiring the target. It examines the due diligence process – that is, the investigative and information gathering and validating step preceding the conclusion of the contract. Typically, this has to be a rapid and thorough process to check that the values and the assets and liabilities being acquired are those the acquirer considers to be in place. In addition, it also needs to focus on evaluating the target's financials, its strengths and weaknesses as a business and its intellectual property. Therefore, while seeking to check the assets and liabilities in place, it also has the broader function of validating the business assumptions that led to the decision to buy the target.

By the time you have completed this module you should understand:

- how due diligence integrates into the overall mergers and acquisition process;
- the difference between regulatory due diligence and strategic due diligence;
- the objectives of the due diligence process;
- and be able to identify the critical value factors in an acquisition that need to be investigated;
- and be able to prepare an appropriate due diligence checklist;
- the value of new information to be derived from the investigation;
- how to evaluate materiality in both a quantitative and qualitative sense;
- and be able to design appropriate statistical sampling approaches for due diligence purposes, including:
 - the appropriate type of sample: systematic, stratified, cluster or value;
 - the sampling criteria, namely the confidence level, precision and acceptable level of error;
- the components of due diligence risk.

Sections

- 6.1 Introduction
- 6.2 Critical Value Drivers
- 6.3 The Value of New Information
- 6.4 Due Diligence Checklists
- 6.5 Materiality

6.6 Sampling

Learning Summary

This module has examined the post-bid process of the due diligence investigation. This is the point when a successful acquirer has the opportunity to undertake an in-depth examination of the target firm. Due diligence takes place between the moment the buyer is successful in acquiring the target and the conclusion of the contract. It seeks to protect the buyer from unexpected or undisclosed value impairment that would have led it to reconsider the decision to purchase the target or to renegotiate the price being paid. It also provides the buyer with an opportunity to review the acquisition process and to validate key elements of its thinking and check the reasonableness of its assumptions. In undertaking the due diligence process, the candidate should now understand:

- Where due diligence fits in the overall mergers and acquisition process, which ranges from the initial identification stage through to the final integration of the target. Due diligence takes place after the bidding stage has been successful but prior to the acquisition being integrated.
- The differences in requirement between regulatory due diligence and strategic due diligence.
- The objectives and desired outcomes from the due diligence process.
- The need by the due diligence team to verify the critical value factors that led to the decision to acquire the target and that these need to be thoroughly investigated.
- The need for the due diligence team to prepare a comprehensive due diligence checklist.
- The value of new information that is revealed during the investigation and how formal models will help determine whether additional information should be sought.
- How to evaluate materiality using both a quantitative and qualitative approach.
- How to design statistical sampling approaches for due diligence purposes, that include (1) determining the appropriate type of sample, namely systematic, stratified, cluster or value samples and (2) the sampling criteria to be used, namely the confidence level, precision and acceptable level of error.
- The components of due diligence risk.

Following the due diligence phase, acquiring firms should be in a position to determine whether to complete the acquisition and proceed to integrate the target or whether to abandon the transaction due to uncovering deal breaking elements.

7. The Concept of Implementation

Learning Objectives

By the time you have finished this module you should understand:

- the main phases of the merger process;
- the primary merger lifecycle elements;
- the concept of a merger project team;
- the other teams that are likely to be involved;
- the concept of disintegration and reintegration;
- some of the main transition tools used in mergers.

Sections

- 7.1 Introduction
- 7.2 Some Common Questions about Merger Implementation
- 7.3 Some Common Misconceptions about Merger Implementation
- 7.4 The General Concept of Implementation
- 7.5 Identifying Synergies
- 7.6 The Implementation Process
- 7.7 Implementation Risk Management
- 7.8 The Concept of Disintegration and Reintegration
- 7.9 Managerial Levers
- 7.10 Transformation Tools

8. Project Management as a Tool for Managing the Implementation Process

Learning Objectives

By the time you have completed this module you should understand:

- the basic stages of the implementation process;
- the concept of developing an implementation plan;
- the concept of converting the plan into an end product;
- the concept of the merger as a project;
- the characteristics of a project;
- the basic philosophy of project management;
- how project management can be used as a tool for managing implementation projects.

Sections

- 8.1 Introduction

- 8.2 Some Common Questions about Project Management
- 8.3 Some Common Misconceptions about Project Management
- 8.4 The Overall Implementation Process
- 8.5 Project Management
- 8.6 Project Management as a Tool for Managing the Overall Acquisition or Merger Process

Learning Summary

Some Common Questions about Project Management

- Most strategists see the implementation process as being somebody else's responsibility. Analysing the acquisition/merger and deciding on whether or not to proceed is one issue. Actually making the acquisition/merger happen is a very different issue and is one where a different range of skills is required.
- Some acquisitions and mergers are implemented without major problems, but the majority of acquisitions and mergers encounter problems. Some develop an outcome that is different from that which was originally intended but is deemed to be acceptable anyway. Others clearly get into major difficulties and the end result is not acceptable.
- The two merging organisations spend a great deal of time and money in evaluating the merger and then in financing it. However, no amount of planning can guarantee success. There are always things that can go wrong. In particular, the whole process always seems to take longer than expected and often results in less successful outcomes than were originally desired.
- Most organisations do not have a core team of professional 'implementers'. If implemented internally, most acquisitions and mergers are run by non-specialist staff who do not necessarily possess the full range of project management skills. The alternative is to employ expensive consultants.
- Many implementation processes attempt to meet targets and deadlines that are clearly inappropriate, and it is surprisingly common to find areas of the process simply being abandoned (such as the integration of two separate IT systems into one).
- Implementation is a complex process, and it necessarily includes a range of different risks. Many organisations enter an acquisition and/or merger for the first time with little or no experience of the processes involved. It could then be years before anything like it happens again. Knowledge transfer between mergers tends to be low or non-existent.
- Many companies take the approach that mergers are all more or less alike and the work should best be farmed out to consultants anyway. Many organisations do not realise the importance of the characteristics of the company itself and of the immediate environment within which the company operates.
- Project management is increasingly being used as the primary planning and control tool in acquisition and merger implementation. Specialist merger consultants are using specially trained project managers more and more in working with client organisations.

- Project management as a planning and control tool works far more effectively than traditional management systems.
- Objectives are established at the start of the merger process. As the merger is implemented, the companies involved change and the original objectives usually change as well. As a result it may be difficult to reconcile the implementation end product with the original outcome objectives.

Some Common Misconceptions about Project Management

- Acquisitions and mergers can be very different from each other, and there can be large differences in the design and execution of the implementation phase.
- In a merger of equals the implementation process is largely negotiated at high level within the existing organisations, and is then monitored and steered at high level within the new organisation. The specification for the eventual combined target company may involve an effective combination of the expertise and established working practices of both existing companies.
- In acquisitions one company could be considerably larger than the other company. In such cases, the operational characteristics of the larger (acquiring) company may be imposed on the acquired company.
- An acquisition or merger is a form of strategic change. The acquiring company acquires another company for one of a number of reasons. Obvious examples are as a result of over-capacity in a particular sector and as a substitute for having a functioning research and development division or section.
- Whatever the reason, acquisitions and mergers – whatever their size – tend to be infrequent. Large and therefore complex acquisitions and mergers with correspondingly complex implementation processes are few and far between. For many organisations they may be unique events, happening only once.
- Acquisitions and mergers also affect human loyalties and association. It is common in merged companies to retain at least a partial ‘them and us’ culture. Sometimes years after the merger people will still associate more with their original company than with the merged new one.
- Additionally, there is always the tendency for people to feel threatened by the merger and to spend a lot of valuable time on trying to protect themselves and maintain their power base and position.
- Implementation at the strategic level relates to the achievement of long-term organisational objectives. At the operational level, implementation relates to developing the new processes required to generate whatever it is that the company produces as a product. At the project level, implementation relates to the completion of individual projects that support or enhance the operational processes.
- In most change processes (at the strategic, operational and project level) the planning and implementation processes are carried out by people who still represent the same company. People from company A plan and implement change that will affect only company A. In a merger people in company A and company B both plan for an outcome that will be experienced by company C (where company C is the new company formed by the merger of companies A and B).

