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A Perspective on Mergers and Acquisitions – Integration is Key

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"When you fail to plan, you plan to fail." – Business Proverb

Mergers and acquisitions (M&A), joint ventures, and alliances are often the instruments companies rely on to build critical mass and acquire new skills and technologies. Today, companies continue to pursue M&A activity as they react to market conditions—convergence, the increased value of customer relationships, the drive to develop new services, and value propositions—and move quickly to increase their geographical footprint and reap the benefits of economies of scale (see Figure 1).

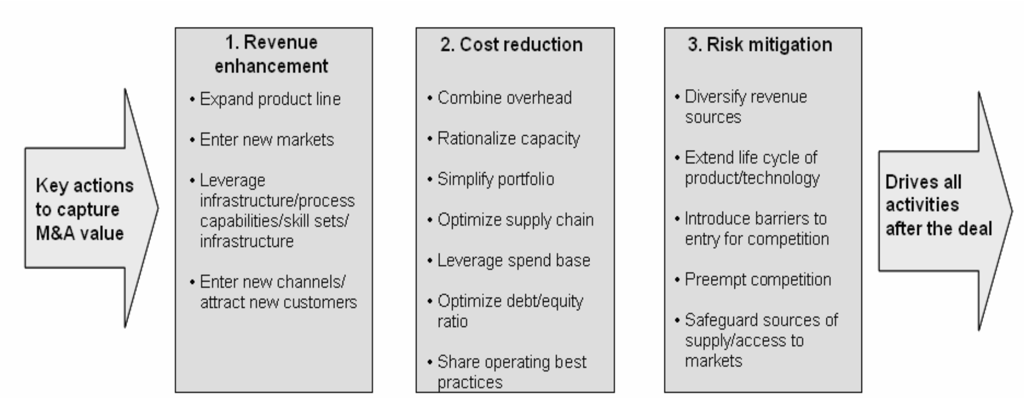


Figure 1: Strategic Rational and Key Actions

In today's market, there is an increasing importance to successfully integrate the operations and processes of the merged organization. Companies and investors now view merger integration as one of the most important parts of the deal, in addition to capturing the value of the transaction and managing stakeholder expectations. After the deal is closed, companies must resolve cultural and operational conflicts during the Integration Phase (see Figure 2). Decisions must be made regarding which leaders will assume control, what technologies will be preserved, and what service standards will be followed. The ability to quickly integrate the process, reduce operating costs, and generate incremental revenue has become an undeniable competitive advantage.

In the past, management often assumed business synergies would naturally develop, with little to no effort from them once the M&A transaction closed. However, the opportunity for an M&A to fail is greatest *after* the deal is closed especially if the combined businesses are expected to operate as a "cohesive" organization with little to no preparation for the integration process. Experience shows M&A success correlates with the level and quality of planning for the post-deal Integration Phase.

Following are examples are potential post-deal situations that companies can address through proper integration planning:

- Delayed introduction of change management causes cynicism and anxiety among the workforce.
- Uncoordinated communication to customers, suppliers, and employees causes uncertainty.
- Customers may move to the competition because of concern about consistency of service quality.
- Disparate compensation packages can cause employee dissatisfaction and slow the integration process.

To have the most impact, it is best practice to prepare for the Integration Phase long before the deal actually closes. Planning for *all* of the details involved with an M&A (strategy, financial and operational) during the pre-close phases help avoid post-deal integration disaster.

