

**strategy&**

Formerly Booz & Company

*Smart  
combination,  
smart integration*

**&**

**Leading practices  
for utility merger  
success**



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## About the authors

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# Executive summary



**The time required to close a merger in the utilities sector** is far longer than in other industries — as much as a year or more, due to lengthy regulatory approval processes. Some merging companies effectively operate in limbo during this “interim year,” yet this is a highly valuable period if companies utilize the time effectively. It is during this time that the future starting point and competitive position of the new entity can be substantially improved, or the opportunity irretrievably wasted.

To count themselves as winners once the transaction closes, companies need to recognize that merger integration is neither straightforward nor easy. Paying careful attention to the signposts that affect future value capture is a prerequisite for integration success. Based on our experience in helping management teams plan and execute dozens of utility integrations over the last 25 years, we have observed successes and failures and developed 10 best practices that enhance the likelihood of a successful merger outcome. Together, these best practices form an integration playbook for companies looking to capitalize on the yearlong process for regulatory approvals, and give the new organization a competitive head start.

## ***The merger announcement is only the beginning***

Structuring a winning utility merger or acquisition transaction is not easy. Management teams and boards of directors must negotiate valuation, social considerations, and regulatory positioning, among other issues, while maximizing value for their own shareholders. After all the hard work by the deal teams has resulted in a signed merger agreement and public announcement, it is time to celebrate, but only for a moment. The real challenge lies ahead, in effectively planning and integrating the two entities to realize the strategic, operational, and financial gains that originally prompted the deal.

Unlike with other industrial sector combinations — where, in some cases, the two businesses simply don't fit together as well as initially expected — the risk in utility mergers lies less in strategic fit and more directly in integration and execution. Though not an overly complex and challenging concept, a merger integration is fraught with hidden complexities. The cost of failure is high both for individuals accountable for executing the transaction and for stakeholders invested in achieving a successful outcome. Poorly executed integrations can erode shareholder value, disrupt existing operations, delay the realization of end-state benefits, confuse the employee base, and fail to address cultural differences that linger long after the close. No one expects these results, but they are real possibilities unless proper attention is paid during the planning process.

Our experience suggests that merger integration challenges stem from fundamental elements in planning, process, and people (*see Exhibit 1*). Though these missteps may seem intuitive to those who have not planned and executed a merger, they are difficult to avoid if not thought through in advance of the integration itself.

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### *Exhibit 1*

## **Common planning, process, and people integration errors and gaps**

### **Planning**

- Inadequate vision
- Underestimation of complexity
- No common framework/language for managing the merger process
- Inability to maintain integration momentum
- Lack of (or late) planning
- Lack of explicit value tracking

### **Process**

- Overemphasis on Day One close versus post-close optimization
- Poor transition from transaction to integration to execution phases
- Prematurely devolving from integration management to the business
- Excessive focus on operational rather than strategic integration
- Failure to capture value elements immediately and sustain the momentum
- Inconsistent performance measurement metrics between integration and operations

### **People**

- Lack of senior management alignment and engagement
- Unclear decision rights
- Inadequate accountability measures
- Organizational confusion/miscommunication
- Insufficient resources to support the integration
- Limited knowledge capture and transfer

Source: Strategy& analysis

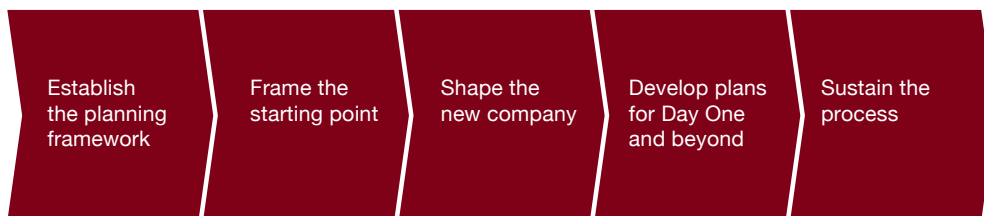
## ***Integration planning and execution***

Two different schools of thought are common once a utility merger is announced: Either management surmises that the risks to the close are sufficient to delay launching a full and formal integration process until they are diminished, or management concludes that transaction approval risks are manageable and the functional leaders from each company need to immediately organize and address how they will operate once merged. Because utility mergers do have lengthy approval processes relative to those in other industries, management can and should use the time between announcement and close to effectively plan for the post-merger reality. However, this planning should be measured and thoughtful, rather than haphazard and ad hoc.