- This transition tends to increase the complexity of the implementation-monitoring process, and it also tends to make collaboration more difficult than it would be in a non-transitional scenario. The most effective approach to dealing with the problem is to develop a formal baseline (formal record) strategic project plan (SPP) for the implementation process.
- The SPP is agreed by senior managers in both company A and company B, and sets out the practices and procedures (including calibration, monitoring and control) that are to form the implementation process. The SPP also clearly defines the terms of reference to be used to define implementation success. The SPP is then accepted as a baseline for the implementation.
- As company C evolves, the baseline may be changed into several different forms to suit the changing characteristics of the merged company. However, the current and baseline SPPs can be compared at any time. This allows a clear evaluation of where changes in implementation outcome have occurred and in turn allows the implementation to be evaluated both in terms of the original (baseline) SPP and in terms of the current (evolving) SPP.
- The implementation process in the case of large acquisitions and mergers can be extremely complex.
- Acquisition and merger planning and implementation is often managed by specialist consultants. In the US and Western Europe there are large numbers of consultants who offer services ranging from identifying possible acquisitions and mergers to planning the process to full implementation. The level of fees charged varies according to the level of service required. Full implementation management is extremely expensive.
- The type of company or industry concerned actually makes a considerable difference to the implementation process.
- Company culture and values also play a major part. The two companies may have entirely different approaches to pay and conditions, promotion, ambition and so on. It can be very difficult to reconcile these differences as the merger is implemented.
- The problem of company intransigence (see above) coupled with the fact that the acquisition or merger could be driven by any number of different strategic objectives makes the implementation phase extremely complex and very difficult to manage effectively.

The Overall Implementation Process

- Mass production systems are based around the production of large numbers of repetitive items such as automobiles in a production line factory. The process is highly mechanistic and the main control tool consists of the design and operational characteristics of the process itself. Relatively little management intervention is needed once the system has been commissioned and fired up. The process more or less runs itself provided it is properly maintained and supplied with energy and components.
- Batch production is used where there is unlikely to be continual high demand for a given product and where some changes or modifications will be needed at

intervals. Alternatively, the process may have a limited production capacity so that only so much of the product can be produced over any one given time period. Between batches, the system is sometimes shut down, maintained, possibly re-tooled and re-configured. The process is then started again and the next batch is initiated.

- Project production applies to those processes that cannot be operated on a mass or batch basis. They are one-off, unique works where the characteristics are defined by the individual case. All projects are different. They are executed under different conditions and different limitations and objectives apply. No one upgrade can be planned and executed in exactly the same way as any other upgrade.
- In addition, projects typically:
 - are client specific;
 - are relatively complex;
 - usually have a number of clear and distinct objectives;
 - probably make use of limited knowledge transfer;
 - are probably not the main concern of the organisation;
 - are staffed by a multidisciplinary team;
 - are short lifespan but full lifecycle;
 - are set up to work across functional boundaries;
 - are relatively high-risk activities.
- Projects are client specific in that they are commissioned or sponsored by the client for a specific reason, usually in line with the development of the overall strategic objectives of the organisation. The glass manufacturer might want to sell guaranteed quality lower-cost float glass. The only way to achieve this is to convert to continuous production, and the only way to achieve continuous production is by installing new plant (the project).
- Projects are relatively complex compared with the main production processes of the organisation. Most production systems have an element of repetition, and there is a strong learning curve element. It is often possible to transfer experience and knowledge from one such system to another. Projects often have no repetitive elements, and learned knowledge cannot be applied. Projects tend to include complex and interdependent learning curves.
- Projects usually have a number of clear and distinct objectives. These could be expressed in terms of operational characteristics such as time, cost and quality. These objectives generally tie in with the strategic and operational objectives of the organisation. Projects are often treated as individual control units with their own cost centres and time limits.
- Projects tend to make relatively little use of knowledge transfer. They tend to be on-off developments that are different (to a varying extent) from any other development. It is difficult to transfer anything more complex or detailed than even the most basic information templates between projects. There is usually a steep learning curve for both individual and team development in project applications.

- Projects tend to be supplementary to the main production processes of the organisation. A glassmaker might switch from batch to mass production. Designing and installing the new equipment would itself be a project. The alterations may be expensive and time consuming but they are not central to the main production processes of the organisation.
- Projects tend to be staffed by a multidisciplinary team. Project teams need a range of different specialisations to plan and execute them because projects often affect a number of different functional specialisations within the same organisation.
- Projects tend to have a limited lifespan when compared with the lifespan of the organisation as a whole. The glassmaker might make continuous float glass for 10 years before another major upgrade in plant is needed. The upgrade itself (the project) might only last 6 months.
- Projects typically work across functional boundaries. Most organisations naturally split into functional groupings. These groupings reflect functional specialisations. Projects often work across these boundaries. The upgrading project will directly affect people in all functional units in a way that no operational activity ever could.
- Projects are risky. They have clear aims and objectives and involve the use of multidisciplinary teams working on complex processes where there are definite limits in a multi-functional environment. These characteristics all add up to a high-risk total. Projects can be and often are successful, but the achievement of success is greatly assisted by the development and implementation of a good risk management system.
- Acquisitions and mergers tend to be client specific. They are implemented by a particular company for a specific reason. Some typical reasons are:
 - to acquire specific in-demand skills, services or products;
 - to acquire research and development knowledge;
 - to increase demand in a near-capacity market;
 - to increase coverage;
 - to buy into a growth area.
- Acquisitions and mergers tend to be relatively complex in relation to the everyday functioning of the companies involved. They are typically planned and managed by external professional consultants who work with an internal team of specialists. The process itself can be highly complex, with considerable interdependency between functions. The cross-functional integration is again very much a feature of projects, and can be a new and confusing concept for people who are used to working within purely or largely functional divisions.
- The acquisition and/or merger will clearly have objectives. The overall objective might be to acquire research and development knowledge in a high-demand area in order to allow immediate expansion of market base and share in that area. The process will also have a number of secondary or sub-objectives. There will almost certainly be some timescale limitation, and there may well be an overall cost centre for the process.

- Acquisitions and mergers often make surprisingly little use of knowledge transfer. This is very much a shared characteristic between projects in general and mergers in particular. The main reason for this is that mergers are by definition one-off projects. Most companies can expect to go through only one big merger during any one generation. The knowledge acquired during a merger tends to be disregarded (at least to some extent) because it is unlikely to be needed again, at least in the foreseeable future. The fact that all mergers are (again by definition) different, limits the amount of generic information that can be transferred between them anyway.
- The acquisition and/or merger will probably not be the primary concern of the organisation. Like most other types of project, the acquisition or merger will be a one-off process that is aimed at achieving one or more specific project objectives. These objectives, in turn, will contribute to overall organisational strategic objectives.
- Like other forms of project, the acquisition or merger process will probably be staffed by a multidisciplinary team. This can again be unusual in an organisation that is characterised by strong functional divisions.
- The acquisition or merger will have a relatively short lifecycle in relation to the lifecycle of the companies involved. However, the acquisition or merger lifecycle will evolve fully as part of the process.
- The acquisition or merger, in common with projects generally, works across functional boundaries. The extent to which the acquisition or merger will affect the various functional units, and at what level, will depend on the characteristics of the companies involved.
- Acquisitions and mergers tend to be risky. In line with projects in general, they are one-off processes that operate in a changing environment using multidisciplinary teams involved in complex tasks.
- Considering the characteristics of projects generally, and of mergers and acquisitions in particular, it seems reasonable to assume that there are considerable similarities in the characteristics of the processes. From this it is reasonable to say that an acquisition or merger is in fact just a kind of project and, as such, is amenable to the use of project management.
- Insufficient planning is by far the most common source of problems during the implementation phase of acquisitions and mergers. The plan has to take into account all aspects of the implementation process, particularly the time required to achieve full implementation.
- Unforeseen incompatibilities can always occur. No matter how carefully the process is planned, and how much information is taken into consideration, there are always some eventualities that can occur. These often do not become apparent until well into the implementation process.
- Change is an inherent part of most dynamic systems. Changes start to occur as soon as a plan has been made, and they continue to occur for the duration of the implementation process.
- The main classification of levels upon which change risk can impact are:
 - strategic-level change risk;

