Missing Link in M&A Integration: *Cross-functional Integration*

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If you accept the premise that getting the greatest business value from a merger or acquisition is the optimum result, then clearly, the view of merger and acquisition (M&A) integration held by many top executives needs to undergo a significant change.

These executives view M&A integration primarily as completing the activities outlined in a 30-60-90 day plan to formally close a deal. As a result, management dedicates resources to execute the plan and ensure the close date is met satisfactorily. Although press releases often claim that acquisitions are integrated at the time the transaction closes, this is seldom the case.

In fact, it's usually at the point a transaction formally closes that value-based integration begins. This is counterintuitive to executives who begin to pull resources from the integration effort soon after the deal closes.

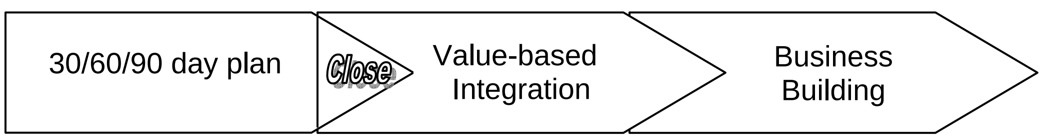

Figure 1. M&A Integration Timeline

To attain the greatest value from an acquisition, executives shift their focus from closing the deal to maximizing its value over an extended period. Simultaneously, they place greater emphasis on addressing cross-functional integration which is required to achieve value and build the business.

Building the Foundation for M&A Integration

Let's put the M&A integration process in perspective. After a company establishes M&A as a corporate strategy, integration typically evolves through the four stages shown in Figure 2. How quickly a company moves through them depends on the frequency and size of acquisitions and the expertise of its integration team.

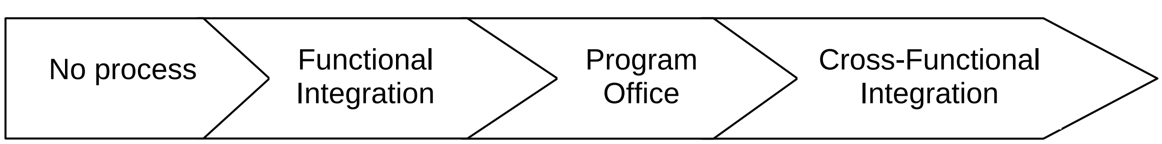

Figure 2. Evolution of the M&A Integration Process

Stage I – Limited to No Process

When a company embarks on its first acquisition or attempts one after a long period without a consummated deal, the team's integration expertise and knowledge of the process can be limited or non-existent.

The "limited to no process" stage is best described as attempting to tame the chaos created by an acquisition while continuing to move the business forward at 150 miles an hour. As a company undertakes additional acquisitions, the team's knowledge and its ability to create process improves.

Stage II – Functional Silos

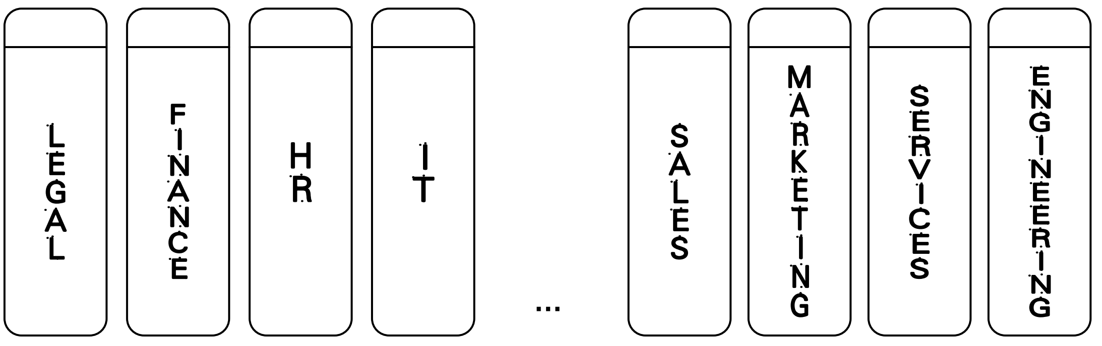

Figure 3. Working within Functional Silos

This stage focuses on bringing order to chaos by zeroing in on what needs to be done within each functional area. Leadership is provided from within individual functional silos.

