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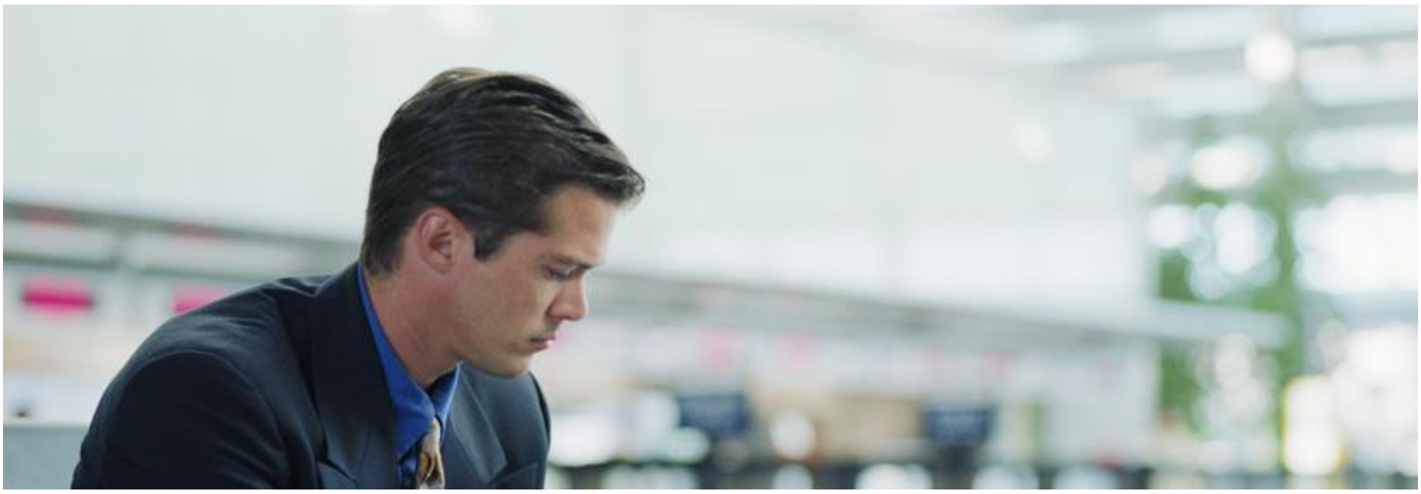
BEYOND THE DEAL



Post-Acquisition Integration

Just another Project?

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Treating integration as 'just another project' is unlikely to be enough to deliver the results you are looking for.

On the other hand, when you dig beneath the factors driving integration success or failure – even those in which the 'softer' issues predominate – you find some core elements that any project manager will recognise.

Why is post-acquisition integration so difficult? Numerous studies over the years[1] have highlighted a range of success factors centred on 'people issues', culture, planning, pace and communications. While these remain as true as ever, few of these consider how project management principles and practices inform or even directly address these issues, and how they can make all the difference in delivering integration success. Some specialist practitioners in the field will tell you that integration is 'special', 'unique', and unsuited to what some see as the strict regimen and structure that best practice project management brings to a business change initiative. To this point, we've seen cases in which the misapplication of project management methods or structures has hindered or even destroyed a business' ability to deliver integration benefits.

Treating integration as 'just another project' is unlikely to be enough to deliver the results you are looking for. On the other hand, when you dig beneath the factors driving integration success or failure – even those in which the 'softer' issues predominate – you find some core elements that any project manager will recognise: The presence of measurable objectives; clarity of roles and responsibilities; executive support; stakeholder engagement; regular monitoring of the right (forward-looking, decision-supporting) metrics and milestones; careful management of risks and interdependencies.

In many cases, treating integration as 'just another project' is likely to deliver far greater results than you would have otherwise achieved.

So of course the right answer lies somewhere between two extremes: An intelligent, experienced, and pragmatic application of project management principles, methods and tools that meet the need, culture and capability of both constituent organisations – a philosophy that in itself reflects any true notion of 'best practice'. As any new parent quickly learns, the right thing to do in any given situation is not defined by what the book says you should do, but by what works.

What does this mean in practice? Below are some common views and questions presented to us by executives and project managers as they consider how to tackle their upcoming integration:

- **Integration is complex, the facts on the ground are poorly-understood, cross-entity teams aren't going to get along, and things are changing on a daily basis. How do we project manage anything so complex in this environment?** Use the same approach you would for any programme of loosely independent projects, which is what integration typically represents. Clearly identify those things that must be done early or on which critical acquisition benefits depend, and use due diligence where possible, or a period of time post-close if necessary, to investigate further to support detailed planning. 'Triage' other streams of integration

[1] eg *M&A Integration - A Mergermarket report on issues surrounding post-deal integration for European companies* ©2007 Mergermarket, Beyond the Deal (available on request from *info@btd.consulting*)

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so that they don't require any immediate attention, and postpone planning for those. Put in place a solid understanding of risks and dependencies so that, when things do change, you can quickly understand if there is a material impact. In integration, pareto rules, so avoid seeking perfection (in planning and execution), and set expectations that 'good enough for now' is all that is necessary, even if that means revisiting some areas for a more complete integration later. (This is often true in areas such as IT systems, supply chain, and order management.)

