



ERM INSIGHTS

Achieving Post-Merger Success: Adding Timely HSSE Integration to the Equation

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Abstract

When it comes to the Post-Merger Integration (PMI) process, many companies tend to underestimate, or outright forget, the role that Health, Safety, Sustainability and Environment (HSSE) plays in this equation. To leverage the full potential of PMI, as well as to save resources, time and money, the integration of HSSE aspects should be considered proactively, ideally during the due diligence process, however certainly before the transaction is closed.

Achieving Post-Merger Success: Adding Timely HSSE Integration to the Equation

In a dynamic M&A driven market companies are increasingly confronted with the challenges of PMI. While senior management tends to focus on keeping day-to-day business running smoothly and managing corporate assets and commercial aspects, the integration of HSSE can be overlooked or underestimated by the PMI leads, not necessarily because HSSE aspects are considered to be a low priority, but because of limited HSSE exposure and a underdeveloped understanding of critical aspects, issues, obligations and risks as well as opportunities. The resources required for a successful HSSE integration are often underestimated and thus not provided for in the PMI budget or 100-Day Plan.

PMI challenges

Among the attendees of an ERM sponsored webinar on post-merger integration, seventy percent had been involved in more than five M&A transactions over the past ten years, however only fifteen percent of the participants described their HSSE integration experience as having been well-organized, engaged, well-resourced and ultimately successful. The large majority described their experience as having been “under-resourced”, “a learning experience”, “disorganized”, “frustrating”, “overwhelming” or “downright chaotic” (Figure 1).

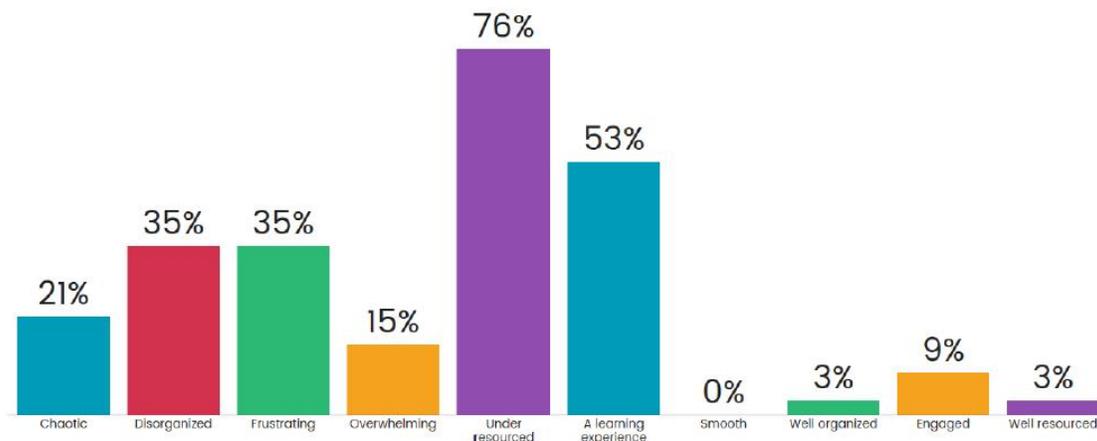


Figure 1: ERM live session results - options that best describe the EHS integration experience from past deals (ERM M&A Webinar Series: Post-Merger Integration, 2016).

These situations are exacerbated by the fact that, in most companies, the resources and funding available to support integration decline rapidly over time once the transaction has closed. Thus, even though the bulk of integration activities are yet to be completed or even started when the deal is announced, planning and prioritizing and budgeting these activities should ideally be initiated pre-closing as part of the due diligence process, and underlying HSSE integration needs must be communicated to corporate management early on to allow for appropriate allocation of both CAPEX and OPEX to drive a successful PMI process.

A slow start to HSSE integration can adversely affect business continuity, create unnecessary risk and liability exposure as well materially inhibit the leveraging of deal driving synergies, HSE leaders should develop a clear vision of their priorities for the first hundred days of a PMI before the merger is completed or the acquisition is closed. If this is not done, integration plans might lack clear direction, rendering integration activities cumbersome, inefficient and ineffective.

Understanding the HSSE issues of merging companies

Before looking at specific integration activities, it is important to understand the similarities and differences, in terms of HSSE management and governance, between merging companies to support the integration strategy. A lack of this understanding will likely prevent the envisaged synergies from being leveraged, whereby significantly reducing the up-side of the consummated transition.