According to many schools of thought, checklists are the foundation of M&A integration. They help create a repeatable plan for reaching specific milestones quickly. Initially, checklists focus on activities involved in the general and administrative functions—legal, finance, HR and IT—which are required to close the deal. Later, they expand to encompass core business functions—sales, marketing, services and engineering.

Functionally-oriented checklists are important, but they stop short of addressing activities that cross functional boundaries.

Stage III – Program Office

As companies come to understand the limitations of functional integration, they move to the next stage, creating a program office responsible for overarching management of the acquisition or merger.

The program office brings together representatives of various functional areas, defines the integration process, keeps the integration team on schedule, and tracks results.

Program office team members typically serve as coordinators, facilitators, and change agents. It's important to understand that they are rarely decision makers. Nor are they directly responsible for specific functional or cross-functional activities. They manage through influence, and their impact is strengthened by the commitment of key executives, functional managers, and other integration team members.

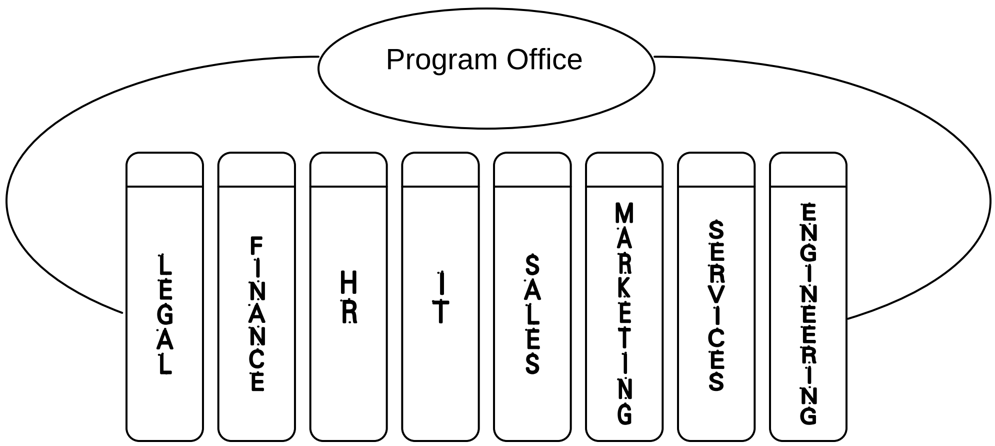

Figure 4. Tying the Silos Together

Establishing a program office often makes the limitations of functional checklists and silo leadership obvious and highlights the importance of cross-functional integration.

Taking on Cross-Functional Integration

Stage IV – Cross-Functional Integration

Achieving the value inherent in an acquisition requires firm, consistent leadership to drive activities across functional areas before and well beyond the deal close date.

Establishing value drivers and a timeline for realizing deal value requires a laser focus on where and when value will be derived. More often than not, these drivers require cross-functional integration.

Following are some of the key areas of cross-functional integration. These must be addressed to gain deal value.

Understanding Cross-Functional Integration

- **Team Transition**

  In industries such as software and online services, the human “brain trust” is the biggest asset of the acquisition.

  Too often, the transition following M&A is viewed as an HR matter. In reality, it’s the responsibility of the executive team and specifically, the acquisition’s executive sponsor—whose team or product line is most affected.

  For example, the executive sponsor of a product line acquisition is often the general manager of the business unit into which the acquisition will be integrated, whereas the sponsor of an international channel acquisition is typically the sales executive of the geography where the new channel is acquired.

  Many supporting organizations—HR, legal, IT, facilities, and the program office—must come together to maximize the value of the acquired groups.

  The executive sponsor must visibly demonstrate leadership, responsibility, and accountability during and after the acquisition. The sponsor drives a common vision across all affected groups and ensures that tough decisions are made and communicated, exceptions are handled, and managers and staff are coached.

  Viewing the sponsor as being responsible for leadership and driving the value of the acquisition frequently doesn’t “compute” for those executives who view corporate development as leading all acquisition integration activities.

  In reality, the executive sponsor must lead value-based integration and business-building activities.