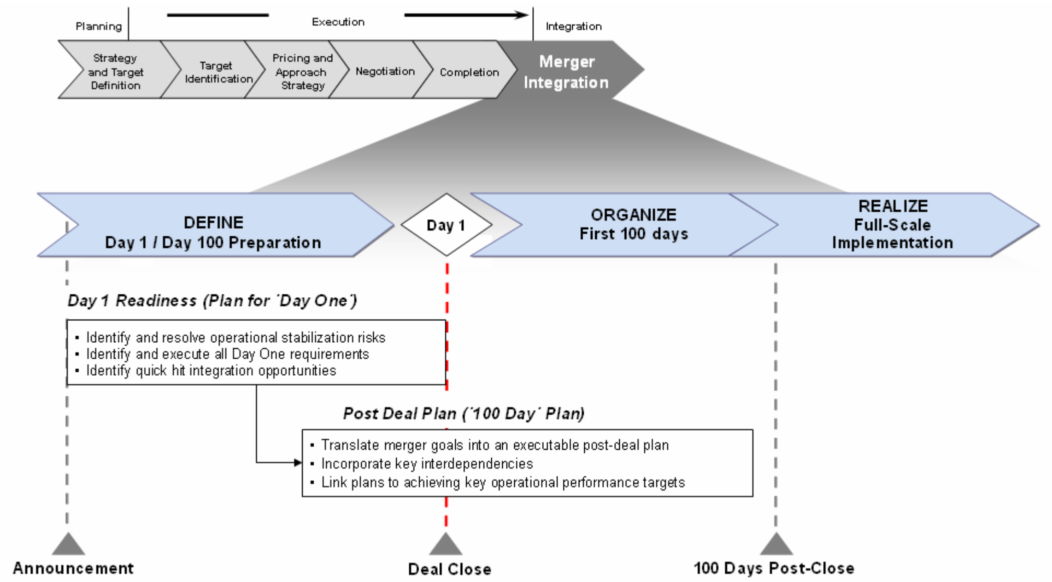


Figure 2: M&A Planning, Execution, and Integration Phases

The Role of the CFO

CFOs are in one of the best positions from the executive management team to link business strategy and operations to M&A initiatives. This is because the CFO is often required to play an active role in all M&A phases, from strategic planning through opportunity identification, initial evaluation, execution, and even integration. However, many times the CFO's focus shifts away from the transaction once a deal is signed and the Integration Phase begins.

Integration then often becomes the responsibility of middle management who may not necessarily be empowered to commission the proper resources or make critical decisions. This has the potential to negatively impact the governance activities of both the acquiring and target companies. Lack of proper leadership can lead to a significant weakness in internal controls due to the pressure to enhance financial performance in post-deal situations. The good news is that now that risk, governance, and internal control are increasingly becoming embedded in day-to-day business processes, the focus of the CFO is shifting back to these M&A issues which were put on the back burner in recent years.

Planning for the Integration Phase

With this new found focus, the CFO should set the new organization up for success by putting a process in place to derive value throughout the post-deal Integration Phase.

1. Define the new entity's foundation.

The key question to answer in this part of the planning process is: To what extent will the two companies operate as a fully integrated entity or will they continue to operate on a stand-alone basis?

Once this question is answered, it is critical to align the operating goals of the merged organizations to the foundation of the new organization. As companies work through this alignment process, they should articulate an appropriate mission and business plan to communicate how the organization will integrate brands, build market presence, and refine service and product offerings. The new organization can then better integrate core processes, technology, and back office facilities in the post-deal phase.

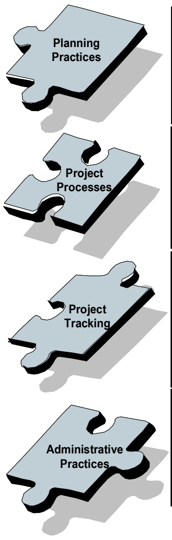
2. Define the structure of the M&A integration program.

In order to achieve merger integration success, devote a full-time dedicated cross-functional team to oversee the M&A integration process. When an integration team is staffed on a part-time or spare-time basis, it is not uncommon for the integration process to be delayed, its success diminished, and business costs to increase.

A full-time Acquisition/Integration Steering Committee should drive the integration process from beginning to end. This Steering Committee should involve members of the Corporate Accounting Department, Corporate Legal Department, IT Department, Operations, and Executive Management. Before the Steering Committee meets, it is important to identify the project team members, define their roles and responsibilities, and ensure the team has direct access to top strategy makers.

The Steering Committee's duties should include but are not limited to:

- Select an acquisition/integration coordinator who reports directly to executive management.
  - This individual will be responsible for project planning, organizing the project teams, and ensuring tasks are properly executed. Ideally, this project manager reports into the CFO and ensures alignment with the other stakeholders, including the audit committee and representatives for each of the functional groups.
- Create an integration roadmap with a holistic view (see Figure 3).
- Appoint company employees to complete specific M&A tasks.
- Review overall acquisition/integration status.
- Approve major policy/procedure changes.
- Act as a sounding board for integration assumptions and conclusions.



Strategy and Direction

- Project Definition
  - Vision
  - Scope
  - Definition of Success
  - Impactors
- Project Planning
  - Milestones
  - Schedule
  - Deliverables
  - Methodology
- Project Organization
  - Roles and Responsibilities
  - Ownership
  - Executive Sponsorship

Quality Assurance	Change Control	Risk Mitigation	Escalation Procedures
• Quality Objectives • Completion Criteria • QA Schedule • QA Walk-throughs • Sign-off	• Change Request Form • Change Control Log • Change Control Database • Review Process	• Risk Control Form • Risk Assessment Matrix • Time Management • Resource Management • Cost Management	• Escalation Hierarchy • Reporting Process • Resolution Process

Status Reporting	Issue/Action Item Tracking	Budgeting	Project Measurements
• Status Report Form • Completed Tasks • Next Steps • Issues	• Issue Tracking Database • Resolution Procedures • Responsibilities • Priority • Status	• Estimated Budget • Time Reporting • Actual vs. Estimated	• Metrics • Dashboard • Balanced Scorecard

Communication	Documentation	Meeting Guidelines
• Communication Plan • Contact List • Procedures (e-mail, voice mail, etc.)	• Policies • Procedures • Standards • Contracts	• Agendas • Scheduling • Minutes • Participant Roles • Ground

Figure 3: Business Considerations for Integration Planning

3. Develop a communication strategy.

Communication is one of the most important tools to minimize the stress and uncertainty that often leads to stakeholder dissatisfaction. Key stakeholders include investors, analysts, and all employees of both the buying and target company. To help alleviate stakeholders stress, the integration team should develop a clear M&A communication strategy. This can strongly increase productivity during the post-deal transition.