The difficulty with checklists is that, to be widely adopted, they must cover every requirement and contingency over every conceivable application. We've observed generic integration checklists that list hundreds, sometimes thousands, of actions, with no guidance on priority, timing, or dependency.

Successful integration plans give the business less to do post-close, not more.

- **As the newly-appointed Integration Manager, I don't even know where to start! What are my objectives?** It remains disappointingly true that many integration managers are awarded the responsibility for integration without having been involved in, or even having seen, the acquisition business case. The most successful integrations are those that are tasked with ultimately delivering the acquisition synergies (both on the cost and revenue side); conversely the least successful tend to be those without this strategic direction – in its absence, they will often focus on tactical items: Policies, procedures, organisations, systems. Without any strategic guidance on what's most important, integration managers often find themselves lost in a sea of integration tasks without any sense of priority. If you're asking the question above, then it's probable that your first step should be to get the right people around the table to develop, or review, the link between acquisition objectives and specific integration targets. Step two might then be to design or confirm the post-deal blueprint or operating model that defines how the business should be structured (think roles & responsibilities, lines of reporting, governance, location) and operated (think processes, capabilities, performance measures, culture, brand). An obvious point in hindsight, but make sure that your operating model clearly supports the original acquisition and integration objectives you've defined. With these two pieces in place, an experienced integration manager will find road-mapping and planning for integration relatively straightforward.

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Is integration a single project or many independent projects? Do we need to worry about tying them all together? While it's rare for all the elements of integration to be pulled together into a single project, the answer depends on the level of interdependency and risk inherent in the plan. Some time spent on your integration strategy will help here: To deliver the acquisition goals, will integration be 'light' or 'heavy', and in what areas of the business? Does one organisation make key decisions around new processes and structures ('winner takes all'), or is it necessary to find the best from either, or something new to both? Can integration take place incrementally over time (common in the integration of professional services firms), or does it need to be fully in place on a single day (common in integrations involving banking or financial services firms, where day-to-day business is heavily dependent on IT). Can the detailed 'how' of integration be left to each business area, or should it be centrally-defined? A few simple but experienced judgements around these areas will give you the guidance you need understand how best to structure your programme.

- **We have an integration checklist and plan that we successfully used last time. Can't I just use that?** As a starting point, possibly; as the finished plan, almost certainly not. The difficulty with checklists is that, to be widely adopted, they must cover every requirement and contingency over every conceivable application. We've observed generic integration checklists that list hundreds, sometimes thousands, of actions, with no guidance on priority, timing, or dependency. Indeed, they could never provide an accurate view of these as each deal is different. Early stages of integration do benefits from some checklists where a large number of standard activities exist (e.g., 'preparation for Day 1', 'Day 1'), however anything beyond this is likely to be useful in covering tactical issues only. One of the many benefits of doing the up-front thinking described above is that it helps you decide which few of the thousand items on the checklist are genuinely important, and which can be left for later, or delegated to others to take care of in their own way. Successful integration plans give the business less to do post-close, not more.

- **Who should be managing our integration programme: The MD, line management, or the Integration Manager?** A common confusion: In cases where integration touches every part of the business, the MD does naturally emerge at the top of the project tree. Does this mean he or she should manage the project? If you appoint an Integration Manager to provide day-to-day project co-ordination, does that individual truly have responsibility for shaping the combined business going forward, deciding on IT systems, designing HR policies & procedures? Who's in charge here? The best practice we've observed is to leave line

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management clearly and directly responsible for designing and delivering the *content* of integration in their areas (and achievement of related objectives); while the integration manager retains responsibility for the *process* of integration. (This is a facilitative role that shares many features with that of a senior Programme Manager or Programme Office Manager.) While the Integration Manager will not be responsible for making decisions on, e.g., the shape of the sales organisation, he or she will be responsible for ensuring that the decision is made at the right time, with the right information, and with all risks and impacts on other areas clearly understood by all. This approach aligns responsibility, authority and skills across the line and the project, and creates a workable relationship between integration and the business that serves to balance the needs of both.

2009 is likely to be a difficult year for many businesses, and the challenge of doing the right deal, and doing it well, has never been higher.

Conduct integration strategy and planning early to help ensure the deal you're contemplating is going to work in the long run.