- operational-level change risk;
- project-level change risk.
- Strategic change can take a number of forms. In developing a strategy an organisation identifies its long-term aims and objectives and then develops a strategy (which is really just a system for managing long-term risks) for achieving these objectives.
- The strategy is based on the start and finish points as they are perceived at the start of the implementation process. However, this perception represents only a snapshot or window of the situation at any one particular time. This picture can become obsolete and inaccurate as a result of change. In some cases it can become out of date very quickly. In particular, the strategy could have been incorrectly planned or the original objectives may have been incorrectly assessed. Additionally, the original objectives may now have changed and unforeseen events may impact on the implementation of the strategy. Also, new strategies may have evolved.
- Operational change relates to the operational processes used by the organisation. In a manufacturing company operational change can affect any aspect of the production system plus any operational support functions. An obvious example is an IT systems upgrade. This might involve decommissioning existing hardware and software and replacing them with new systems. This process will inevitably lead to disruption and a reduction in efficiency, both during the implementation and through the post-implementation commissioning and learning processes.
- Project-level change risk is restricted to the projects concerned. Most organisations run projects over and above their normal operational processes. The project could revolve around a change to the central operational processes, such as a contract to install a new production line within an existing production system. A change in the production system (part of the operational process) could result in a corresponding change in the project. An example would be a change in the specification of a finished product as a response to competitor innovation. This would generate a consequent requirement for change in the success criteria of the new production line project. Alternatively, changes could occur that affect only the project. An example would be a revised completion date for the handover of the finished production line.
- Planned change is optional, but imposed change is not. Most organisations experience a combination of planned and imposed change.
- Planned change originates as an optional decision within the organisation. This decision may be strategic or may be a tactical response to another internal or external event. The planned change may be strategic (such as the development of a new sub-strategy) or operational (such as an IT upgrade). If the change is strategic it may be a planned stage of an existing strategy or it may be a change to an established strategy necessitated by external factors.
- Imposed change, as the name implies, is imposed on the organisation. The organisation does not plan the change, although it may plan a response to the change. Planned change itself is often seen to be a response to imposed change. The imposition could come from numerous sources. These will generally be

external (such as government or actions of competitors) although they could be externally linked (such as shareholders) or they could be internal (such as the sudden death or defection of a key person).

- Internal change occurs within the organisation. An example is a management restructuring exercise or a board reshuffle. The events are evident only within the organisation, although the longer-term effects can have effects outside. Internal changes can originate internally, such as a voluntary reorganisation in order to improve efficiency, or externally, such as a compulsory reorganisation as part of a process to comply with the requirements of administrators under a winding-up order.
- External change originates outside the organisation. An example is a change in the client base. The events are evident only outside the organisation, although they can have a direct effect within the organisation. External changes can originate internally such as a change in production facilities, thereby affecting directly the range of good available for clients, or externally, such as a change in client demand for certain products.
- Virtually all types of change are to some extent foreseeable. The degree to which change can be foreseen depends largely on any previous occurrences of the same type of change and the level of information that is available on the change and the factors that influence it.
- The acquisition or merger is itself a form of change. It could involve changes at all levels through the organisation. Full implementation of the process may require changes at levels and in processes where resistance is encountered.
- Resistance can slow the whole process down and in extreme cases can lead to the abandonment of parts of the merger process. People might not agree that the change is necessary or productive. Alternatively, they may agree with the viability of the change but they fear the consequences. Resistance tends to occur as a result of a basic misalignment of the senior management view of the change and the view of the ordinary people that work in the operational sections. Resistance can take numerous forms from carefully planned 'political' obstruction at the highest level to operative unrest and resentment within the production system.
- In general terms, the three main drivers determining whether or not a particular level or section will resent the change or not are:
 - the degree of dissatisfaction with the existing status quo;
 - the desirability of the desired end state;
 - the practicality and risk associated with achieving the desired end state.
- For the change to be supported, the sum total of these variables must be greater than the cost involved in making the change. The cost in this case includes the risk involved, the disruption, requirement for additional personal investment and training, and so on. It may even be possible to enhance the perceived degree of dissatisfaction with the existing status quo in order to artificially inflate the driver side of the equation.

Project Management

- Project management offers a range of tools and techniques for managing projects and for overcoming and controlling obstacles so that effective project completion can be achieved.
- The application of project management tools and techniques to acquisitions and mergers is not a theoretical exercise or hypothetical proposal. There are many acquisition and merger consultants in the US and UK and other European countries, and a very high proportion of these consultants are project management specialists in their own right. They apply project management to mergers and acquisitions as standard practice.
- Project management cannot guarantee an effective acquisition or merger. If the acquired or merged company does not offer the products or systems that were sought as the basis of the merger, then no amount of implementation planning and control can give an effective outcome.
- Project management offers a set of tools and techniques for planning and implementing the merger. The merger itself can only be a success if the end result of the implementation process matches the original and current outcome objectives.
- The planning phase includes all aspects of analysing the project, breaking it down in some way, linking the broken-down components together, and developing a master plan for the controlled completion of these components. Controlled completion could refer to a number of different success criteria. In generic project management, the most frequently cited success criteria are time, cost and performance.
- Most merger projects have some kind of overall time limit together with individual time limits or targets for individual sections of the project. In an acquisition or merger there will be a date when the directors sign the mutual declaration for the merger to take effect. Other obvious key or 'milestone' dates will be:
 - date for rumour;
 - date for commitment of intent;
 - date for merger announcement;
 - date for appointment of consultants;
 - date for completion and approval of strategic project plan;
 - date for merger inception;
 - date for merger completion.
- Most merger projects also have some kind of a cost limit. The implementation project costs are obviously considered separately from the overall costs or gains of the merger. In addition, the learning and implementation costs are generally small compared with the effects on the target share price that underpins the merger.
- Projects have clear performance objectives. These relate to the performance of the merged organisation both during the merger and post-implementation. The

performance of the eventual post-implementation integration is just as important as the time or cost required to achieve it.

- Project management provides simultaneous planning and control of these and other project success criteria. It achieves this level of flexibility and control by using simultaneous applications of numerous techniques. Simultaneous application is the key to successful project management because the various determinants of project success cannot be treated in isolation.
- The main subsections or compartments of any good project management 'toolbox' are:
 - human issues;
 - time planning and control;
 - cost planning and control;
 - performance management and control;
 - risk management and control.
- As well as providing 'hard' planning and control tools, project management provides a range of tools for managing people. Successful management of the 'human side' is just as important as effective management of the harder planning and control issues.
- Effective management of the project team is crucial to project success. Project teams are unusual in that they are frequently:
 - multidisciplinary and highly heterogeneous;
 - relatively short lifespan and lifecycle dependent;
 - secondary to the main organisational functional teams.
- Project teams are frequently made up of functional specialists drawn from the main functional divisions within the organisation together with a range of external consultants. These individuals each have their own areas of expertise and specialisation and therefore tend to see issues in different ways.
- Project teams tend to be relatively short lifespan. This has a number of implications.
 - It takes time for any team to establish itself. It has to evolve through a number of clearly defined stages before it can be considered as firmly established. The team then continues to evolve and respond to change, but once the initial forming stage is complete it operates in a more stable and predictable manner. In project teams the 'stable' phase can be relatively short compared with the forming phase. In permanent teams the stable phase is generally much longer than the forming phase.
 - Project teams are formed for a specific purpose, after which they are disbanded and the forming process has to start again for the next project. The next project team may involve different objectives and may be staffed by different people. It will probably therefore be necessary for a completely different evolutionary or forming phase to take place. It is generally possible to transfer only limited knowledge and information from one forming phase to subsequent forming phases of different projects.

- Project team members are often also members of established functional teams. They are often seconded to the project for a fixed period, and their project work may be part time. The rest of the time they may continue to work as part of the functional unit. As a result there is always a risk of divided loyalties and the potential for misunderstanding to occur as functional and project managers issue conflicting or contradictory instructions.
- Projects are often considered as being of secondary importance when compared with the main functional objectives of the organisation. As a consequence it is common to find project team members who are less dedicated to the project than they are to their 'home' functional units.
- Project management provides a range of tools and techniques that can be used in order to address some of these issues. The primary relevant areas of project management functional expertise are:
 - planning;
 - authorising;
 - organising;
 - controlling;
 - directing;
 - team-building;
 - leading.
- Project management uses these functions in order to execute specific projects that are subject to:
 - time constraints;
 - cost limits;
 - quality specifications;
 - safety standards.
- Planning is usually the first stage of the execution of any project and is also one of its most critical stages. Planning activity is generally at its greatest during the early stages of a project. As the project progresses and is being implemented, the level of planning activity usually reduces substantially as more and more project detail and information becomes fixed. In all projects there will be some errors and omissions. If these are discovered during the initial planning stages they are usually relatively easy and inexpensive to rectify. Errors or omissions discovered in the later implementation stages, when a considerable proportion of the project detail and information has become fixed, can be very expensive to rectify.
- Project managers are interested in authority from two perspectives: first, accumulating sufficient authority to get the job done, and second, determining how much of their authority to delegate to others involved in delivering the project.
- Authority is not the same as power. Authority is a type of ability to control and direct delegated from higher levels in the organisation. Power is given to an individual by subordinates at lower levels.
- Delegated authority is a different consideration. If the project manager does not allow enough delegated authority he or she might end up in a position where it is

no longer possible to control all of his or her responsibilities because he or she is trying to handle too much information. If the project manager delegates too much authority then the risk of problems starts to increase rapidly. Increased delegation generates a requirement for increased monitoring and control.