The framework in *Exhibit 2* has been developed to methodically prepare the two organizations for a successful close and seamless integration of operations. These steps are largely sequential, although the amount of work, level of organizational involvement, and time spent in each phase vary by the nature of the integration scope and the complexity and type of transaction. A brief description of each phase follows.

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### *Exhibit 2* **Integration planning framework**



Source: Strategy& analysis

*Establish the planning framework:* All mergers are not equal, nor are the desired outcomes and objectives the same. The strategic context for each transaction needs to guide the process from the outset, to align management on the priorities for integration and how success will be defined and measured.

*Frame the starting point:* Integration teams need a common understanding of each other's operations. The urge to start developing the new organization model should be resisted until the teams have established a baseline of current operations within both merger partners.

*Shape the new company:* Once the fact base is developed, the integration management office develops a preliminary operating model of the combined companies for executive leadership review, defining how business and functional areas will be aligned to create the end-state merged organization.

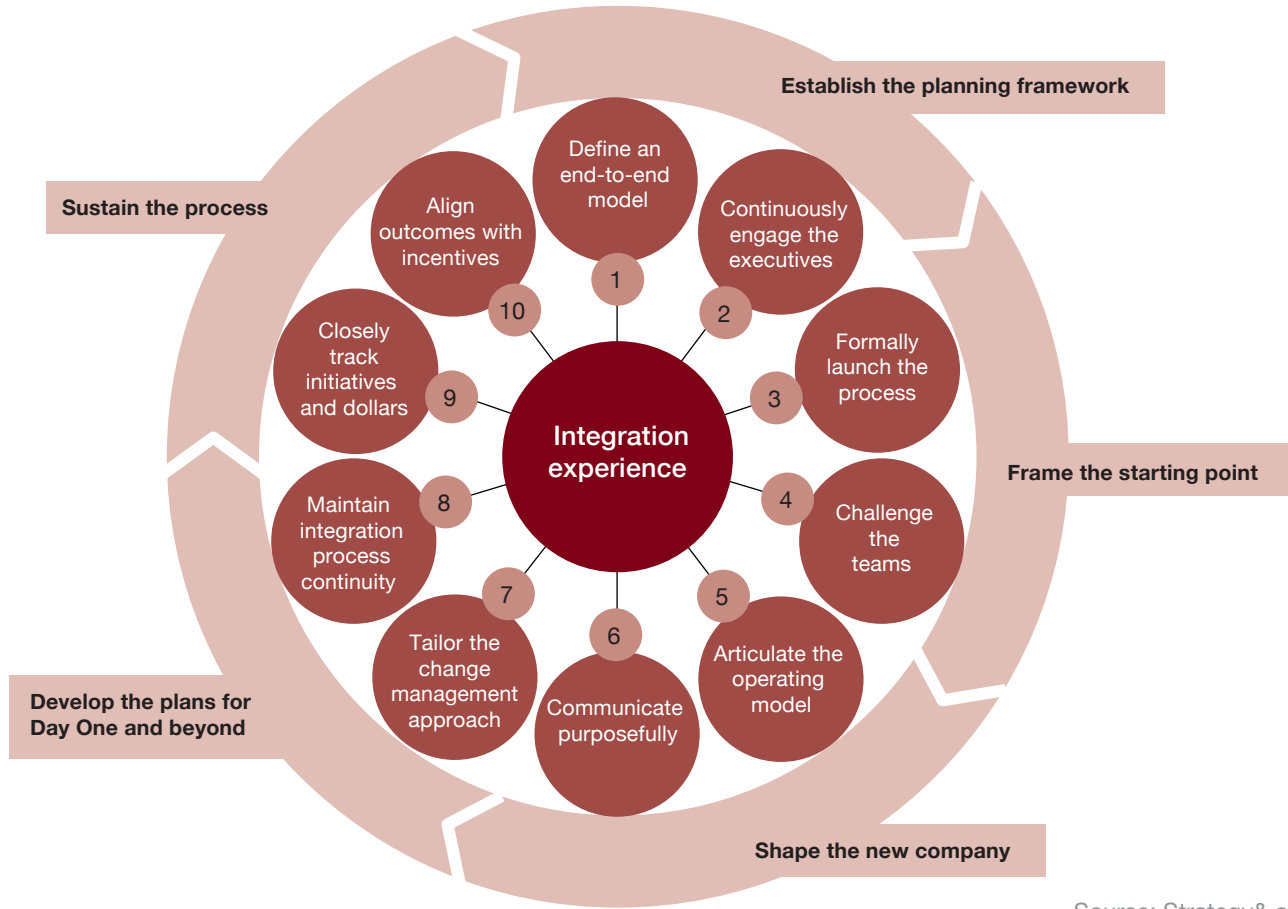
*Develop plans for Day One and beyond:* As the closing date approaches, the integration team needs to provide a road map and detailed task lists of all activities required by Day One, as well as the activity plans required to execute long-lead initiatives that will continue after Day One.

