GREY PAPER
insights

OPERATIONAL EXCELLENCE DURING MERGERS AND ACQUISITIONS

Pilko & Associates Grey Paper

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Pilko & Associates is the Trusted Operational and Environmental, Health, and Safety Risk advisory firm — working with clients in 78 countries and advising on M&A deals worth more than $600 billion.

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Bang! The gun sounds, the deal has closed. And now begins the struggle, the challenge, the effort to realize the value sought by the stakeholders, owners, and leaders of both the acquirer and the acquired. Volumes of industry and academic research indicate that many mergers and acquisitions result in much less synergistic and economic performance than anticipated. In his book M&A Integration: A Framework for Executives and Managers, David M Schweiger notes a sentiment often realized by those engaged in M&A activity:

> Enamored with the excitement of doing deals and preoccupied by financial and strategic issues, executives have not, historically, focused much attention on the integration. . . . Burned by a lack of results many executives have come to appreciate the importance of the role of integration and people play in the success of M&As and their ability to create value for investors. (p. 9)

This grey paper focuses on the power of leveraging operational excellence principles and techniques to mitigate value leakage. Schweiger notes at least two sources of value leakage. The first is guarding against the loss of "intrinsic value" and the second stems from "external environmental changes." Generally, the intrinsic value rests within what Covey might frame as the circle of influence. The external environment changes are more or less the circle of concern. Analogous to Covey, a keen focus on leveraging operational excellence principles and techniques supports the preservation and enhancement of intrinsic value.

As the director of contract manufacturing for a flexible packaging manufacturer, I was the point of accountability for the integration of an acquisition designed to drive vertical integration for the firm. The Board of Directors for the joint venture and the CEO clarified the key strategic objectives and goals for the acquisition.

Although I had little experience at the time with M&A deals of this scope, I did however have a great deal of experience in Total Quality Management and its principles as well as strategy development and deployment techniques.

Several months prior to closing, my leadership staff, the CFO, and our HR resources began the process of understanding the implications of the acquisition.

Studies indicate at least four considerations should be undertaken prior to closing:

1. Sound communication plan
2. Design of the new organization
3. Intentional assessment of the strengths and challenges of the culture of both the organizations involved
4. Assessment of the resultant management team

Leveraging strategy creation and deployment techniques, we initially developed key objectives in each of these areas, which proved to be a daunting task. Post-closing, we worked to build trust and alignment with the new management team. In this case, most of the leadership for the acquisition stayed in place. Building upon the existing corporate culture was critical, as was alignment and enrollment of the leadership team and staff.

Here, a critical principle of operational excellence was leveraged: *clarity around the objective*. While the objectives and goals were cast, the strategies, key action plans and measures were not. We built engagement and enrolment by joint development of strategies, action plans and measures critical to meeting the objectives and goals set forth by the Board and senior leadership. We used critical tools in the tradition of TQM, Lean, and Six Sigma to train key leaders and staff in the *what* we were building, the *how* we would build it and *why* it was key to enroll them as a fundamental value of the company.

Achieving the desired outcome was not easy. We struggled against the consistent pull of the past, consistent headwinds, and the challenge of the contract packaging portion of the organization to maintain performance (the daily management tasks). Deploying a rigorous daily, monthly, and quarterly Shewhart cycle review process (PDCA) allowed us to understand results, develop mitigation plans, act on them, and press forward. The consequence was the realization of the first-year targets for safe operations, customer performance and expectations, EBITA budget objectives and successful employee survey results.

A later example involved managing logistics operations for the North American region of a large integrated global energy company, which was also a post-acquisition entity. Once again, it was critical to build objectives, goals, strategies, and measures for a large and complex operation. The challenges were to clarify, align, and enroll my leadership team and ultimately their direct reports and staff. As before, the objectives and goals (and to some extent, the strategic principles) were outlined by global leadership. However, the more granular region-specific strategies and measures were open for development. As before, educating the leadership team was foundational.

The fruits of our effort were realized within 18 months and included reducing safety and environmental incidents significantly, year on year. In fact, during a particularly stressful reorganization and site rationalization effort (a couple of years from our initial efforts), we won the vice president's award for safety performance.

Utilizing operational excellence principles relative to work as a series of process steps, we influenced our planning counterparts in the supply chain to adopt inventory management targets and load leveling principles that enhanced customer performance and reduced transportation costs. Finally, we leveraged critical data analytical tools to push back on the notion of logistics cost being related to volume.

By proving logistics cost is related to controllable factors (e.g., distance materials were shipped, maximizing truck loading weights), the company developed visible measures to influence the behavior of planners and schedulers as well as customers.

Leveraging Operational Excellence

A key tool in the arsenal to mitigate value leakage from M&A activity is operational excellence. As early as possible in the M&A process, acquirers need to consider the integration process. Project management and contingency analysis are critical to operational excellence. As Deming might say, all work is a process and appropriately, Schweiger notes five stages in the M&A process. There are five considerations that can enhance the success of any M&A effort:

1. Thinking about, anticipating, and gathering data and perspective that might undergird a successful set of strategies is critical.
2. Adopting an operational excellence mindset and discipline can be fundamental to success. A plethora of tools and techniques are available to assist with this task. We advocate a fit-for-purpose strategy based upon organizational culture. Adherence to principle is critical not dogmatic reiteration of activities.
3. Developing and executing an integrated strategy that addresses the four elements outlined earlier is fundamental to success. Accomplishing this activity requires preparation and proactive engagement well ahead of closing. Tools and techniques like our Clear Eyes Review and Operational Readiness assessment can support successful M&A efforts.
4. Combining these tools with the powerful arsenal of operational excellence tools and techniques ensure challenges and strengths identified during the due diligence intelligence stage of the M&A process, are systematically addressed.
5. Prior proper planning prevents pitifully poor performance. Excellence in execution is enhanced by disciplined action informed by structured analysis.

About the Author:

Michael Washington has more than 30 years of experience across a variety of business sectors, Oil & Gas, Consumer Products, and Foods. He has significant senior leadership experience in Supply Chain, Chemical and Contract Manufacturing, as well as Engineering and R&D. Mike has international leadership and training experience in North America, South and Central America and Asia. Most recently, he led integration for the joint venture startup of a polyethylene company, Bayport Polymers in La Porte, Texas.

Prior to Bayport, Michael was Site General Manager of Criterion Catalyst Technologies at Shell Oil Products Company where he led a chemical manufacturing facility producing 45 Million pounds of chemical substrate used in refining catalyst manufacturing.

Michael held leader roles as Continuous Improvement Expert Americas; Shell Pennzoil-Quaker State as VP North American Logistics Operation; Diversapack, LLC as Director, Contract Manufacturing Division; Pedes Inc. as President/CEO; and The Procter & Gamble Company (Engineering, R&D, and Corporate Purchasing).

Mr. Washington received his Bachelor of Science, Chemical Engineering from Tuskegee University; Bachelor of Science, Chemistry, Fisk University; Master of Arts, History and Culture, Union Institute and University and his PhD, Interdisciplinary Studies (Ethical and Creative Leadership) from Union Institute and University.

Other Professional Development Accomplishments include:

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- Minority Business Executive Program, Dartmouth College, Tuck School of Business
- Black Belt Certification – Six Sigma Training, Aveta Solutions
- Board, Tuskegee University Business and Industry Cluster/Tuskegee Chemical Engineering Advisory Board
- Advisory Council, North Carolina A&T State University School of Business and Economics
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