- The function of organising has to be carried out throughout the lifecycle of the project. However, the greatest organisation development requirement occurs during the earliest stages of the project. The project manager has to review the available resources and decide on an appropriate organisational structure as early as possible. Once this has been decided, it is communicated to the project team, usually by arranging a team meeting at which to announce this and discuss its implications. It is sometimes known as **first meeting**.
- When controlling, the project manager is responsible for establishing desired targets for performance, measuring actual performance against the targets, and initiating corrective action where the actual performance deviates too far from that desired. This is all done with the intention of achieving the project goals and objectives established at the outset.
- Controlling from a 'people' perspective is essentially a four-stage process that consists of:
 - setting targets;
 - measuring;
 - evaluating;
 - correcting.
- Directing is the process involved in converting organisational goals into reality through the use of organisational and project resources. It involves directing other people in order to ensure that their actions are appropriate to achievement of the overall aims and objectives.
- Typical directing activities in project management include:
 - staffing the project team;
 - training and development;
 - supervision;
 - motivation;
 - coordination.
- Team-building in a project management context is the process of taking a number of individuals from different functional specialisations and welding them together into a unified project team. Although these individuals may belong to a range of organisations, it is the project manager's responsibility to ensure they work as a team.
- Generally, there are nine primary sections in any good team-building process. They are:
 - establishing commitment;
 - developing team spirit;
 - obtaining the necessary resources;
 - establishing clear goals and success/failure criteria;
 - formalising senior management support;

- demonstrating effective programme leadership;
- developing open communications;
- applying reward and reprimand systems.
- It is obviously essential that the project manager is able to lead the project team effectively.
- If the project team is to work together as one entity, as a group, it requires leadership. Leadership as a concept is not easily defined. It covers a wide range of qualities and skills, which can vary from project to project.
- Classical leadership traits are:
 - decision-making ability;
 - problem-solving ability;
 - ability to integrate new members;
 - interpersonal skills;
 - ability to handle conflict;
 - communication skills;
 - interface management skills;
 - factor-balancing skills.
- Most research suggests that leadership in any organisation has to change in relation to the maturity of the employees. The longer that employees are employed by the organisation then the more relevant experience they acquire. Thus their leadership requirements – what they require from their leaders – change.
- Group characteristics and leadership style can be considered as a four-phase process.
 - Phase 1 is the earliest level of group development. The group has just formed and the individual members are still getting used to each other. This phase is characterised by a need for high task related, low people related leadership.
 - Phase 2 is characterised by high task and high people leadership that is often appropriate for the secondary stage of lifecycle team development. The need for high task leadership remains as the system has not yet developed enough to run itself. There continues to be a great emphasis on output and productivity. However, as the manager–subordinate relationship begins to develop, there is a growing trust and understanding between the different levels within the power structure.
 - Phase 3 is characterised by low task and high people leadership. This sector is the stage in the leadership lifecycle where the team has become established and output is secure. Under such circumstances, the immediate aims and objectives of the organisation have been realised and the manager can move on to consider higher-level motivational factors
 - Phase 4 is characterised by low task and low people leadership. In theory, if the team has enough time, it will eventually mature so that it can be ‘left alone’ to run its own tasks and people levels. If the team lasts long enough, the team members will develop such operational skills that they no longer need task-related leadership or instruction from management, and they no longer need people relationship leadership or instruction.

- Project planning and control is a central project management function. It involves the project manager in breaking the project up into a set of components or work packages and then arranging these in such a way as to generate the optimum outcome for the duration of the project. 'Optimum' could be in terms of one or more of the project success criteria.
- The end result of the planning process is a calculation showing the various work packages that are involved in the project together with a summary of the linkages and dependencies that are involved. This information is usually referred to as a **project schedule**.
- Project planning and control comprises seven major steps:
 - Evaluate the project through the statement of work (SOW).
 - Generate a work breakdown structure (WBS).
 - Execute project logic evaluation (PLE).
 - Separate time, cost and quality planning.
 - Use network analysis (CPM or PERT) to generate a draft master schedule (DMS).
 - Use trade-off analysis to re-plan.
 - Produce project master schedule (PMS).
- The **statement of work** (SOW) is the descriptive document that defines the overall content and limits of the project.
- A **work breakdown structure** (WBS) is simply a representation of how large tasks can be considered in terms of smaller subtasks. The idea is to work out the time, cost or quality objectives of the large task by adding together the corresponding values of each contributing subtask.
- **Project logic evaluation** (PLE) is the process of taking the WBS work packages already identified and showing the sequence in which they are to be carried out. The end result is a programme showing the various project work packages linked together in the order and sequence in which they are to be carried out.
- **Scheduling** is the process of calculating individual activity times in order to allow an estimate for the completion date to be calculated. The end result of the scheduling process is the draft master schedule (DMS).
- In terms of assigning activity durations, there are two primary alternatives. These are based on the **critical path method** (CPM) or on **programme evaluation and review technique** (PERT).
- CPM is a deterministic approach in that the activity durations can be calculated or are known with reasonable accuracy.
- PERT is a probabilistic approach in that the activity durations cannot be accurately estimated and can only be placed in a range running from optimistic to pessimistic.
- In both approaches the overall duration is determined by the **critical path**, which is the longest path (sequence of activities) running through the network.
- CPM gives an absolute project completion date based on the sum of the durations of the critical path activities. PERT gives a probability of achieving completion by a target date.

- Project cost control is usually achieved using a **project cost control system (PCCS)**.
- A PCCS is a two-cycle, five-element cost planning and control mechanism.
- The PCCS first cycle is the planning cycle. This cycle includes all aspects of pricing, estimating, establishing targets and budgets and setting up accurate cost plans.
- The second cycle is the cost control cycle, where actual costs are compared with planned costs so that overall expenditure can be contained within limits of acceptability.
- The primary control aspect of the system lies in phases 3 and 4. These phases make use of cost data to compare planned costs with actual costs and to develop variances. These variances are significant as control tools as they link cost and schedule performance using earned value analysis.
- The **actual cost of the works performed (ACWP)** is the actual cost (in terms of payments or legally committed expenditures) incurred in order to get the project to its current level of development.
- The **budgeted cost of the works performed (BCWP)** is sometimes known as the **actual earned value**. It represents the budgeted cost (in terms of a priced bill or CDES values) that should have been required in order to get the project to its current level of development.
- The **budgeted cost of the works scheduled (BCWS)** is sometimes known as the **planned earned value**. It represents the budgeted cost that should be required in order to get the project to any specified level of completion.
- **Cost variance (CV)** indicates the difference between the budgeted cost of the works performed and the actual costs of the works performed. This value represents the difference between budgeted and actual costs for a given amount of completed work and is a direct measure of the cost performance of the project.
- **Schedule variance (SV)** indicates the difference between the budgeted cost of the work performed and the budgeted cost of the work scheduled. This value represents the difference between scheduled and actual performance for a given budgeted cost and is a direct measure of the progress performance of the project.

Project Management as a Tool For Managing the Overall Acquisition or Merger Process

- The starting point for any acquisition or merger implementation is the development of a project plan or strategic project plan. In virtually all cases, a project works best if a plan is developed for it. The plan acts to set out the main aims and objectives of the project and of the means that are to be used in achieving these aims and objectives.
- Project managers usually use several different forms of SPP. The first SPP records the required objectives and outcomes for the project under the conditions that were prevalent at that time. This SPP is sometimes referred to as the **project baseline SPP**.

- Baseline SPPs act as record documents. They permanently record the objectives and characteristics of the project at any one ‘snapshot’ or ‘window’ point. They are often used in diagnosing where variations or new objectives developed or were introduced. They can also be used in fault diagnosis or in dispute resolution.
- There may be several subsequent ‘current’ SPPs but only one baseline SPP.
- Resistance to change may cause a delay because team members or the wider stakeholders are not really in favour of the implementation process. This could be because they see the acquisition or merger as a threat either to their power and authority base or to their position itself.
- A good project manager recognises the potential power of resistance and establishes project plans accordingly.
- Implementation costs require careful monitoring and control. The costs of the project team are related directly to the time commitment required. They are also a function of the resources made available and of any additional resources that may be required in order to correct implementation time slippage overall or in specific areas.
- It is one thing to detect a variance. It is something else to correct it. A good project manager will establish a formal reporting system that runs right through the merger planning, implementation and post-implementation phases.
- **Project variance analysis reporting (PVAR)** is a standardised procedure for reporting on the time and cost performance of projects as the basis for corrective action.
- Trade-off analysis is a set of tools and techniques that exploit the interrelatedness of the various project success criteria.
- In a time–cost trade-off the project manager is concerned with increasing or decreasing one variable by correspondingly increasing or decreasing the other variable. The most common scenario is to reduce time by increasing costs.