*Sustain the process:* Integration planning is not complete once the merger is consummated. Companies need to maintain a formal governance structure to manage ongoing progress against integration plans, identify and mitigate execution risks, and report merger outcomes to relevant stakeholders.

Based on our experience helping management teams through dozens of utility merger integration projects, 10 best practices emerge that can guide both experienced and inexperienced companies (*see Exhibit 3, next page*). These best practices are discussed throughout the life cycle of the integration planning framework and provide practical guidance to both enhance integration efforts and avoid pitfalls that others have experienced.

*Based on our experience, we have developed 10 best practices.*

*Exhibit 3*  
**The 10 integration best practices**



Source: Strategy& analysis

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# *Establish the planning framework*

The adage that it is better to “measure twice and cut once” certainly applies to integration planning. The formative decisions made in the first 30 to 60 days following the announcement of the merger will establish the direction and priorities of the combined company, and they are major determinants of success. At this point, management needs to define the expected outcomes of the integration planning process and what it will do to achieve those outcomes. This seemingly simple challenge leads to a series of trade-offs that must be considered when determining the integration philosophy (*see Exhibit 4, next page*). These decisions provide guideposts for the planning, design, and execution of the integration process.

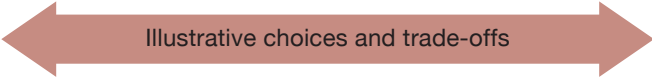
## *Integration best practice 1: Define an end-to-end model*

A fundamental question arises early in the strategic framework phase: Who is ultimately accountable for the overall integration? A leading practice is to name a chief integration officer (or officers, if management wants to signal that representatives from both companies will be equally engaged and responsible). The person(s) in this role oversees the integration management office (IMO), which defines, manages, and administers all of the complex moving parts involved in the planning process. The chief integration officer also leads a steering committee of senior executives who provide oversight throughout the process, including approving the integration approach, ensuring that the process proceeds on track, and making selected decisions affecting the new company. Defining the roles and responsibilities of these differing governing bodies — before any integration teams are launched — establishes clear and visible leadership and accountability from the outset.

*Management needs to define the expected outcomes.*



*Exhibit 4*  
**Key considerations for merger integration framing**



<b>What is the vision for the future business?</b>	Businesses, basis for competition	Business portfolio	Competencies	Acquirer vs. builder
	Markets, assets, products, services	Jurisdictions	Asset portfolio	Asset mix
<b>How will we approach this merger?</b>	Integration approach	Absorption	Best of both	Transformation
	New organization	Choice of one	Harmonization	Clean slate
<b>How will this merger be led?</b>	Synergy capture	Conservative		Stretch, fast-paced
	Pre-close planning	Conservative, limited		Aggressive, maximum planning
	Decision making	Broad involvement, decentralized		Programmatic, centralized
	Leadership role	Selected delegation		Integration champion
<b>What people strategy is required?</b>	Leadership, employee selection	Dominated by acquiring team		Best team
	Desired culture	Emergent	Dominated by one	New culture
	Retention	Passive, selective		Active, targeted

Source: Strategy& analysis

From this foundation, management can begin more detailed integration planning, including the overall integration philosophy for the business and functional areas. For example, in some deals, the size disparity between two merging utilities can be so great that the larger organization will, in many functions, effectively absorb the smaller entity into its existing structure. This implies that few, if any, incremental resources or costs will be required to operate on a combined basis, and that the larger company's processes will be adopted. In other cases, the two organizations might be of similar size, suggesting that they fully integrate the relevant functions and capture the best practices between them. Finally, management might determine that a particular operating business area is so critical for success that the merger should be used to transform how that business area operates in the market. These decisions cannot be made unilaterally across the entire business portfolio; instead, they need to be considered for each operating unit at the outset.

