

## Determining Performance Measures During Mergers

**M**ergers and acquisitions offer potential for top- and bottom-line growth. Unfortunately, this promise often goes unrealized because focus is concentrated on demonstrating profitability. While this is important, the success of a merger should be measured beyond short-term financials. Establishing proper performance measurements during and after a merger is critical to realizing larger benefits. This article will outline the merger/acquisition process, and recommend the proper performance measures to ensure success.

### The Merger & Acquisition Process

A top-level view of the M&A process is as follows:



A communication strategy should detail how internal and external audiences will be kept informed of progress. This will prevent customer confusion, sub-optimal organizational design, and massive employee paranoia.

To successfully assess merging entities, it is necessary to analyze from multiple angles. The purpose of the assessment is twofold:

- 1.) Determine the weaknesses of the combined unit that can be improved upon, and
- 2.) Determine the strengths of the combined unit that can be leveraged.

Once the analysis is complete, best practices should be determined. Ongoing monitoring will facilitate adjustments when necessary.

The bulk of performance measurement should be done in the assessment stage. This is when categories for data collection will be selected and processes for collecting it will be established. The information gathered in this step will be used throughout the merger and form the foundation of an ongoing performance measurement system post-merger.

### Conducting an Assessment

A complete assessment should include analysis from the financial, customer, process, human resources, and technology perspectives. Below are some thoughts on each.

#### Customer Perspective

The customer assessment determines how to best service existing customers and attract new ones as a combined entity. Consider these questions:

- To what extent do the merging entities have overlapping customer bases?
- How will overlap be managed?
- How does the acquired company currently delight customers? What causes them to lose customers?
- How does the acquired company communicate with customers?
- How are sales and marketing accomplished, and how successfully?
- What opportunities for cross-selling exist, and how can they be leveraged?
- How will key customer measures be defined in the future?

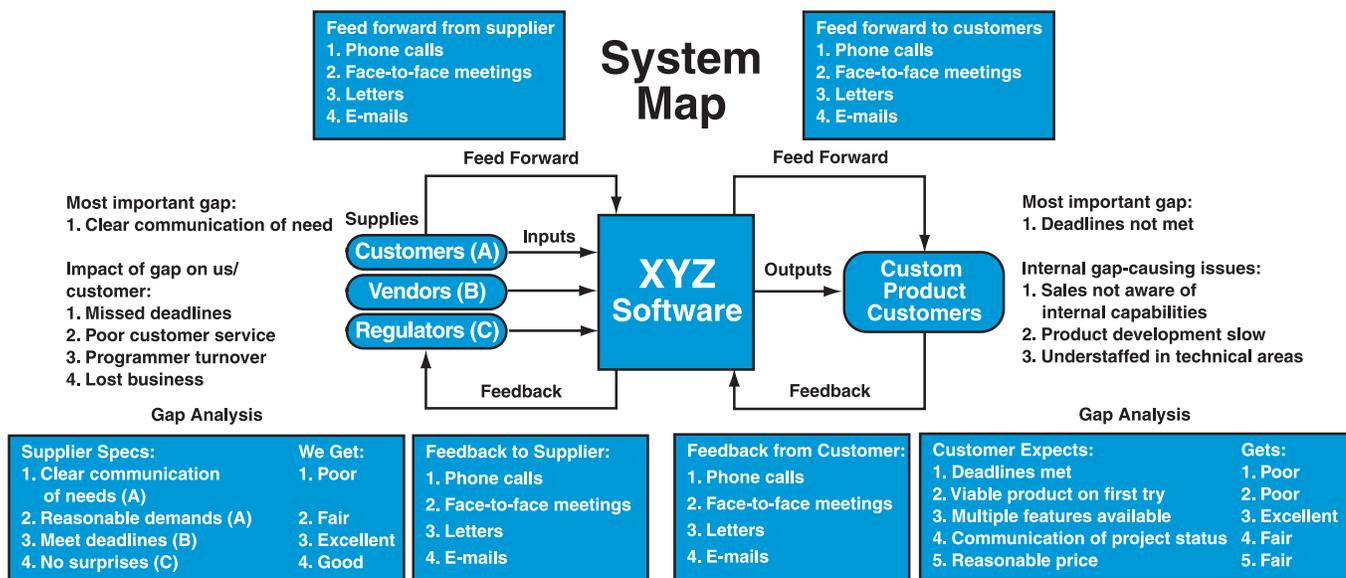
In-depth project plans can help answer the first two questions. A customer-focused transition team should be formed to deal with these issues. A key performance measure will be tracking the progress of this team, including predicted versus actual performance.