9. Developing the Implementation Plan

Learning Objectives

By the time you have completed this module you should understand:

- the concept of pre-implementation planning;
- the primary stages involved;
- considerations required in developing aims and objectives;
- how to develop an SPP for a merger;
- the primary human and team considerations involved;
- the basic components of a merger contract;
- how to develop a merger schedule and cost plan;
- how to establish a system of performance measures;

- how to establish a merger risk management system.

Sections

- 9.1 Introduction
- 9.2 Some Common Questions about Implementation Planning
- 9.3 Some Common Misconceptions about Implementation Planning
- 9.4 The Concept of the Implementation Strategic Project Plan
- 9.5 Project Aims and Objectives and Preliminaries
- 9.6 Merger Team and Human Issues
- 9.7 Merger Contracts and Procurement
- 9.8 Project Schedule and Cost Plan
- 9.9 Resources
- 9.10 The Implementation Risk Management System

Learning Summary

Some Common Questions about Implementation Planning

- In many cases organisations are involved in acquisitions and mergers on a very infrequent basis. As a result a company about to plan a merger implementation may have little or no practical experience of the processes involved.
- In mergers there may be no possibility of knowledge transfer or of using learned experience and feedback from past projects. As a result it is common for both organisations to have no real idea of what is involved or how best to plan it.
- Common complaints about mergers include:
 - the merger ended up costing a lot more money than was expected;
 - the merger took much longer to implement than was expected;
 - some parts of the original organisations are still not fully merged;
 - the other ‘company’ came with much more baggage than expected;
 - the merged company is no real improvement on the original company.
- Long-term delays in merging individual parts of the merging companies can be controlled and reduced, at least to some extent, by planning.
- Mergers are unusual in that they involve two sets of organisational systems. Most projects operate by establishing themselves from standard functional groupings within organisations. Acquisitions and mergers have to establish the same operational process, but across organisations rather than across functions. There will always be differences between the organisational structures and communication systems of the two organisations, and incompatibilities between these can lead to particular and unique problems in establishing a coherent target structure.
- Acquisitions and mergers put people under a unique set of pressures that can lead to unique behavioural characteristics, particularly in terms of communication systems, power and authority structures, administration and consent (or resistance).
- The importance of the plan depends on the extent to which the implementation process relies upon it. Some acquisitions and mergers are planned only loosely

and the managers have considerable licence in converting it. Other processes are planned vary carefully, and the plan is central to the entire operation.

- In acquisitions and mergers the most common form of incompatibility between planned and actual is in relation to strategic objectives.
- If managed properly, the implementation process should be more or less a mirror image of the plan, although there will always be some requirement for tactical responses where unforeseen events occur.
- The plan is only as accurate as the data that have been considered in assembling it. No matter how carefully the implementation is considered it is rarely possible to take account of all of the factors that could impact on the plan in one way or another.
- Inexperienced implementation planners are often unsure about the level of detail required in implementation plans. There is an obvious trade-off between including too much detail and including too little.
- Plans including too much detail become too complex and difficult to use, with the result that people do not use them.
- Plans including insufficient detail do not provide enough guidance, and become unreliable.

Some Common Misconceptions about Implementation Planning

- A plan allows the implementation manager to look ahead and develop an orderly and measured progression of works. It also allows him or her (at least to some extent) to make predictions about possible problems or reverses and to make provision for these occurring.
- The further the planner progresses towards zero reversal risk, the longer the implementation process will take and the more it will cost. This relationship gives rise to a need for a planning trade-off.
- Professional managers often argue that planning is all very well but they simply don't have time to do it. Many take the view that, in real business, processes move so quickly and are changing so rapidly that the philosophy is one of 'ready-aim-fire' rather than 'take your time and think it through'. In fact even a superficial examination of company actions will reveal that the projects that work most effectively are often those that have been planned most carefully.
- Even the most carefully researched and assembled plans are still only estimates of what is expected. They may use times and costs that are based on long and varied past experience in works of a similar type, but they are still only estimates of what has to be done under conditions of change.
- Plans have to be adaptive, and they have to allow for the various risks that are present irrespective of the degree of detail included in the plan.
- Planning is very much an iterative process. Project managers tend to work by developing one solution and then using techniques such as trade-off analysis to look at alternative solutions and identify the best one.
- British Standard (BS) 6079 has attempted to establish a standard format for strategic project plans (SPPs).

The Concept of the Implementation Strategic Project Plan

- The objective of planning is to develop and agree a set of directions that tells the project team:
 - what is to be done;
 - when it is to be done;
 - how much it is to cost;
 - what resources are to be used.
- The plan must ensure that the outcome of the implementation project meets the objectives and requirements of the client or firms involved. In addition, it must contain a degree of flexibility and must be capable of adaptation as circumstances change.
- Planning acts as a link function between the design of the system and the implementation of the actual processes.
- Most acquisitions and mergers start with an evaluation process that is linked to an analytical research component. The company or companies involved look carefully at themselves and at the sector in which they operate. They carry out any necessary research and investigative work both into themselves and into the target for the merger or acquisition. The research element also involves looking carefully at the market and sector concerned.
- The plan itself acts as the link between the vision stages and the execution stages. It allows the vision to be mapped and converted into an operational format that sets out the various stages that have to be achieved in order to convert the vision into reality.
- In more efficient systems the implementation or project manager will register the system adjustments in a knowledge store.
- Project aims and objectives are simply statements of exactly what outcomes the project is trying to achieve. These should be stated as clearly and succinctly as possible.
- Project preliminaries are background or support activities that are necessary in order to put the project in context.
- Team and human issues are crucial to the success of the acquisition or merger, and are one of the most common areas for relative failure.
- Most mergers are built around a central agreement contract.
- The merger schedule contains the various time and cost plans. These include details of the major milestones and gateways that occur through the project lifecycle.
- Resources include all internal and external people who are members of any of the various project and implementation teams.
- Projects operate under conditions of change and they are particularly susceptible to change risk. All implementation processes should incorporate a risk management system.
- The strategic project plan (SPP) is assembled and primed with whatever information and data is available at the time that it is produced. Many of the sections

will actually be empty during the earlier stages, and it will be one of the primary functions of the project team to develop the initial plan and fill out the gaps.

- The SPP is typically disseminated throughout the project team and specific responsibilities are allocated for stated development areas.
- In terms of the SPP itself, the most significant elements are those of cost planning and scheduling.

Project Aims and Objectives and Preliminaries

- The main areas for consideration under project initiation are project alignment and the establishment of project scope.
- The objectives of the project must be clearly aligned with those of the organisation or organisations.
- The scope of the project must be clearly established. A merger might involve a whole series of projects to be operated as a programme. A common mistake in such cases is insufficient definition of scope and project boundaries. This usually manifests itself as overlaps between individual or sub-projects or as gaps.
- The preliminaries section of the SPP includes any details necessary as background or support for the other SPP sections. The idea is that the preliminaries section sets the merger implementation in context and provides the reader with sufficient background information to allow an understanding of the more detailed sections that follow.

Merger Team and Human Issues

- A merger or acquisition is clearly a project (*see* Module 8) and is usually placed under the control of a project team. This team is responsible for planning and implementing all aspects of the project from inception to completion.
- The merger project team (MPT) works in parallel with a number of other specialist teams in order to complete the project.
- MPTs are frequently made up of functional specialists drawn from the main functional divisions within the organisation, together with a range of external consultants. These individuals each have their own areas of expertise and specialisation and therefore tend to see issues in different ways.
- Projects are often considered as being of secondary importance when compared with the main functional objectives of the organisation. As a consequence it is common to find MPT members who are less dedicated to the project than they are to their 'home' functional units. It is also common practice in some circumstances for functional managers to try to off-load some of their less productive or efficient staff onto the project as a way of getting rid of them. This practice is common in the case of projects where the team members are permanently reallocated upon completion of the project.
- MPTs are cross-functional teams and as such are particularly prone to the phenomenon of functional sentience, which relates to the tendency of individuals to associate with a particular functional group and/or mindset.