More tactical deliverables include a master integration game plan to guide the governance structure throughout the planning process, a master calendar with all relevant milestones, contemplated integration deliverables, a breakdown of team composition, and frameworks for making subsequent decisions and resolving issues. At this point, the broader organization can be tapped to fill targeted integration teams and engage with more formal integration planning activities.

### ***Integration best practice 2: Continuously engage the executives***

Once the end-to-end model has been defined, the principal deliverables are a clear set of integration guiding principles; instructions for the analysis, design, and implementation phases; and desired outcomes for the integration. This up-front planning work will also define exactly how the integration process will be sequenced and which deliverables will be needed from the various teams.

Although some executives are directly involved in the integration planning process, many are largely disconnected, even though the outcome could change their scope of control, alter the way their organizations operate, and potentially leave them without a role in the

*Integration planning decisions need to be considered for each operating unit at the outset.*

new company. Without the proper level of engagement, these uninvolved executives could unknowingly make decisions that run counter to the plans of the merging organizations.

Moreover, the potential exists to directly undermine integration decisions through “back channel” renegotiations. As leaders of the individual companies, all executives need to be fully informed on integration progress in a timely manner through formal channels — e.g., periodic, focused updates by the chief integration officer(s); standard meetings among the executive team; or one-on-one discussions. The intent is to adequately inform the management team of direction and progress, but allow integration leadership to focus on day-to-day execution without continuous involvement by those executives not closely involved with the overall process.

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# *Frame the starting point*

Once the integration planning foundation has been laid, it is time to build a comprehensive snapshot of each company at the business unit, function, and department levels. Before the merged organization can be designed, there needs to be a full understanding of how each side prioritizes work planning, executes similar work, and manages its operations. The perspective developed during this phase provides the basis for designing the new organization.

This analysis requires alignment of all resources and costs for each business, function, and department, as well as documentation of the similarities and differences in philosophies, priorities, processes, performance, and technologies. It also requires integration teams composed of individuals from both companies with direct experience in the relevant business, function, or department. Our experience suggests that optimum outcomes are realized when core team members are dedicated throughout the integration process.

### ***Integration best practice 3: Formally launch the process***

A formal launch of the integration planning process at the beginning of the analysis phase provides an appropriate forum to communicate a common set of messages. The number of people involved in an integration process — including all direct and indirect team members — often exceeds several hundred. Organizing kickoff activities across several business and functional areas requires that integration leaders effectively communicate objectives and priorities to the entire integration organization at appropriate milestones.

This formal launch also allows senior leadership, including the CEOs, to communicate the rationale and importance of the merger, as well as to reinforce executive leadership expectations for integration outcomes. At other milestones — e.g., phase reports, launch of the design phase — it is also appropriate to bring the entire integration organization back together to demonstrate management's commitment and reinforce objectives and priorities.

*There needs to be a full understanding of how each side manages its operations.*

Ultimately the integration teams will document their initial findings across several key dimensions and report to the entire integration leadership structure and other integration teams as depicted in *Exhibit 5, next page*.

It is important for integration leaders to challenge the integration teams thoroughly as to the quality of baseline assessments and the identification of potential synergy opportunities. At this phase, integration teams are typically hesitant to expand their thinking as to how the new organization might operate, often focusing more on what can't be done than seeking ways to break through barriers. Setting an aggressive tone from the top regarding expectations will pay dividends as integration planning proceeds and difficult decisions must be made.

Some companies underestimate the value of sufficient analysis regarding existing operations and are tempted to quickly jump into designing the new company without first understanding the “where” and “why” of operational differences. A well-documented analysis of each company will serve the teams well in the future by providing a fact base of best practices and an agreed-upon baseline that will be used to measure merger outcomes.

#### ***Integration best practice 4: Challenge the teams***

During this phase, the synergy targets for each business and functional area are shared with the teams, allowing them to validate the underlying assumptions and to identify where additional savings opportunities are likely to arise. These targets should be identified by both head count and costs to ensure that each dimension is captured. The IMO is best positioned to maintain overall control of the integration baselines and associated synergy target levels. As teams adjust the baselines through their validation work, the IMO determines whether those updates warrant any changes to the business and functional area synergy targets.