- **My HR Director will look after all the 'people' issues, including cultural integration and communications.** While I recognise and understand the intent, this approach, if misapplied, can lead to integration disaster. If for example cultural integration or communication becomes, or is perceived to be, an 'HR project', some business leaders may be tempted to accept these activities as someone else's responsibility, not theirs. As with integration itself, these aspects must be clearly owned and delivered by the business, not a corporate support group. The HR team may have specialist expertise and experience in these areas, and if so, they should be pushing hard for a structure in which they facilitate the process, provide tools and advice; while responsibility for delivery of such initiatives remains firmly shared across line management. HR doesn't change the culture across a business, managers do.

- **The acquisition isn't confirmed yet, and I don't want to waste money on something that may not happen. We'll start thinking about integration once we're certain the deal is going ahead, and assign an integration manager once we announce the acquisition to everyone.** 2009 is likely to be a difficult year for many businesses, so this concern is increasingly valid. It also unfortunately reflects a fundamental lack of understanding of the role of integration: It is no more or less than the initiative that ultimately delivers your acquisition benefits. This view also suggests a lost opportunity to use integration strategy and planning to help ensure the deal you're contemplating is going to work in the long run, something that is increasingly important in these difficult conditions. An acquisition opportunity is only good if you are certain that it will deliver your goals, and few acquisition goals are achieved simply by signing the Share or Asset Purchase Agreement (if only things were that easy!). A few days of up-front thinking around *how* integration will deliver the acquisition goals, *what* the combined business will need to look like, and *where* the risks to integration reside usually helps firms negotiate the deal,

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confirm their target valuation, announce the deal with credibility and confidence, and hit the ground running on Day 1. It also allows you to use the due diligence process more intelligently, feeding your planning risks and assumptions into the due diligence process, and using the results to confirm or alter your high-level integration plans. I've even worked with businesses who conduct this planning and operating model design as a part of their acquisition strategy development, well before a target has even been identified: "If these are our acquisition goals, what kind of combined business will we need? What are the integration risks and priorities likely to be? What should we therefore look for (good or bad) in an ideal target?" They then use the high-level results of this exercise (covering anything from core capabilities to culture to IT systems) as the basis for their target search and assessment process, while preparing the business in advance for the next addition. This is a great example of Stephen Covey's principle of '*Beginning with the End in Mind*'.

- **I have good project managers who consistently deliver results on time and within budget, but they're not the best with people. I know I need to keep the goodwill of the new team coming on board...what should I do?** Use them somewhere else! If your Integration Manager's role is to facilitate line management's delivery of integration, that Integration Manager needs a high degree emotional intelligence, strong relationship and influencing skills, a high level of comfort with ambiguity, a reputation for trust, credibility and objectivity, and the ability to make friends in all the right places – he or she will need to draw upon every bit of political goodwill they have! I sometimes find this simple litmus test helps: Consider the situation in which, part-way through integration, a system or process decision between two options needs to be taken. One choice will greatly benefit your Sales & Marketing Director while hurting your Supply Chain Director, the other will do the opposite. Your Integration Manager needs to be able to help them both reach the right decision together *and leave the room prepared to support the outcome*, perhaps with the help of the MD, perhaps not. Are they up to the task?

- **On paper, the integration is going well – the milestones are being met and organisations, processes and systems are all coming together nicely. Nevertheless, the business doesn't 'feel' integrated: People aren't working well together, there's no energy around the place, and those synergies seem as far away as ever...** This common issue may go right back to the first question regarding objectives – is your integration focused on the right priorities? It also suggests a lack of attention to stakeholder change/journey management, something that is more critical in integration than almost any other kind of initiative. These two

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issues are strongly related: If your integration programme is only delivering ‘tactically’ (focusing on, e.g., letterhead rebranding, terms and conditions of trade, employee remuneration, internally-focused IT systems), then it’s likely that the key elements required for any change management exercise are missing: A compelling need for the individual to accept and support change (*What were those acquisition goals again?*), an understanding of what the future will look like (*Where did I put that Operating Model?*), and a clear plan on how we will all get there (*Does my Integration Plan deliver them both?*)

Every acquisition integration programme is different – different objectives, different organisations (yours and theirs), different skills and experience on which to draw. Nevertheless, while adopting a ‘one size fits all’ approach to managing an integration programme is not recommended, going back and applying those first principles of projects and programme management typically puts you on a firm footing for a successful initiative. In many cases, reviewing these same principles also often flushes out one or more root causes of an integration that has stalled or lost its way.

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ABOUT THE AUTHOR

Carlos Keener is a specialist in M&A Integration, and the founder of Beyond the Deal, a business that provides acquisition and integration strategy, planning and execution support to clients worldwide. In addition to leading M&A and integration programmes, Carlos advises businesses on corporate and acquisition strategy; enterprise operating model design; integration strategy, planning and execution; and turnaround of poorly performing acquisitions.

Before establishing Beyond the Deal in 2001, Carlos was a senior consultant at PricewaterhouseCoopers, and a senior manager within Accenture's Corporate Strategy and M&A practice. Based in the UK, Carlos' work has taken him across Europe, the US, Africa, Latin America, the Middle-East, and the Far-East.

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