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Turning Acquisition Integration into a Core Competency

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Abstract

Acquisitions are legitimate buy versus build options for business growth. Acquisitions are particularly popular options for rapidly defragmenting a market which is missing normative characteristics. Even so, the acquisition integration degree of difficulty is significant. Business press and integration veterans routinely lament the relatively chronic outcome of integrations failing to meet expectations. Moreover, this reality is compounded by a dearth of integration experience in smaller companies. The optimistic news is that acquisition integration may draw upon many substantiated tools and techniques awaiting aggregation and coordination for a practical potential solution. Mastering the toolbox undergirds acquisition integration as a core competency. Such core competencies may be both differentiable and alluring to acquisition targets wishing to counterbalance their comparative neophytic experiences with a seasoned partner.

Introduction

Carl Jung, the founder of analytical psychology, described ignorance as not knowing what one does not know. On the subject of acquisition integration, not knowing is a chronic challenge for small companies. Eschewing the need to learn is risky.

Consider how luminary consulting firms McKinsey & Company, Boston Consulting Group, and Bain and Company frame acquisition integration:

- Most integrations fail to meet expectations; cultural friction is a primary root cause of failure.
- Most companies do not possess integration capacity and capabilities.
- Integration should be treated as an autonomous process, for which extensive preparation is required—beginning in diligence.
- Priorities and non-negotiables must be established.
- Definitively confront organizational and cultural issues.
- Support rapid execution of good governance, tools, project management, and effective communications.

In response to the established integration hazards, five simple acquisition integration principles are recommended which are the outline of this article:

- Timing,
- Governance,
- Non-negotiables,
- Communications, and
- Project Management.

Timing

Prudent acquisition integration begins well before closing the transaction. Indeed, as depicted in Figure 1, integration planning materially overlaps diligence. However, the acquirer might resist planning for something that may not happen. Four reasons prevail.

First, the acquirer will glean insights on acquisition integration priorities by keeping a pulse on diligence. This does not necessarily mean that this objective is conspicuous. Indeed, it may be wise to approach this discretely to avoid awkward questions too soon. Accordingly, it may suffice for a designated professional within the acquirer to monitor the “data room” of diligence information.

Second, by planning in advance of consummation, the acquirer may benefit by Sir Isaac Newton’s First Law of Motion: “. . . an object in motion stays in motion . . . .” Another way of stating this is inertia. Speed and momentum are excellent change management forces—and even more effective if part of a thoughtful plan.

Third, the acquirer MUST prepare for the all-important “Day One” communication. “Day One” communication regards that singular opportunity to make a favorable first impression. Good or bad, it sets the tone for all things that follow.

Finally and even if the transaction does not consummate, a pool of knowledge is created for future benefit. Even a veteran acquirer with an existing library of lessons learned may supplement their trove of wisdom.

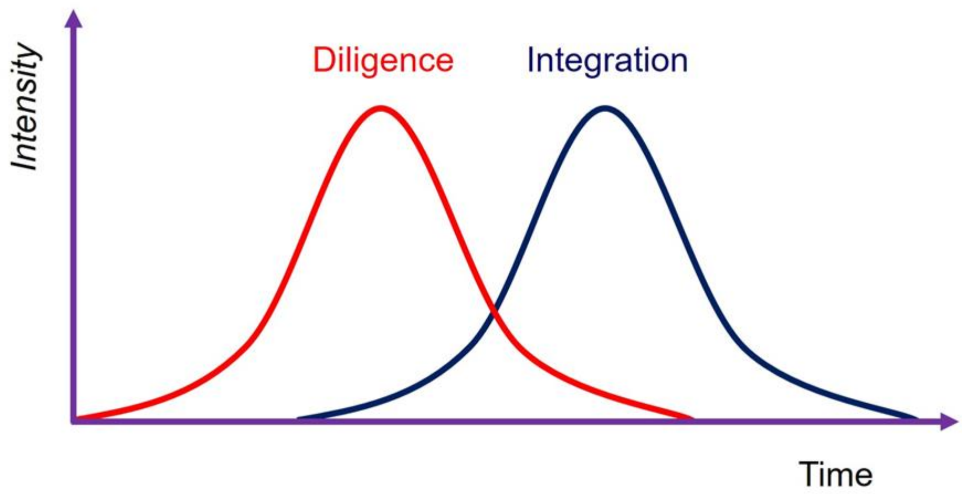

Figure 1: Overlapping diligence and integration

Governance

Acquisition integration is a fulltime job. The components of integration governance below borrow from Boston Consulting Group's guidance. The governance mechanism for the integration is part of the "Day One" communication.