- MPTs should generally be formed early in the pre-implementation planning phase. Given the characteristic group problems discussed above, the earlier the team can be assembled the better.
- The merger integration team (MIT) is usually a group of senior managers from the merged companies who are charged with delivering the strategic objectives and objective synergies identified during the evaluation processes (and to some extent during subsequent due diligence).
- The role of the MIT is critical because it ensures compliance with the strategic plan and addresses the integration failure problem that is so common in mergers.
- MITs are generally created early in the merger process so that their efforts can develop as much as possible before they are actually required.
- The merger transition team (MTT) is responsible for making sure that the merger:
 - does not adversely affect existing customers;
 - is fully utilised in the development of new customers.
- The merger also generates new synergies and opportunities to expand into new customer bases. The extent to which such opportunities can be exploited depends on the nature of the companies and the sector involved. The primary factors to be considered include:
 - the extent to which the existing customer bases overlap (if at all);
 - the extent to which the overlap can be managed and exploited;
 - the number and distribution of key customers;
 - the existing communication systems of each company;
 - the sales and marketing approach of each company;
 - the potential for cross-selling.
- The MTT is formed primarily to address these issues and to make sure that the merger or acquisition minimises disruption to existing customers and optimises the development of new ones.
- The MTT is responsible for considering customer impact and effects and for making an input, both at strategic planning stage and during implementation, in order to ensure that the customer base is optimised during the process. In some ways, the performance of the MTT could in most cases be considered as a key performance indicator for the project.
- The MTT typically comprises a transition manager working with several in-house specialists and (possibly) external consultants. The in-house specialists generally have prior experience of working with the customers.
- The first meeting is the anchor of the project initiation phase. It is the first time that the project team meets as a unit, and it is used to introduce the various project team members and set the terms of reference that are to apply for the remainder of the project lifecycle.
- The first meeting is often used as a launch vehicle in which the objectives of the merger are spelt out by senior management. The presence of senior people at this meeting can act to assign authority and importance to the project.

- Detailed cost and time data are generally avoided at the first meeting. It is important that team members do not feel immediately constrained by such limitations, and that they are given time to start to combine as a team.
- Project initiation must give team members a clear understanding of their individual responsibilities towards the project. These are normally framed within the overall success specification for the project and within some (at least outline) boundaries on time and cost.
- Individual responsibilities allocated at the first meeting are generally limited to the award of responsibilities that pertain to the second meeting or, more usually, to the first significant gateway meeting.
- On large projects, individual responsibilities are generally recorded and monitored using a task responsibility matrix (TRM).
- The development of the plan is an ongoing process. The first meeting produces the basic material required for developing the TRM and for initiating the planning process. After the first meeting, the various specialists and section leaders might initiate a series of sub-meetings to be used for the development of the contribution of the section concerned.
- Some of the results of these series of sub-meetings may be agreed before the second project team meeting or additional material may be agreed at that meeting. It is usual for a basic project plan to be agreed by the end of the second project team meeting, although there may remain some areas where additional inputs are needed and where information is awaited.
- This fragmentary project plan is pulled together and discussed at the second project team meeting. The plan is then refined and developed over time, with each revision being approved by the project team at subsequent project team meetings.
- An authorisation and approvals system is necessary to give the developing plan authority.
- Authorisation and approvals are often related to milestone or gateway meetings. In most cases these 'gateway' meetings are established early in the planning process, frequently at the first meeting itself.
- There is generally a senior management presence at gateway meetings, and the approved report will be communicated to a wider senior management audience.
- In most cases it is necessary to have a change control system that operates over and above the authorisation and approvals system. A change control system is necessary because some degree of change is inevitable, and the change risk associated with it has to be effectively managed.
- Change control is usually a specific responsibility. On small projects, there could be one person who is designated as the change control officer. On larger projects, the change control system (CCS) could be a committee staffed by representatives from the project team itself and others, typically representatives of senior management and higher-level authorisation control.
- The primary components of a team-building process are:
 - establishing commitment;

- developing team spirit;
 - obtaining the necessary resources;
 - establishing clear goals and success/failure criteria;
 - formalising senior management support;
 - demonstrating effective programme leadership;
 - developing open communications;
 - applying reward and reprimand systems;
 - controlling conflict.
- One of the best ways of developing a sense of commitment and team spirit is by exploiting the natural interdependency that exists within project teams, by making the project team members work together.
 - Another approach is to involve the project team members in the objectives of the project. This approach involves empowering the individual (at least to some extent) so that he or she has some say in how things are done.
 - There are a number of more obvious advantages to team member empowerment:
 - It reduces the problems of sentience.
 - It encourages self-development and innovation.
 - It allows a higher degree of professional freedom.
 - It encourages the development of alternative solutions.
 - It allows a degree of assessment and measurement of team performance.
 - Conflict control is another important aspect of the team-building process. The project manager should be aware of what types of conflict are likely to arise through the lifecycle of the project and also how best to respond and deal with them.
 - People tend to resist change and do so for a great many reasons. In the case of change caused by a merger, the reasons tend to vary depending on the level of the person concerned.
 - People at the operational level may oppose the merger because it may mean:
 - the adoption of new work practices;
 - a need for training and development;
 - additional duties and responsibilities;
 - having to work with new people who have established (different) ideas.
 - More senior people may oppose the merger because it may mean:
 - power and authority reduction;
 - changes to the extent of control over subordinates;
 - personality clashes with new peers;
 - reduction in progression and promotion opportunities.
 - Most observers would agree that, irrespective of how well the merger is managed, employee outlook varies over the course of the process. There is generally a period of uncertainty early in the process with corresponding positive and negative staff attitudes. This tends to be followed by a period of sustained disil-

lusionment as the merger is implemented, followed by (hopefully) a general increase in positive attitude as the merger is established.

- People are far more likely to offer resistance where their attitude is negative and there is a corresponding functionality between attitude and resistance.
- A magnified resistance curve tends to occur where there is strong cohesion between the members of the organisation.
- Even without trade unions or formalised collectivisation of action, highly cohesive groups still exhibit this type of tendency. Some other possible causes of resistance amplification are:
 - poor organisational communications;
 - the presence of organised trade unions;
 - the presence of a highly cohesive organisational structure;
 - a well-developed informal communications system;
 - widespread perception of strategic inequity;
 - a high degree of process-driven or process-dependent systems.
- Other types of organisation might feature a 'damped' resistance curve. The damper itself could be anything from institutionalised fear to dedication to duty.
- There are numerous other reasons for reduced resistance. Some examples are:
 - good organisational communications;
 - dedication to duty;
 - fear of the consequences of resistance;
 - apathy;
 - lack of process dependency.
- Process dependency relates to the extent to which the production or output of the company depends on set processes.
- One of the most effective methods for managing resistance is to establish an effective communications system. In order to operate most effectively, any such communication system has to be able to transmit all relevant information to all relevant people throughout the organisation. It has to be an organisation-wide communication system.
- Communication problems are a very common reason for failures in mergers. People have a natural fear of the change associated with mergers, and effective communication is a powerful method of controlling this fear.
- The merger or acquisition has to have a clearly defined set of objectives together with some system of measuring how well these objectives are being achieved.
- Communication is arguably the most important single element in the merger and acquisition process. It is very important to communicate the reasons for the merger and to supply ongoing information on progress.
- It is often advisable to develop a communications strategy for the merger. The strategy is based on an assessment of the current companies and identified strengths and weaknesses of the merged company.

- An effective organisation-wide communication system recognises the lifecycle phases of the implementation and acts to prepare people for them. The degree to which this is effective is a function of staff experience.
- The organisation should try to achieve completely open dissemination of all relevant information during the period leading up to the merger. It is important that people feel that they are being informed of all relevant developments and are not being kept 'in the dark'. Perceived information denial is a primary cause of staff resentment and subsequent opposition.
- The performance of the organisation before and after the merger should be clearly communicated to people. This is particularly important where individuals have not been through a merger before.
- It should be demonstrated that the merger is being implemented for good reasons and that the end result will be an overall strengthening of the company. In the early stages it is surprisingly common to find widespread negative attitudes and a lack of conviction that the merger is for the common good.
- Poor performances should not be concealed or ignored. Open communications allow staff to appreciate that negative performance as well as positive performance is acknowledged.
- People tend to have a natural suspicion that negative information is controlled or repressed by senior management while positive information is inflated. In the UK this is sometimes known as the 'party political broadcast' (PPB) effect.
- It is often useful to appoint a merger central contact. This could be an individual or a team that acts as a communication centre for all distribution of information pertaining to the merger. In the case of large mergers a whole information office and associated staff could be set up. Responsibilities could include everything from answering questions from individual employees to developing press releases.
- Without a central contact point each functional manager will be responsible for disseminating formal communications down through his or her functional unit. This approach has a number of deficiencies:
 - The functional manager has other responsibilities, and the dissemination of merger information may be perceived as being a low-priority function.
 - The functional manager may edit or 'censor' the information disseminated (particularly negative functional information).
 - Different functional managers may edit or censor the same high-level information in different ways so that different functional units develop different perceptions.
 - The informal communications systems are promoted as people see failings in the detail and accuracy of the formal information they are receiving.
- The merger will usually involve changes in the organisational structure at numerous levels throughout the organisation. Where possible it is usually advisable to involve people from both organisations in these changes. This is not possible at all levels or in all cases, but generally the more involved and empowered people feel, the happier they are.