When developing this strategy, the Steering Committee should:

- Evaluate major objectives such as:
  - Communicate ideas, status, or information
  - Support long-term commitment
  - Minimize uncertainty
- Determine distribution guidelines and delivery mechanisms.
- Decide upon frequency, length, and release dates of communications.
- Develop a method for feedback and subsequent resolution.
- Capture and act upon concerns and issues in a timely fashion.
- Review the communication plan with management.

4. Create an integration roadmap.

The right team along with the right resources and a critical evaluation of business issues can mitigate risks that manifest themselves during the Integration Phase. To accomplish this evaluation, develop a planning document and identify the 20 percent of actions that drive 80 percent of the value with the highest likelihood of success in the shortest timeframe. After setting the priorities in the integration roadmap, the Steering Committee can then create detailed integration programs and project plans for individual areas of the business.

The integration roadmap should:

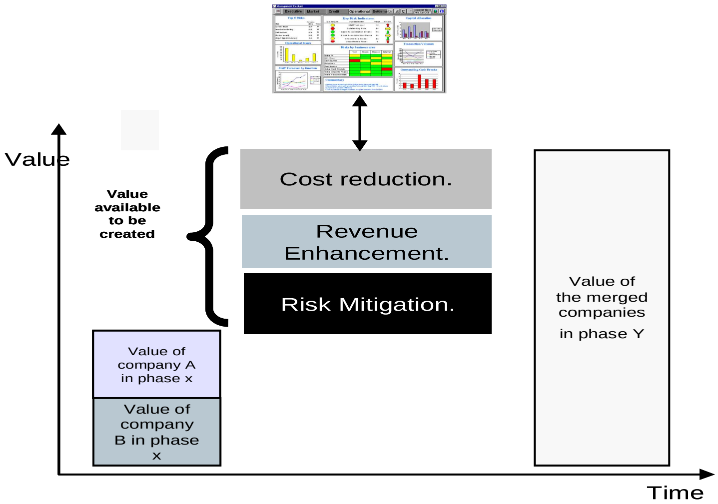
- Detail acquisition objectives and how the acquisition supports overall corporate goals and objectives.
- Evaluate benefits of the acquisition.
- Examine potential risks.
- Define the acquisition/integration committee's role in the detailed projects and programs.

5. Set-up a process to monitor value of the integration program.

Companies often find it difficult to quantify and measure success or failure in the M&A arena. Poor M&A results are more than likely to occur when integration performance measures and evaluation metrics are not adequately defined and measured. This can be a problem for the acquiring company because the perception of success is as critical as success itself. To set-up a successful monitoring program:

- Establish a value measurement process that helps monitor and measure the integration process on-demand, allowing the company flexibility to make necessary changes when red-flags appear.
- Create transparency around the value created during the Integration Phase by making dashboard-like information available for stakeholders (see Figure 4).
- Ensure these evaluation metrics should be an inherent part of each step in the acquisition process and consist of both hard and soft measures and that tie to the company's strategic objectives.
- Include these results in the communications sent to key audiences such as boards of directors, shareholders, analysts, and financial markets.

Figure 4: Measuring Integration Value



Fit the Program to the Organization's Needs

In order to strengthen your company's integration planning process, develop an approach that best fits the organization. This approach should be:

- *Pragmatic* – Focus on the activities that add value to your business from the start. Find the right balance between value-driven projects and risk-based planning.
- *Business Driven* – It is very important to link the merger integration activities to the overall objectives of a company. A align the Integration Team with the rest of the organization and its objectives, structure, and culture.
- *Flexible* – There is no one-size-fits-all approach. The approach should be based on the business dynamics and characteristic of the industry and available resources within the company. Make sure the resources required for integration success are available at the appropriate time.

With proper integration planning, companies can close the M&A deal and calmly move into the post-deal Integration Phase. The organization is then able to rationally merge the detailed operation and finance processes. When doing so, consider the:

- *The role of the finance function*: Is the finance function appropriately aligned to support new business operations and strategic initiatives?
- *Performance management and forecasting*: Are our KPI's aligned to our business strategy and support behaviours to drive performance?
- *Data challenge*: How do we structure our information systems to accommodate internal and external reporting?
- *Stakeholder management*: Do we have a consistent and reliable model for managing our external and internal relationships?
- *Talent management*: Does our company offer business, technical, and professional training? Are the right people in the right roles?
- *Culture*: What cultural differences and barriers to change exist and how are these properly managed? What culture should represent the merged organization?

This smooth transition is achievable if you plan to succeed by thinking through the M&A integration process. For the CFO, integration success represents a step along the evolutionary path from yesterday's scorekeeper to today's business partner, and eventually, tomorrow's corporate change agent.

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