The Steering Committee

A steering committee resembles a board of directors where major issues are discussed and resolved. It is comprised of a few key players—typically C-levels—from both organizations.

A Sponsor

The acquisition integration sponsor is commonly the acquiring company CEO, who answers to the Board of Directors for accomplishing the goals of the integration. The sponsor assures the integration team that obstacles will be removed and resources provided. The CEO accomplishes the integration by proxy through the integration leader.

An Integration Leader

The Project Management Institute defends project management expertise as one of the most unheralded skills in business. Project management is the recommended rigor when there are numerous tasks, a material portion of which have complex dependencies. Integration leadership is a project management role—and fulltime job.

One of the best goodwill gestures the acquiring CEO may utilize is selecting an integration leader from the acquiree. Another option is a short list of nominees and/or volunteers from each company who will be interviewed for the role. In her doctoral dissertation entitled "Post-merger Integration Leader and Acquisition Success: A Theoretical Model of Perceived

Linkages to Success of Mergers and Acquisitions," Asha Prasangi De Alwis conveyed competencies that align with the descriptors below:

- Analytical
- Resolute
- Troubleshooter
- Problem-solver
- Contextual perspective
- Energetic/stamina
- Sense of urgency
- Role model
- Communicator
- Change-agent
- Advocate/protagonist
- Facilitator
- Coordinator
- Process orientation
- Emotional intelligence

The acquisition integration role provides an excellent opportunity for a high-potential aspirant to demonstrate leadership skills necessary for promotion following successful integration. Indeed, this is one of the best practices that evolved while General Electric was integrating scores of companies at a feverish pace during the Jack Welch era. Even now, GE brandishes over 600 integration specialists.

The Coach

The sponsor may provide a coach for the integration leader. The coach is commonly an external subject matter expert ("SME"). SMEs are a good decision for a myriad of practical points. First, the SME has a skillset that may be foreign to both acquirer and acquiree whose utility includes the "What if?" questions of scenario analysis. Second, SME coaches are a more cost-effective option than fulltime SMEs running the integration. Third, the more reputable SMEs emphasize knowledge transfer, imparting wisdom that enables the client to develop integration as a company core competency.

Functional Team Leaders

Acquisition integration scope typically includes all functions within the business model. These are sub-projects within the overall master integration project plan. The generic list of likely functional suspects includes product development, marketing, sales, operations, administration, accounting, human resources, and information technology ("IT"). However, there may be inter-functional dependencies to navigate. Consider what an enterprise resource planning ("ERP") does for a business model. As related by Thomas Wailgum and Bart Perkins in *CIO* magazine, good ERP design facilitates singular capture of a data element for the benefit of approved users across the entire company in the performance of their responsibilities.

Whereas a single functional sub-project leader is efficient, co-leaders—one from acquirer and acquiree—are effective from a change-management perspective. Collaboration fosters inclusion likely to identify best practices irrespective of their source. Moreover, representation in the process that decides outcomes is more likely to enjoy buy-in across the entire organization during implementation.

Team Members and Other Inputs

Cross-functional teams are a hedge to capture pertinent detail. Keep in mind that whereas the acquirer's participants may be clear before diligence, the acquiree's participants are commonly identified as a byproduct of diligence. Moreover, they may not officially be drafted into their roles until the transaction closes.

In their textbook, *Managerial Economics & Organizational Design* (6th Edition), James Brickley, Clifford W. Smith, Jr., and Jerold Zimmerman impart a caveat to keep the number of participants lean to preserve the optimal group dynamic. Exceeding six teammates may become dysfunctional. This should not be confused with supplementing resource requirements for temporary, specific needs.