- It is often advisable to adopt a policy of continuous involvement. People should be involved and informed as much as possible. Even during relatively slack periods where not much is happening, information should continue to be distributed throughout the organisation. Even if this information is simply a summary of what has happened to date or is a restatement of the merger aims and objectives, it still helps to make people feel involved and in touch.
- Senior management exposure is important. Generally the more that senior management are seen to be actively involved with the merger and with the dissemination of information that relates to it, the more reassured people will feel. Formal information dissemination through newsletters and e-mail is one thing, but a personal visit and perhaps a chaired forum by a partner or senior executive is quite another. People tend to be much more reassured if they can see that senior managers are involved and are taking an interest in their worries and concerns.

Merger Contracts and Procurement

- The merger contract is the formal legal agreement to merge the companies.
- The section of the contract on the merger itself generally contains the following sections.
 - The companies.
 - Closure.
 - Directors.
 - Capital provision.
 - Surrender of share certificates.
 - Corporate records.
- The section on stockholder representation and warranty generally contains the following sections.
 - Capitalisation and voting rights.
 - Consents and approvals.
 - Agreements.
 - Absence of undisclosed liabilities.
 - Obligations to related parties.
 - Title to property and assets.
 - Trademarks.
 - Arbitration and litigation.
 - Taxation.
 - Employment and professional services contracts.
 - Research and development.
 - Environmental and safety law.
 - Securities law exemption (where appropriate).
- The section on company representation and warranties generally contains the following sections:
 - Information statement.

- Stockholder approval.
- Access to information.
- Expenses.
- Public disclosure.
- Approvals.
- Immediate disclosure of relevant events.
- Maintenance and conduct of business.
- Maintenance of normal trading records.
- The section on conditions precedent lists all actions that have to be taken by both parties before the deal can go through. This typically includes cancelling all existing certificates, establishing representations and warranties, compliance with all covenants agreements and conditions, compliance with all consents approvals and waivers, and reference to any relevant securities law provisions.
- Closure normally stipulates the time and place at which closure will occur. It also refers to the deliverables to be submitted or concluded at closure.
- The section on indemnification is intended to protect the new company against claims from directors, officers and shareholders of the original companies arising from losses resulting from breach of any of the declared representations and warranties, including:
 - Indemnification by the stockholders.
 - Indemnification by the company.
 - Indemnification procedure.
- General provisions can contain virtually any other matters that are relevant to the contract, including:
 - Time limits for warranties.
 - Communications.
 - Governing law.
 - Severability.
 - Assignment.
 - Entire agreement.
 - Counterparts.
 - Publicity.
- The content and extent of the appendices depend on the nature of the companies concerned. Typical sections include the following:
 - Certificate of merger.
 - Form of spousal consent.
 - Form of proprietary information and inventions agreement.
 - Form of employee non-disclosure and development agreement.
 - Form of release agreement.
 - Stock restriction agreement.
 - Form of non-competition agreement.
 - Non-disclosure agreement.

- Form of option assumption agreement.
- Form of optionholder questionnaire.

Project Schedule and Cost Plan

- Disintegration is the process of taking the project as a whole and breaking it down into separate blocks. These blocks are usually chosen on the basis of functional area.
- The idea of working in blocks is that they are manageable. It is very difficult to approach a large and complex problem when considering the problem in its entirety. It is much easier to break it down into components and then consider each component in turn.
- It is easier still if the components are chosen so that their contents are similar or have a common theme. This allows individual blocks to be allocated to individual specialist areas within the project team.
- In project management terms, these blocks are usually referred to as work elements or work packages.
- Disintegration level 1 is generally taken as the overall project itself. For a merger project, level 1 is the merger. It is the end product and the outcome that everyone is looking for.
- Disintegration level 2 is the first breakdown of the project element. These are the key large areas necessary for the project to be completed.
- Disintegration level 3 is the creation of sub-elements from the initial level 2 break down.
- The disintegration process is continued and extended until a sufficient level of detail for accurate planning is developed in each specialist area.
- A work breakdown structure (WBS) is simply a diagrammatic representation of the end result of the disintegration process.
- A task responsibility matrix (TRM) is a list of individual responsibilities for each member of the project (or other team), normally arranged as a matrix with axes listing individual names and responsibilities.
- An action plan is different from a TRM in that a TRM shows the responsibilities carried by each person. An action plan takes one particular element or sub-element and breaks that element down into individual components. Each component is then considered in terms of who has to do it, when it has to be done by, and what resources are available to get it done.
- In most cases the project manager develops an action plan for the most crucial stages of the project.
- Action plans can operate at high level, as in the case of whole stages between milestones, or at lower level, as in the case of preparing individual reports. Several lower-level action plans may operate sequentially as part of the completion of one higher-level action plan.
- Action plans are typically developed for:
 - elements with a high degree of pooled interdependency;
 - elements with a high degree of reciprocal interdependency;

- elements with contingency or slippage allowance.
- Lower-level action plans are often prepared where there is a high degree of reciprocal interdependency within the system.
- Action plans are usually developed by the project manager in consultation with individual project team members.
- The precedence diagram takes the various work elements from the WBS and shows them in the sequence in which they are to be executed.
- The precedence diagram itself comprises activities that usually mirror WBS elements at level 3 or 4 within the WBS structure.
- Precedence calculations can be logic driven or resource driven. The strongest single precedence driver is usually resource availability.
- Most implementation projects are based on a draft master schedule (DMS). This is a precedence diagram with the duration of each activity added and extended to show earliest and latest event times.
- Most DMS are based on either critical path method (CPM) or program evaluation and review technique (PERT).
- CPM is a deterministic approach in that it uses estimated duration times that can be determined in advance with reasonable accuracy.
- PERT is a probabilistic approach in that it uses duration estimates that cannot be determined in advance with any reasonable accuracy.
- The project master schedule (PMS) is developed from the DMS and is the end result after any trade-off or other adjustments are made to the DMS in order to make the DMS comply with all requirements of the project.
- Project crashing is a form of trade-off where time and cost are shown as functionally related while performance is taken as a constant.
- Crashing usually seeks to speed the project up by increasing the rate of completion of component critical path activities, usually starting with the most cost-effective activity and proceeding to the least cost-effective activity.
- Cost plans are usually based on the WBS structure.
- Cost plans usually use a cost account code (CAC) system to identify and monitor the performance of individual work elements or packages.
- Cost estimates for human resources are usually based on known resource costs related to time estimates that are the product of past experience.
- Most implementation costs are internal. External costs are usually dominated by external consultant and other fees.

Resources

- On larger merger projects, project managers often seek to appoint task owners for each individual work element above a certain size. The project manager would then assign or delegate responsibility for staffing and running these teams to the individual task owners.
- Project managers often establish some kind of contingency plan to cover temporary loss of availability of key people. The relative significance of key people is related to the importance of key events. It may be that a certain milestone

set of negotiations has to be carried out by an individual named negotiator. If anything subsequently happens to that negotiator there could be significant disruption unless some kind of contingency is in place.

- It is prudent to set up a resource register for the implementation process. This shows the key people that are involved and the duration of their involvement in the project. This information is usually derived during the implementation planning process, where the implementation project manager calculates:
 - who is needed;
 - when they are needed;
 - how long they are needed for;
 - what activities or work packages they will be involved with.
- This information can be shown as a Gantt chart, where the various work packages and the various resources needed to service them are shown together against time scale.
- The resource plan has a number of important project functions. It acts as a calendar showing windows of who and what is needed. It also allows accurate progress monitoring of individual work packages and of the people or sections responsible for them. It allows the project manager to exercise a degree of cost control over the implementation process.