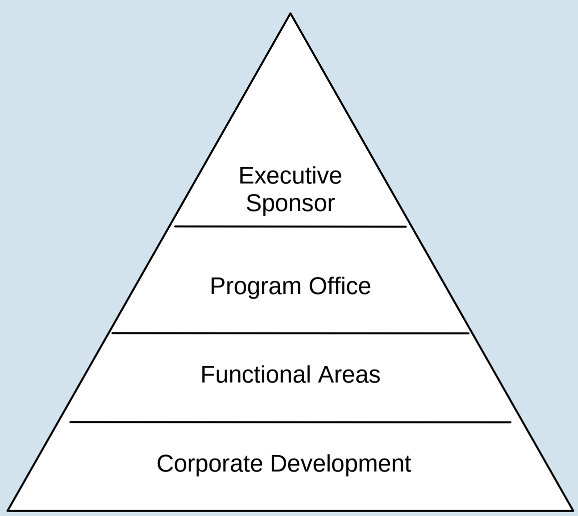

Figure 5. The Integration Leadership Pyramid

- **Customer / Prospect / Partner Transition**

  Without satisfied clients and continued sales, M&A transactions fall flat.

  Addressing the needs of customers and prospects, with the voice of the customer top of mind, is a multi-faceted endeavor. All aspects of the customer experience must be considered to create a cohesive plan for integration and customer transition.

  Participation in customer transition must occur across both the acquiring and acquired companies. It involves sales, business development, finance, legal, customer and technical support, corporate and product marketing, and product management.

  Strong leadership is required to set direction, communicate consistently, and move the business forward.

- **Product Integration**

  Product integration can be a challenge whether it results from a competitive acquisition undertaken to consolidate an industry or a complementary acquisition that extends a product line. The sheer number of people involved in the decision making and buy-in process, as well as their different perspectives, pride of ownership, and the magnitude of change can dramatically slow the progress of integration.

  Participants in the product integration process come from both the acquiring and acquired companies. Integration discussions typically include product management, engineering, customer/technical/sales support, professional services, and marketing.

  Clear vision, firm leadership, and practical guidelines for negotiating product direction are necessary first steps towards integrating product lines.

- **Remote Operations**

  Expanding into new geographic areas, whether domestic or international, is a complex process.

  When a company does its first acquisition that includes remote operations, it's important to take a step back and consider all the groups involved in supporting the new locations.

  In fact, remote operations should be viewed as a micro-company within the larger organization. Success will require the support of all areas of the acquiring company. Visibility and responsiveness of executives, employee and corporate communications, administrative functions (HR, IT, finance, legal), and core business functions (sales, marketing, engineering and services) in the acquiring company enable the acquired groups to more rapidly embrace their role in the new entity.

  Even after a company establishes itself as geographically dispersed, it must continue to consider the implications of remote operations when integrating any acquisition.

- **Long-term Business Building**

  The full impact of a merger or acquisition most often is not realized until months or even years later. As long as a company's focus remains on business value, the full potential of revenue increases and cost savings will be realized.

  What often gets lost in the shuffle is a company's long-term vision of how an acquisition fits into future strategy and how to successfully build on it to gain the greatest future dividends.

  The general manager of a business unit is the key player in creating and integrating this vision into long-term business plans. In smaller organizations, the CEO and product management executives must champion the vision to ensure results.

  A long-term focus makes it possible to exploit the full potential of the initial acquisition. For example, a company can dramatically increase revenues by creating a product suite through multiple synergistic acquisitions and internal development.

The Time for Action is Now

M&A integration is a complex undertaking that requires strong leaders with proven cross-functional leadership experience and the ability to make things happen.

Cross-functional integration is the heartbeat of an acquisition. If it's overlooked, then success will be fleeting. Building a strong, knowledgeable team and an underlying integration process will set the stage for addressing a wide variety of challenges.

It's critical to understand where you are today and to evaluate the time your company spends in value-based integration and business building activities. Contrast this to the time and resources dedicated to merely meeting close date requirements. Shifting your focus to long-term value creation increases the probability of success.

It's never too late to rescue a deal and turn it around. Nor is it too early to get the next acquisition off on the right foot.

Take action today to strengthen the value delivered by your mergers and acquisitions.

Felix Consulting Group provides interim leadership, management consulting, mentoring, and coaching services to increase the success rate of mergers and acquisitions.