Non-negotiables

Gregg Nahass, Jim Smith, and Martyn Curragh of PwC posit non-negotiables as the guiding principles for integration. Non-negotiables are necessary to remove ambiguity and accentuate objectives clarity. Common non-negotiable examples include, but are not limited to:

- One culture
- Payroll cycle and benefits
- Operating system
- Headquarters location
- Branding
- Salesforce, incentives, and customer relationship management ("CRM") tool
- Regional offices and scope
- What does and does not get integrated, why, and how

Non-negotiables are part of the "Day One" integration plan.

Communication

Integration is a change-management obstacle course for which effective communication is among the most impactful tools. John Kotter of the Harvard Business School admonishes that over-communication to employees is impossible. Engaging a public relations ("PR") firm should be seriously considered for both internal and external stakeholders—especially in highly competitive markets.

"Day One" communication is the first priority. Employees encounter a more intimate version of "Day One" communication. There are three omnipresent employee concerns: (i) job security, (ii) reporting structurer, and (iii) benefits package.

The logistics of effective "Day One" employee communication may be more challenging than the content. Where the leaders are—and are not—for the "Day One" communication is a strong non-verbal cue. The acquiring CEO advisably emcees the event at the acquirer's headquarters. Simulcasting is a good idea, even if done with practical desktop software (as opposed to expensive production quality software and equipment) such as Microsoft's Skype. CEOs of smaller companies often rationalize this approach with the argument that his/her team is already familiar with him/her and understands that it is more important for him/her to be at the acquired company headquarters. Even so, the boss should not assume that their (the acquiring company) legacy team is immune to anxieties about the integration.

Content for the "Day One" employee communication includes, but is not limited to:

- substantiating the rationale for the transaction,
- defining expectations for the combined entity,
- presenting the high-level organizational design,
- reviewing the non-negotiables,
- introducing the integration leader,
- revealing the functional areas that will be integrated,
- introducing the team leaders for the functional areas to be integrated,
- describing the process by which the integration will occur, and
- establishing the communications process.

A few of these will be expounded upon for clarification, beginning with the high-level organizational chart. Diligence may have identified specific people who will be immediately terminated by a reduction in force ("RIF") action. Moreover, there may be additional near-term RIFs. This is why a detailed organizational chart is not used as a prop.

Describing the integration process includes how personnel decisions will be made. A seasoned CEO tackles this directly by acknowledging that some personnel will be adversely impacted. Notwithstanding the transitional support, experienced CEOs also emphasize that the process will be anchored in the Golden Rule. Therefore, despite the lack of personal experience the leader may have in being adversely affected by an integration, he/she should assert that their deportment will be governed by how it would feel were they on the receiving end of the action. For those so adversely affected, the message includes severance and outplacement consideration. The CEO explains that leaders will immediately meet with their personnel to address employment status.

What about those who will be eventually—but not immediately—adversely impacted? The CEO further explains that these are not actually known, but puts a deadline for completing the process, e.g., 60 days. If people stay through those sixty days, they will receive similar severance and outplacement consideration.

There is a final category of personnel to prioritize: essential people. Despite whatever assurances of retention communicated to key people, the anxiety may not be entirely ameliorated. Therefore, retention bonuses are common for indispensable personnel.

The process by which the integration will occur—notwithstanding the non-negotiables—also needs elaboration. Despite the thoroughness of diligence, the entire picture is rarely completely known. Therefore, a CEO may choose this opportunity to empower the functional integration teams to identify best practices—irrespective or origin—which should survive the integration.

Finally, communication needs more detail. “Day One” is just the start. Questions will arise throughout the integration that no one foresaw. The “Day One” conclave includes the first installment of frequently asked questions (“FAQs”). The inaugural version of FAQs represents what the diligence team discovered that should be proactively addressed. The integration leader may be identified as the person to whom questions should be referred. FAQs should be routinely updated and communicated.

Two external target audiences will be emphasized: customers and vendors. Customers must not be fearful of the integration. Acquirers should expect competitors to exploit opportunities to cast the integrating entities as an unreliable vendor. Preemptively, a good PR firm floods appropriate media channels with good messaging.