Our experience suggests that integration teams perform better when they are tasked with pursuing goals beyond the initial deal rationale — i.e., “stretch targets.” Teams are often able to leverage deep functional insights in developing creative plans to achieve these extended targets. Giving teams a directive to challenge the status quo and explore the boundaries of what is possible can lead to new ways of conducting business that create unanticipated value. For example, added scale may create the capacity to establish a captive insurance entity and reduce insurance costs. Or teams may conclude that neither company is an effective benefits administrator and explore outsourcing the function to a lower-cost, more capable provider. At a minimum, stretching teams forces them to defend their design decisions and explain the trade-offs that would be required to attain additional value.

*Integration teams perform better when they are given “stretch targets.”*

Exhibit 5

Building the initial perspective for consolidating the legal function (illustrative)

Baseline synergy summary

Baseline category	AAA	BBB	Total	Synergy target	Progress to Synergy
FTEs	xx	xx	xxx	xx	<span style="background-color: #92d050;"> </span>
Labor (\$M)	\$xx	\$xx	\$xx	\$xx	<span style="background-color: #ffc107;"> </span>
Non-labor (\$M)	\$xx	\$xx	\$xx	\$xx	<span style="background-color: #dc3545;"> </span>
Total	\$xx	\$xx	\$xxx	\$xxx	<span style="background-color: #d9d9d9;"> </span>

  Confident      Moderate risk      High risk

Key decisions and recommendations

- Develop sustainable corporate compliance function with AAA
- Use AAA's help-desk practices and matter/document management systems
- Develop plans to consolidate and/or expand vendor activities
- Work with IT to develop common e-discovery system
- Consolidate corporate secretary and office of the general counsel with legal department

Savings opportunities

Labor:

- Achieving synergy targets would require a significant restructuring of the legal function

Non-labor:

- Opportunity exists to consolidate outside legal services under common vendors
- Potential for the function to rationalize the use of third-party counsel and build internal resources
- Instituting more rigorous management may provide the ability to create revenues

Key similarities/differences

The two organizations are similar with regard to:

- Departments generally organized into practice groups, with personnel reporting to general counsel
- General roles and responsibilities across the function
- Formalized process for managing internal and outside spend

The two organizations are different with regard to:

- AAA's compliance office embedded in the wholesale/retail organization
- Outsourced functions and vendors used
- Technology/systems used (ethics program and investigations, e-discovery)
- Matter and document management process
- Standardization among job titles

Key design phase issues/constraints

- Difficulty in achieving synergy targets without significant restructuring of legal support services
- Ability to reduce outside legal support dependent on control over legal hiring process
- Document management and other IT platforms require IT resources to implement and support

Key Day One requirements and interdependencies

- Develop legal structure of board of directors and committees
- Develop corporate governance/organization structure
- Develop company code of conduct
- Review existing vendor contracts to modify/terminate mid-term
- Issue legal filings/reports
- Negotiate service-level agreements
- Develop consolidated outside counsel guidelines
- Issue request for proposal to consolidate outside counsel firms/vendors and negotiate preferred rates/fees

Source: Strategy& analysis

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# *Shape the new company*

Whereas the previous integration phases support getting the right start and learning about the two companies, the next phase leverages the insight gained to build the new organization. The integration teams need to incorporate their baseline analysis when determining how their business and functional areas will operate once merged. The intensity of the process increases now as choices are made regarding structures, resource levels, location, systems, and practices adoption. A critical activity that drives a range of near-term decisions and future actions is the definition of the operating model to be employed across the merging business areas and functions.

## *Integration best practice 5: Articulate the operating model*

Defining the enterprise operating model is a fundamental decision that provides clarity to integration teams as to how the new company will operate. Different from organizational structure, the operating model defines the interrelationships between the business areas and the functions. For example, an operating model containing a corporate shared-services entity establishes a customer–provider relationship between the functions and the business areas and lays the foundation for standardization and centralization, where appropriate. The operating model can also align business areas along functional lines (e.g., one construction and maintenance organization for the entire service territory) or geographic lines (e.g., a construction and maintenance organization in each operating region).

The enterprise operating model also provides the foundation for integration teams to build their organizations to support the enterprise alignment and the interactions between the business areas and functions. Accordingly, the operating model should be defined as early as practical for the integration teams, in order to avoid unnecessary ambiguity and rework during the planning process.

Once the operating model has been developed and communicated, the integration teams will evaluate the options available to structurally and operationally combine the two companies. At this stage, the work of

*The operating model defines the interrelationships between the business areas and the functions.*

designing the new company becomes significantly more complex. Choices always exist when combining two companies — e.g., select one platform, integrate the best of both, or define a new model — and now the integration teams need to define and adopt a single, common way of business execution. This entails weighing the trade-offs for each option, such as benefits, costs, complexity, and timing, among others.