The Implementation Risk Management System

- There are numerous different types of risk that can arise from a multitude of different sources. In the case of an implementation process, the primary distinction is between internal risk and external risk.
- Internal risks relate to all elements within the organisation that can affect the successful outcome of the process. In this context ‘internal’ is normally taken as referring to all elements within the boundary of the organisation. Typical examples in the context of an implementation include:
 - temporary unavailability of key staff;
 - errors or omissions (internal) in the project plan;
 - objective/strategy misalignment;
 - errors and inaccuracies in estimating process durations;
 - lack of relevant knowledge and experience.
- External risks include all external elements outside the organisation that can affect the successful outcome of the process. External risks are generally more difficult to identify than internal risks, simply because they are governed by a large number of external factors that are largely uncontrollable.
- The project management system has to allow for market and static risk.
- Market risk is driven by market forces that can lead to positive or negative returns.
- Static risk is not market-driven. It relates purely to potential losses such as the risk of disruption caused by fire.
- Ideally a risk management system for the implementation process should be able to:

- identify those risks that are present in the system;
 - evaluate or classify these risks in some way;
 - carry out a formal risk analysis;
 - allow for the risk response of the surviving company;
 - initiate an appropriate risk response;
 - monitor the effects of the response to make sure that it is working.
- In the planning stage no risks have actually occurred, so risk identification is basically a process of examining the merger from as wide a point of view as possible and then trying to predict where the risks are in the system.
 - In a merger, risks are often identified using a risk management review or a risk management and due diligence review. This review is intended to be a detailed and thorough analysis of the consequences and implications of buying or selling assets.
 - Hidden static risk (see above) can have a significant impact on the sale price and on the purchase agreement. The review is intended to uncover and classify undisclosed and unanticipated exposures and liabilities that an organisation might inadvertently adopt or assume when entering into a merger or acquisition. It is also a valuable assessment of the validity and competency of the risk management system itself in that it puts forward opportunities and options for improving protection in the merger and the potential for making cost savings after the implementation process is complete.
 - Most risk management and due diligence reviews focus on three separate areas of the organisation:
 - organisational aspects;
 - financial aspects;
 - technical aspects.
 - Organisational aspects are typically reviewed by conducting an analysis of the existing organisational structure and of the effectiveness of the existing risk management systems.
 - Financial aspects are reviewed by analysing financial statements in order to determine the potential claims or loss of reserves that may be accrued there. It also typically involves an evaluation of the various options for risk financing (such as transfer as discussed above) and of the funding methodology and capacity in place for settling any claims.
 - Technical aspects are analysed by carrying out an investigation into the existence of any ongoing liabilities for existing or discontinued products. The investigation also considers any associated potentially catastrophic exposures such as environmental risk. A similar investigation is usually performed into the design and structure of director and other principal officer liability insurance (including professional indemnity insurance where appropriate) and of any existing insurance contracts and other existing risk transfer mechanisms.
 - Risk can be classified and analysed in a number of different ways. The most common way to think about risk is in terms of (a) the impact of something oc-

currence and (b) the likelihood of that same event occurring. This gives rise to four primary risk classifications:

- Type (a) risk: low-impact, low likelihood of occurrence.
- Type (b) risk: low-impact, high likelihood of occurrence.
- Type (c) risk: high-impact, low likelihood of occurrence.
- Type (d) risk: high-impact, high likelihood of occurrence.
- There are a number of classical risk responses:
 - Risk transfer. The risk is transferred away from the project in some way. It could be transferred to another person or organisation or into another project.
 - Risk reduction. The risk is reduced in some way, either by reducing the impact or the likelihood of occurrence or both.
 - Risk avoidance. It is sometimes possible to respond to a risk by avoiding it. It may be possible to negotiate the risk out of the equation or sub-contract those parts of the programme that are affected by it.
 - Risk retention. There will always be some risks that cannot be treated and which have to be retained (residual risk). Alternatively the project manager might decide to retain risk rather than transfer or reduce because (for example) it may be cheaper to do so.
 - Seek further information. A large proportion of risks only exist because of lack of information. It is often possible to reduce or eliminate risks if sufficient further information can be provided.
- The appropriate response has to be monitored and controlled to ensure that it is working effectively. Risks migrate. A type (a) risk can grow into a type (c) if it is not properly controlled. Any response has to be monitored and gauged for effectiveness over a period of time so that the risk itself can be tracked as the project evolves.
- Contingency planning is concerned with the establishment of some kind of reserve or secondary plan and resources to cover the eventuality of an unforeseen risk occurring. The process is usually formalised as a contingency plan or as a business continuity plan.
- Some organisations have developed ‘major incident response plans’ and ‘disaster recovery plans’.
- Most forms of business continuity plan (BCP) use the same basic approach and comprise:
 - a reserve of some kind;
 - procedures and systems to be used in the event of an incident;
 - organisational and resource back-up.
- BCPs are usually developed and updated as frequently as internal and external changes require. They are the direct responsibility of a specialised team. The usual designation is business continuity plan management team (BCPMT). This is typically a project team with part-time membership and comprising technical and management specialists.
- The primary responsibilities of the BCPMT are to:

- set up and establish the BCP;
- ensure that adequate resources are available for adequate and immediate execution of the BCP at any time;
- in the event of a failure, to serve as liaison between the functional areas affected and other parts of the organisation that are providing major services.
- BCPs generally start with four main preliminary items:
 - assumptions;
 - development;
 - maintenance;
 - testing.
- The BCP also has to be tested at frequent intervals.
- Most BCPs make provision for a high-level steering committee. A typical designation is the administrative operations steering committee (AOSC). This committee would typically comprise:
 - deputy chief executive;
 - deputy head (finance);
 - deputy head (operations);
 - deputy head (communications and IT);
 - deputy head (legal services).
- The balance of the committee will vary depending on the type of company and on the application. However, it is normal practice for the members to include a senior executive in charge and the deputy heads of the various sections directly affected.
- Acting under the AOSC it is common practice to find a direct management team. This team is often designated (something like) the business continuity management team (BCMT).
- The BCMT typically comprises upper-level managers in the appropriate areas of the company. In an administrative sense, it could comprise representatives from human resources, accounts, audit, telecommunications, IT and so on. Typical membership might be:
 - BCMT leader;
 - IT manager;
 - logistics manager;
 - supplies manager;
 - telecommunications manager;
 - head of security;
 - director of computing services;
 - finance and accounting manager;
 - human resources manager;
 - legal services manager.
- In most cases the idea is that the BCMT convenes on the instructions of the AOSC. The BCMT provides general support subject to the approval of the AOSC.

- Under the BCMT there will generally be a series of specialised functional response teams (SFRT).
- These teams are made up of specialists in individual areas. IT and telecommunications will have a separate SFRT that specialises in damage assessment, limitation and disaster recovery in their specific areas.
- The primary responsibilities of the SFRT will be:
 - damage assessment;
 - damage reporting;
 - damage reduction and limitation;
 - immediate tactical response;
 - salvage and immediate recovery;
 - appraisal and assessment of non-damaged components.
- Most BCP operational procedures are based around some form of disaster response. This usually comprises seven stages:
 - disaster or potential disaster detection;
 - disaster notification;
 - initiation of BCP;
 - activation of resources;
 - circulation of information;
 - provision of designated support;
 - disaster recovery plan.
- The final section of the contingency plan generally involves the development and initiation of a disaster recovery plan. This is in some ways the most important procedure as it constitutes the organisation's response to the disaster. The plan itself usually comprises three stages:
 - emergency response phase;
 - back-up phase;
 - recovery phase.

10. Executing the Implementation Plan

Learning Objectives

By the time you have completed this module you should understand:

- the basics of monitoring and control;
- how synergies can be exploited as part of the integration process;
- some of the common barriers to successful integration;
- the importance of maintaining morale and commitment;
- the significance of balancing mindsets;
- the significance of contractual changes;
- the concept and operation of the value chain;

- the relationship between time, cost and performance;
- the potential use of trade-offs.

Sections

- 10.1 Introduction
- 10.2 Some Common Questions about Plan Execution
- 10.3 Some Common Misconceptions about Plan Execution
- 10.4 Monitoring and Control
- 10.5 Achieving Integration
- 10.6 Achieving Synergies
- 10.7 Common Problem Areas and Tactical Responses

Learning Summary

This module has attempted to develop a basic understanding of the implementation process from the point of view of the various primary integration areas. The text has considered the implementation process from a number of points of view, from technical considerations to people issues. After having read the text it should be apparent that successful implementation is very difficult to achieve because mergers and acquisitions are very complex, and because they are carried out under conditions of significant change. Successful implementations, however, do occur. A sound grasp of, and attention to, the issues covered in this text is likely to help this occur in a controlled manner.

The reader should now understand:

- the basics of monitoring and control;
- how synergies can be exploited as part of the integration process;
- some of the common barriers to successful integration;
- the importance of maintaining morale and commitment;
- the significance of balancing mindsets;
- the significance of contractual changes;
- the relationship between time, cost and performance;
- the potential use of trade-offs.