Customers and vendors are typically triaged into three categories: *critical*, *important*, and *normal*. Prospective customers and vendors should also be considered, as either/both may be involved in critical negotiations amid the integration. *Critical* ones receive “Day One” phone calls for visit appointments, perhaps from the most senior people in the acquirer or acquiree. Some of the phone conversations to secure the appointment may be appropriate to cover the essentials. The talking points should be prepared in advance and the delivery rehearsed. Sometimes the relationships are so established that the contact will waive off the need for a visit but may express appreciation for the demonstrated respect. At a minimum, the call is memorialized by email with a copy of the press release for the transaction announcement. *Important* contacts receive the same treatment as *critical* contacts, but interaction is initiated by the primary sales or procurement contact as the case may be. Again, email follow-up with the press release is good form.

Normal contacts receive a “Day One” mass communication that includes the press release. The communication includes the invitation to contact their representative for specific questions (and the company information is included). Primary contacts should be periodically updated on matters that impact their relationship with the company. Accordingly, their counterpart contacts within the company should be supplied talking points to reference should questions arise during the regular interaction. The objective of the talking points, of course, is consistent messaging.

Project Management

Acquisition integration is the poster child for project management. As with the integration itself, project management may be a learning opportunity for most participants. Neil Flemming argued a model of four learning styles: visual, auditory, written, and kinesthetic. Jennifer Shepherd’s dissertation, “A Causal-Comparative Study of Generational Differences in Learning Style Preferences Among Adult Learners in the United States,” substantiated practical learning style balance across generations and genders. Accordingly, a mix of integration tools appealing to all learning styles appears advisable.

Project Management should begin with a project charter. Project charters have generic components, some of which may be common to all functions, some are specific to the functional area, segmented below:

- Common to all functions:
    - Integration business case for accomplishing integration.
    - Integration purpose/problem statement for what must be addressed and why.
    - SMART (specific, measurable, attainable, relevant, and timebound) goal(s) for the whole integration.
- Specific to functional areas:
    - Project description for the functional area.
    - SMART goal(s) for the functional area integration.
    - Business requirements for accomplishing successful functional integration.
    - Assumptions for accomplishing successful functional integration.
    - Constraints in pursuing successful functional integration.
    - In scope (that which may be changed) versus out of scope (that which may not be changed) in pursuit of successful functional integration.
    - Risks anticipated in pursuit of successful functional integration.
    - Deliverables expected as a byproduct of successful functional integration.
    - Milestones (usually references the project plan) that define successful functional integration.
    - Roles and responsibilities of standing team members for the functional area.

RACIX

Functional integration is more problematic than may be obvious. For example, no cross-functional team should assume that the term “operations” means the same thing to both acquirer and acquiree. Two tools provide valuable utility for identifying similarities and differences for each company: a RACIX tool and cross-functional map.

Jay R. Galbraith defends the RACIX tool’s (see Figure 2) usefulness for describing stakeholder dynamics for tasks. The RACIX acronym is described as follows:

> “R” stands for responsible. Responsibility is the highest level of ownership.
>
> “A” denotes accountable. Accountability may be received by delegation from a responsible party with position authority.
>
> “C” means consulted. Such persons are solicited for their subject matter expertise. They may indeed influence the decision-making process but have no formal ownership in the decision.
>
> “I” indicates informed. Such persons are told about a decision because it impacts them. However, they otherwise do not participate in the decision-making process.
>
> “X” imparts no formal role.

	R	A	C	I	X
Tasks	Who's Resposible?	Who's Accountable?	Who's Consulted?	Who's Informed	Who stays out of the way? (N/A)

Figure 2: RACIX tool

A RACIX for each entity's function is advisable as a precursor to their combination.

Cross-functional Process Mapping

Fred R. Barnard quipped that "a picture is worth a thousand words." Accordingly, a cross-functional map as a useful workflow picture. (See Figure 3.) The cross-functional map's basic shapes are:

- Ovals for starts and stops,
- Rectangles for distinct steps,
- Diamonds for questions pertaining to options after a distinct step, i.e., a decision tree,
- Rays for demonstrating directional flow,
- Circles for on-age connectors,
- (Baseball) home plates for leaving a page, and
- (Lincoln Log) chimneys for entering a page.

Note:

- Home plates and chimneys usually have digits or letters to make it easier to identify their counterparts. Combining a home plate and chimney creates a rectangle.
- Circles usually adopt the option not chose by home plates and chimneys.