### ***Integration best practice 6: Communicate purposefully***

A key outcome at this point in the integration process is establishing the right tone for communicating with the employee base and continuously reinforcing the expectations of the executive leadership team regarding the combined company after the close. Leading companies create transparency throughout the planning process by developing a communications plan that adheres to three basic principles:

- *Establish a single integration voice:* It's important to establish a unique format or platform that serves as the official voice of the merger, such as an integration newsletter or Web portal. This establishes a “single version of the truth” and helps to minimize rumors and speculation around the watercooler.
- *Communicate what you know when you know it:* Many elements of integration planning are sensitive, as the teams make tough decisions that impact employees and the way they work. Though all details cannot be communicated immediately, integration leaders need to be as transparent as possible, providing updates and disseminating decisions as soon as they are made and ready for release. More sensitive communications should be provided when practical to limit anxiety among the employee base.
- *Communicate themes, not just events:* Providing clear facts about the integration planning process — such as key dates and the structure of the integration teams — is the bare minimum and ultimately insufficient. An effective communications plan continually reinforces the strategic benefits of the merger relevant to both legacy companies.

After this stage of the integration process, typical outcomes include functional organizational and process designs, full staffing requirements, specific initiatives to capture savings (including the associated costs to achieve those savings), a description of the major processes and platforms to be utilized in the merged company, and a discussion of the significant risks to implementation and synergy capture. The conclusion of the design phase gives senior leadership a clear picture of how the proposed operating model will be translated to the new organization and an implementation road map that will be used to track future progress.

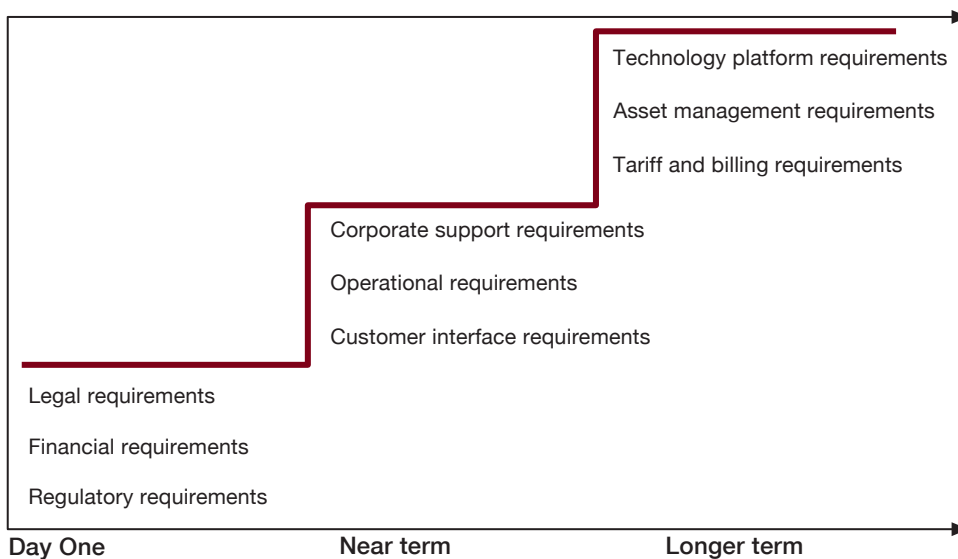


# Develop the plans for Day One and beyond

Once the design work is complete, each business area and functional team develops tactical implementation plans to execute against the new company design requirements. These plans typically take on two primary dimensions: (1) executing the Day One readiness requirements, and (2) standing up the new end-state organization, including achieving all targeted benefits and synergies. Both objectives require identifying clear action owners, milestones, and risks to attainment (including mitigation methods).

The distinction between legal Day One and post-close operations is important and often a complicating factor during integration planning efforts (see Exhibit 6). Fundamentally, the integration teams identify those few legal activities needed to formally close the transaction — including regulatory and financial requirements — while developing more

*Exhibit 6*  
**Operational requirements: Day One and post-close**



Source: Strategy& analysis

comprehensive implementation plans to combine the two companies into a single, fully integrated entity.

A complicating factor is consolidation of the Day One plans and requirements into a combined view that maps the dependencies and interdependencies across all work streams. Many utilities designate a “Day One czar” responsible for the overall coordination of legal requirements to ensure a smooth, problem-free close.