More than half of all mergers fail because integration, including that of HSSE aspects, does not succeed. Therefore, an essential first step to successful integration, is to conduct a series of evaluations to understand the strengths, weaknesses, capabilities, and investment needs of the divesting target but also the existing acquiring (buy-side) organization.

HSE leaders must ensure that they secure sufficient baseline information to fully understand the material liabilities, compliance deficiencies and required capital investments, as well as the management and governance structure associated with the transaction target. These costs (CAPEX), along with the human resources (OPEX) needed to integrate and ultimately run the acquired assets, must be documented and communicated to corporate management at an early stage so that secured and budgeted for to ensure a successful integration.

Armed with an understanding of the baseline conditions, risks, and capabilities of the new company, HSSE leaders should then develop an HSSE integration strategy that aligns with the new company's business goals, objectives, and resources.

While a merger can be challenging, for example, due to differences in company culture, values and priorities or possible staff cuts and decreased funding, it is also an extraordinary opportunity to forge a new direction for the HSSE program.

As part of this process, HSSE leaders should also define the ambitions of the new company with respect to HSSE.

Implementing lean HSSE programs and procedures, that meet the needs of the business, often reduces the complexity and cost of this essential function while upgrading IT systems for HSSE to deliver operating efficiencies and improved reliability. Depending on the scope of the transaction, this integration process can range from one or two minor adjustments to a major overhaul of the entire HSSE program's mission, purpose, values and organization.

The goal at this stage is to create synergies between the two corporate processes and to develop and deploy a consistent, streamlined HSSE management framework across all facilities.

Supporting successful post-merger integration

ERM supports its clients across all industry sectors throughout different stages of the HSSE integration process, from the first steps of integration planning, to baseline condition assessments and defining the new HSSE organization, to ensuring business continuity through product stewardship, to the adjustment of IT and management systems and compliance assurance. As every merger is different and the required support varies from client to client, the scope of the support provided by ERM is always tailored to the client's needs. On one occasion, ERM simply assisted a client in transferring their existing HSSE program to newly acquired facilities.

On another occasion, ERM helped a client to leverage their acquisition of over two hundred facilities to fundamentally transform the entire HSSE function, from the development of a roadmap for PMI and the preparation of the HSSE integration resource projection and cost model, to the design and implementation of the new HSSE organization, HSSE process optimization and roll-out of a new IT solution platform. Beyond the assistance provided on a case-by-case basis, ERM has also developed standard operating procedures covering due diligence and post-merger integration for clients to use on future transactions.

MITIGATING FUTURE OPERATIONAL RISKS THROUGH EXPANDED PRE-MERGER DUE DILIGENCE

In 2014 ERM undertook an HSSE due diligence assessment of a group of mid-sized chemical manufacturing facilities in Germany. The aim of the acquisition was to expand the client's existing regional portfolio, distribution network and customer base. ERM's initial scope of work was to assess the target sites' legacy and contingent environmental liability footprint, as well as overall operational HSE compliance and health and safety performance.

As it became clear that it was planned to consolidate the companies' operations as part of the PMI effort, including the relocation of certain product lines and associated equipment, ERM's expanded due diligence showed that the existing abatement equipment and environmental controls were insufficient to support the planned reorganization without material expenditures, which outweighed the financial up-side of the planned portfolio reorganization, thus making the merger undesirable.

Conclusion

The HSSE integration process and its costs, as major pitfalls of mergers, should be considered early on so that benefits associated with organizational change can be fully realized and material HSSE related commercial risks identified and mitigated. It is vital that HSSE leads move forward regardless of any uncertainty and proactively engage with the senior management, after all the smoothest transitions occur when PMI leads recognize the

importance of HSSE and make it a priority, parallel to all other commercial financial and operational aspects in the integration process.

Raising awareness for the importance of HSSE integration and securing the resources needed for successful integration is therefore one of the most important initial steps facing HSSE leads once a merger is planned. Successful HSSE integration requires human and technical and financial resources, and experience has shown that the company will benefit in the long-term from time and money that can be saved by a head start on HSSE integration efforts.

Highlighting these benefits will ensure that HSSE integration gets factored into the PMI process, substantially improving the likelihood of a successful integration.

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