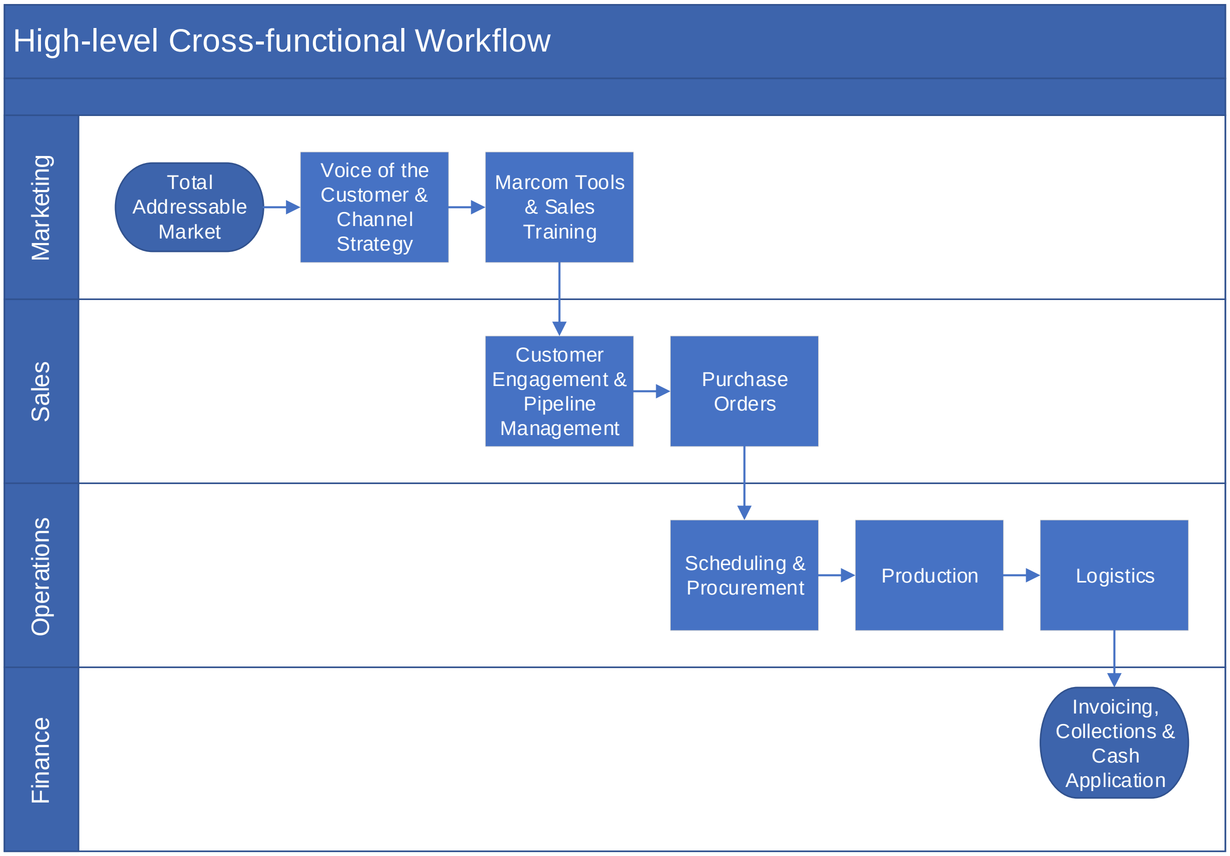

Figure 3: Cross-functional process map

Analogous to the RACIX exercise, cross-functional maps commence with "present state" maps for each company as a precursor to adopting a singular workflow, or "future state."

Project Management Tool

Microsoft Project is another staple tool for complex project management. One of the visual aids of Microsoft Project is the Gantt chart depicting a timeline for the tasks to be performed. (See Figure 4.) The expandable and collapsible level of detail is helpful.