Beyond Day One, the IMO needs to integrate the design plans from each integration team to identify dependencies and constraints among the teams. For example, consolidating the IT platform needs to happen before activities like consolidated financial reporting, capturing savings from integrated materials and services procurement, or realizing benefits from combining employee benefits plan providers can occur.

More broadly, migrating management models and operating practices from the legacy companies to the merged organization requires that employees change the way they work, potentially placing current operational performance at risk. An effective integration planning process lays the groundwork for these changes; however, they won’t happen without deliberate focus and attention from integration and functional leadership to ensure that necessary changes take hold. Change management mechanisms are often required, such as training for impacted employees, and enhanced job performance tools for employees responsible for executing the new processes and procedures.

### ***Integration best practice 7: Tailor the change management approach***

When the merger close date approaches and the end is in sight, it is important not to lose momentum and focus. Though the intensity of the integration teams’ work will diminish once implementation plans are developed and approved, integration leadership needs to turn its focus from the integration of two companies to the operation of the combined entity. Importantly, the integration process now takes on the challenge of readying the organization for Day One: solidifying employees’ understanding of the changes to come and how they will be affected. This focus places a premium on laying out the plan for change and rallying the organization around its new future.

The change management plan will incorporate the key elements necessary to position the combined organization for seamless execution on Day One and beyond. It will redefine the vision for the new company and its place in the future market environment. The plan will also leverage clear, continuous, and consistent communication throughout the enterprise to inform and educate employees about their future and the expectations for their contribution to success. Training on the new or redesigned processes

*Many utilities designate a “Day One czar.”*

in the business will be a critical element of this plan, so that employees understand what will change and how they will now perform their new roles. The success of this plan depends on fostering a common message about the future, one that the senior leadership of the combined companies will be at the forefront of delivering.

The integration change management plan should align with the capabilities and needs of the legacy organizations. For example, a merging partner with proven change management practices can leverage those capabilities to articulate new business priorities and prepare the combined organization for its new future. Conversely, an organization with limited experience in implementing large-scale change may require a more formalized approach, with guidelines and practices disseminated by a centralized change management team working closely with the IMO. Regardless of the solution, a structured process is critical to achieving end-state designs while minimizing risk during the transition period.

### ***Integration best practice 8: Maintain integration process continuity***

Integration leaders often look to quickly dissolve the teams and return members to permanent roles in the new company. This temptation should be resisted as dispersing the knowledgeable resources who executed the integration planning process and developed the implementation plans for organization adoption creates a risk that the plans will not be implemented as intended. Further, prematurely devolving the integration process into the day-to-day business execution model endangers the commitment to long-lead activities as ongoing operating responsibilities can eventually distract management from an implementation focus. Successful merging companies avoid sending conflicting signals that confuse the organization about priorities.

When original integration process teams are maintained, even if reconstituted in some manner, they are able to quickly reorient from their prior planning focus to direct implementation without any loss of momentum. The countless hours spent in baselining, analyzing, and designing the end-state business form the basis for how these teams will undertake the more important task of making the merger work.

Preserving integration responsibilities within the pre-close team structure will ensure continuity in executing the integration plans. These teams understand the differences between the merging companies, appreciate the operating alignment challenges, recognize the purpose in end-state designs, and bring the detailed road map to get there. Maintaining these teams after the close minimizes integration execution risk and enhances the likelihood that merger expectations will be fulfilled.

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# *Sustain the process*

Once the transaction closes, everyone is exhausted, euphoric, and ready to get on with the next challenge. In the past, management was inclined to let line leadership execute against the integration plans and embed the integration results within the normal governance processes of the organization. Leading companies are now recognizing that it's smart to preserve a more structured and sustained integration to focus on post-close implementation activities and results, and that it's even smarter to link merger implementation results with existing performance measurement mechanisms.

This change in perception is driven by four primary factors: (1) Boards of directors are asking management to report on merger outcomes, impediments, and mitigation strategies; (2) shareholders have an increasing appetite to understand where and how utilities are capturing value from the deal; (3) regulators increasingly require the tracking and reporting of realized synergies; and (4) management teams are realizing that it's not realistic to declare integration victory when the actual process has barely begun.

The ultimate success of post-close integration and transition to line operations depends on close collaboration and coordination between integration and operating activities. Maintaining formal integration measurement processes for as long as 24 months after the close helps ensure the organization achieves its planned objectives. And maintaining a rigorous focus on integration accomplishments ensures that management is properly aligned with both integration and post-close business operations.