*(continued on page 2.)*

### Navigating Your Organization's Future

## Determining Performance Measures During Mergers *(continued from front.)*

The system map can provide an overview of how a company interacts with its customers and with what success. For example, a large software company has just acquired a smaller organization which is entrepreneurial, largely unstructured, and profitable primarily because of creativity. The goal of the acquiring unit is to integrate structure without quashing entrepreneurial spirit. Below is an example of how a system map might evaluate how the acquired unit interacted with its customers.



The middle box contains the company name, and the middle right oval contains the customer segment under analysis. The lower right box analyzes what the customer wants and how well these needs are being met. The right side also analyzes interaction with customers. The “feedback from customer” box describes the various mechanisms for gauging how customers let XYZ know what they like/dislike. The “feed forward to customer” box illustrates how XYZ lets the customer know what to expect in the future. Finally, the right side denotes the key gap in the eyes of the customer and hypothesizes on the internal causes of it.

The left side of the system map analyzes key suppliers and their impact on XYZ’s ability to satisfy customers. It begins with a list of key suppliers in the middle ovals, labeled A-B-C. The lower left box lists what XYZ expects from its suppliers, with each expectation coded to the applicable supplier. Again, interaction is analyzed via feed forward and feedback. The middle left text denotes the most important supplier-side gap and its impact on the company and its customers.

This holds valuable information pertaining to the selection of performance measurements. For example:

- The customer gap analysis reveals that XYZ has a poor track record of meeting deadlines. This is the primary problem in the eyes of customers, so it will need to be monitored.
- Formal feedback is regular and initiated by the company. Informal feedback is irregular and is initiated by the customer, usually when something is wrong. XYZ has only informal mechanisms for feedback. This represents an opportunity for performance measurement.
- Feed forward to customers is informal as well. Here, it could reflect that XYZ is not communicating deadline information properly, resulting in customers’ perception that the company is not measuring up.
- The supplier side reveals that customers are also a main supplier, as the user needs to provide product specs up front to receive the desired result. Customers are not communicating needs clearly, resulting in a poor percentage of products

being viable on the first try. “First run” percentage is therefore a key performance measure, and firming up the communication process may be a means to drive it.

- The supplier side reflects excellent vendor performance in meeting deadlines. This is critical since it implies that meeting customer deadlines is an internal problem.
- The text on the far right provides insights into which internal areas need to be further analyzed.

It is recommended that a system map be constructed for

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each main customer segment to account for potentially different needs of the groups. Combining system map analysis with traditional measures such as customer retention, customer addition, and share-of-wallet will result in a healthy set of customer performance measures.

### *Process Perspective*

A process assessment determines how things get done in the merging units and how best to integrate processes. Another transition team should be assigned this task. There are three categories of key processes to be identified:

- “Weakest-link-in-the-chain” processes are the most significant in terms of preventing achievement of the combined mission and vision. Focus on these first. In the XYZ example, processes such as purchasing, hiring, installation, etc., may have been substandard. Do not try to improve everything at once. Instead, identify the critical factor.
- Process extension is the act of widening process boundaries to control more links in the value chain. Many mergers happen specifically for this reason.
- Market extension involves leveraging process excellence to serve new markets or higher-yield markets. Performance measures that reflect market extension could include process performance (speed, cost, yield), new market revenue, or even market share.