WBS	Task Name	Duration	Start	Finish
1	Integration Process	15 day...	Tue 1/1/19	Mon 1/21/...
1.1	LOI	2 days?	Tue 1/1/19	Wed 1/2/19
1.2	Pre-due diligence	1 day?	Thu 1/3/19	Thu 1/3/19
1.3	Due diligence	2 days?	Fri 1/4/19	Mon 1/7/19
1.4	Integration	5 days?	Mon 1/7/19	Fri 1/11/19
1.5	Post Integration	3 days?	Mon 1/14/...	Wed 1/16/...
1.6	Leadership	3 days?	Mon 1/7/19	Wed 1/9/19
1.7	Organizational Structure	2 days?	Mon 1/7/19	Tue 1/8/19
1.8	Communications Plan	2 days?	Mon 1/7/19	Tue 1/8/19
1.9	General Administration	1 day?	Wed 1/9/19	Wed 1/9/19
1.10	Facilities	5 days?	Wed 1/9/19	Tue 1/15/19
1.11	Information Technology	9 days?	Wed 1/9/19	Mon 1/21/...
1.12	Legal	1 day?	Wed 1/9/19	Wed 1/9/19
1.13	Finance	1 day?	Wed 1/9/19	Wed 1/9/19
1.14	Human Resources	1 day?	Wed 1/9/19	Wed 1/9/19
1.15	Insurance	1 day?	Wed 1/9/19	Wed 1/9/19
1.16	Marketing	1 day?	Wed 1/9/19	Wed 1/9/19
1.17	Sales	1 day?	Wed 1/9/19	Wed 1/9/19
1.18	Manufacturing	1 day?	Wed 1/9/19	Wed 1/9/19
1.19	Quality	1 day?	Wed 1/9/19	Wed 1/9/19

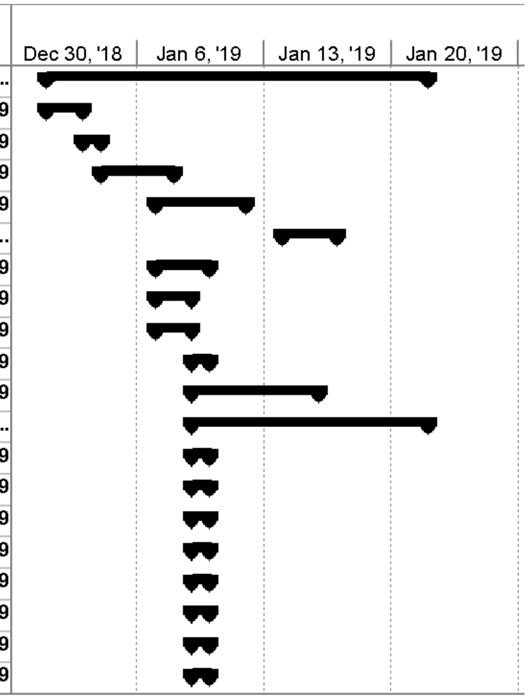

Figure 4: Gantt chart

The elements of a project plan begin with tasks. There is no practical limit to the hierarchy that may be imposed to navigate tasks. Tasks have an estimated length. Tasks may also have a critical path or prescribed order. Consider three tasks, each estimated for completion in 30 calendar days. If done concurrently, one might reasonably conclude completion of the three in a month. However, if the three tasks must be done consecutively, then execution will take 90 days. This simple example demonstrates protraction risk. Upon contemplating a project plan of several hundred tasks with both intra-functional and inter-functional dependencies, it may be more easily understood how integrations can consume at least a year.

There are other execution risks. Tasks have owners accountable for execution. These owners had day jobs before the advent of the integration. Task owner capacity vis-à-vis timing is a question that must be addressed. Fortunately, Microsoft Project has reporting tools that reveal resource overallocation. Microsoft Project also includes a report writer that is useful for weekly functional team meetings and perhaps less frequent project team meetings between the integration leader and functional area project managers. The cadence of meetings and communications should continue until the integration is complete.

Summary

Leaders should approach acquisition integration aware of the inherent hazards. However, proven risk mitigating tools and techniques are available. Considering the cost of acquisitions, skimping on integration resources required to realize the purported potential is a questionable decision. Planning during diligence is a good start. Developing acquisition integration as a core competency is a self-evident competitive differentiator.

About the Author

John A. Lanier is founder and CEO of Middle Market Methods, a consulting practice focused on post-close value-creation for lower middle market portfolio companies of private equity sponsors. The practice has supported 45 equity sponsors across over 145 portfolio companies through more than 435 deliverables. Lanier enjoys paying forward through value-creation guest lectures to MBA students. Lanier writes quarterly value-creation installments posted on the Middle Market Methods website. Lanier earned his Doctor of Strategic Leadership degree from Regent University.