### ***Integration best practice 9: Closely track initiatives and dollars***

Once implementation plans are in place and executives are accountable for execution, the integration office should identify interdependencies across initiatives and watch for early signs that schedules are slipping or budgets are not coming in as planned. Fundamentally, the focus of post-close integration monitoring should be on identifying risks to planned outcomes and developing mitigation strategies.

While monitoring selected milestones can provide broad insight into integration progress, it is no substitute for measuring discrete activity execution and performance. Integration initiatives should be closely tracked and measured against planned progress so that the integration management office clearly understands what has been undertaken, what is in process, what is complete, and what results have been attained.

Finance and integration leaders often debate whether the new organization is on track to capture expected synergies. Two approaches are common in answering this question: tracking individual synergy initiatives, or analyzing the combined company budget, which incorporates the lower costs from the merger. A best practice is to do both for the first year or two after the merger closes. And this measurement should link initiative targets with quantifiable results in terms of revenue, operations and maintenance, capital expenditure, or savings. In a utility merger, understanding what has been achieved is an important element of demonstrating the combined company's future right to grow.

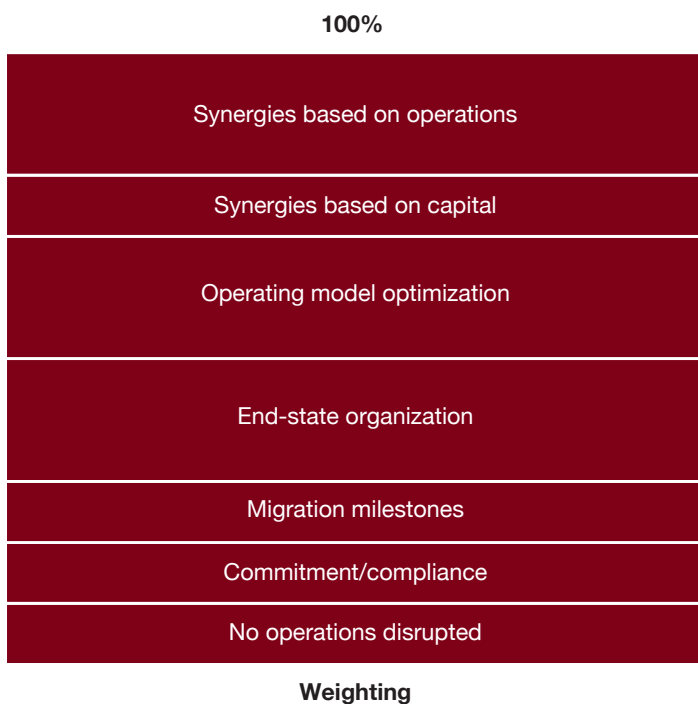
### ***Integration best practice 10: Align outcomes with incentives***

All synergy initiatives should have clear owners, yet astute companies are also realizing that having "skin in the game," or shared incentives, can ensure that the integration process stays on track. Aligning incentives with merger outcomes provides assurance to the board that management will remain focused on execution. Rather than a focus only on individual business areas or functional responsibilities, broader measures that collectively apply to all executives such as enterprise synergy capture, merger compliance, and milestone

commitments should factor into executive incentives to provide a more comprehensive view of integration success (see Exhibit 7).

The most convenient method for linking integration results with management compensation is to align the annual incentive plan and the long-term incentive plan with merger outcomes. The linkage incorporates integration execution performance into the standard performance measurement elements, such as earnings contribution, return on equity, budget performance, and fleet operating levels. Specific alignment of integration metrics with responsibility for other enterprise outcomes ensures that the collective executive team shares the risk of integration performance as a group and that “no one wins unless we all win.”

*Exhibit 7*  
**Merger metrics to align executive incentives**



Source: Strategy& analysis

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# *Conclusion*

As some utility management teams have learned, there are no mulligans in merger integration. It is critically important to get it right the first time, as companies simply do not have the time — and the board and shareholders do not have the patience — to shore up integration missteps in a second-wave effort. By applying best practices and beginning the integration planning process early, merging companies can dramatically increase the likelihood that they will realize the synergies and operational gains that initially led to the merger. More important, companies can position themselves for continuing post-integration success because they focused on integration as a critical building block, not just an obligation.

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