System maps and cross-functional process maps help identify candidates for strategic improvement in the early post-merger stage.

### *Learning and Growth Perspective*

The learning and growth assessment evaluates the ability of people and systems to deliver the desired performance. The proper sequencing of decision-making during M&A activity with regard to personnel should be:



A common mistake is to view this in reverse. Many companies think about the people in the two merging entities and try to create positions and structure based on who they already have on board. This practically guarantees sub-optimal results. A company is better served thinking about skills first. Once the key processes and customer needs in the new organization have been determined, decide what skill sets would deliver the desired results. Next, think through the best organizational structure and job descriptions necessary to position these skills properly. Only then it is appropriate to match the skills of the people to the jobs.

A third transition team should focus on people issues. Project plans should be created to assess skills needed, create structure, and match personnel to skills. This will beget a series of short-term planning-based measures to track the progress of all the activity versus the plan.

Learning and growth also includes communication. In addition to a planning-based measure tracking communication strategy, it is advisable to add measures of communication quality such as employee satisfaction, number of briefings held, etc.

The final aspect of learning and growth is technology and how it supports process performance. A technology transition team should be formed and develop a planning based measure to keep track of systems integration, utilization, percent access to technology, e-commerce revenue, etc.

### *Financial Perspective*

The financial portion of the assessment is typically the easiest. Standard performance measures that illustrate revenues, costs, and profitability can be used to establish short-term financial metrics. Supplement the traditional measures with a planning-based one.

It is also recommended that the financial transition team look for opportunities created by the merger that could yield direct financial results and create a specific measure to account for them. A good example is commission revenue in the process extension definition. This is exactly the type of measure that a process team will often overlook in terms of financial impact because the focus is on process detail. It is up to the financial team to clean these up.

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## Determining Performance Measures During Mergers (continued from page 3.)

### The Merger Scorecard- Wrap Up

A scorecard should be issued regularly throughout the course of a merger. It may look something like this:

PERSPECTIVE	MEASURE	TARGET	ACTUAL	COMMENTS
FINANCIAL	Reporting system integration vs plan	45%	60%	6 weeks behind time line
	Gross revenue (1,000's)	\$900	\$840	
	Operating expense (1,000's)	\$750	\$865	Unforeseen space limitations
	New service commission revenue	\$50	\$15	Processes not sufficiently developed
	Cross sell revenue	\$30	\$5	Education in product synergy needed
CUSTOMER	Customer mapping completion vs plan	100%	100%	All key relationships defined
	Survey design / implementation vs plan	50%	0%	Haven't started; 6 weeks behind
	Critical product market share	24%	14%	Sales training insufficient
	New product units sold	500	150	Sales unaware of product capabilities
PROCESS	Best practice implementation vs plan	20%	25%	Still 18 months from 100% completion
	On-time error-free service delivery	80%	40%	Reengineering needed
	Product development time	90 days	N/A	No products developed this month
	Key service transaction speed	< 1 day	3 day avg	Reengineering needed
LEARNING & GROWTH	Skills inventory development vs plan	100%	100%	Measure complete; will drop off next card
	Org structure design vs plan	20%	0%	First team meeting next week
	Employee satisfaction	75%	40%	Survey completed 1/15; repeat due in June
	Systems integration vs plan	40%	40%	On target
	Communication plan implementation vs plan	50%	65%	Ahead of target; will finish in six weeks

Note that targets exist for both financial and non-financial measures. This ensures that proper attention is paid to the detail work necessary to drive positive financial performance in the future. The comments are critical; any supporting statistical tools/charts can be referenced in this column. This enables the user to view the details of particular measures.

Once the merger has been completed, the strategic planning process for the combined entity will begin. The merger card can serve as a foundation for the permanent balanced scorecard.

Performance measurement can lend sanity to the chaos that ordinarily accompanies a merger. Attacking a merger with no performance measurement allows no hard and fast way to know the things you are doing are the things that will make you successful. The proper measures enable everyone to stay on top of key integration activity. The merger scorecard is the key to making it happen.

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