

Executing on the Integration Strategy: Integrating Finance After a Merger

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For companies engaged in a merger or acquisition, experienced Finance executives understand the importance of developing a sound strategy for integrating the legacy firms' Finance functions. Such a strategy is a foundation for enabling the combined enterprise to capture the benefits targeted by the deal.





A sound strategy often includes plans for accomplishing Day One “must haves” and “like to haves.” As the Day One planning imperatives start to become secured, the focus often reverts to Day One execution and the specifics of the future-state Finance vision and strategy, which serves as context for estimating the potential synergies from the integration. The strategy often includes key activities for the project teams and plans for staffing the resources needed to carry out the program.

However, even a well thought-out, carefully designed integration strategy may not deliver the targeted business outcomes if executives cannot implement it effectively. The path toward full integration presents numerous challenges that can derail the effort. For example, urgency to sustain short-term business-as-usual financial activities, including managing monthly, quarterly and year-end closes, can drain attention and resources away from important Finance integration efforts.

When this happens, the integration program can lose momentum, jeopardizing planned milestones and timely deployment of the future state.

Spotlight on the implementation stage

Companies that successfully manage mergers and acquisitions often carefully navigate three stages of the Finance post-merger integration (PMI) process, of which the third stage is implementation.

They begin by thoughtfully planning the integration of the Finance function. (Planning is the focus of the first point of view in Accenture's three-part "Integrating Finance After a Merger" series.)¹ In addition, they secure and align Finance resources during and after a merger or acquisition. (Resources form the focus of the second point of view in the series.)² Finally, they develop a disciplined plan for implementing the financial integration strategy they have formulated—which is the theme of this third point of view in the series. The sidebar "Ten critical success factors for Finance function integration" summarizes the key practices associated with each stage in the Finance PMI process.

We have found that the most effective Finance executives typically master the implementation stage by focusing on three critical success factors. **First**, they set detailed, clear milestones for integration of Finance-related technology, processes and personnel, and they manage those milestones diligently to mitigate the inherent risks. **Second**, they work closely with their organization's IT function to ensure that Day One finance integration "must haves" are met and that the future-state framework defined for the new Finance function can and will be achieved. **Third**, they use the implementation effort to build momentum for larger transformations of Finance (such as further consolidation of key operations or deeper process redesign) that could yield additional valuable gains in efficiency and effectiveness.

It is important that companies develop targets for measuring how much change a Finance function can take on before the risk may become unacceptable. Availability of resources (internal and external), budget constraints and complexity should all be points of consideration when determining how expansive the vision for the future-state finance operating model can be and when establishing milestones. The impact of other "in-flight" projects, dependencies and priorities should also be considered as part of this evaluation. It is critical that companies balance the transformation effort with integration efforts to maintain day-to-day operations and overall business focus.

In the following sections, we examine each of these implementation-related critical success factors more closely.

Ten critical success factors for Finance function integration

Planning

- 1) Define the future-state operating model.
- 2) Assess potential synergies, and assign ownership and tracking responsibilities.
- 3) Establish the "must haves" for Day One.
- 4) Establish the "like to haves" for Day One—taking into account the lead time.

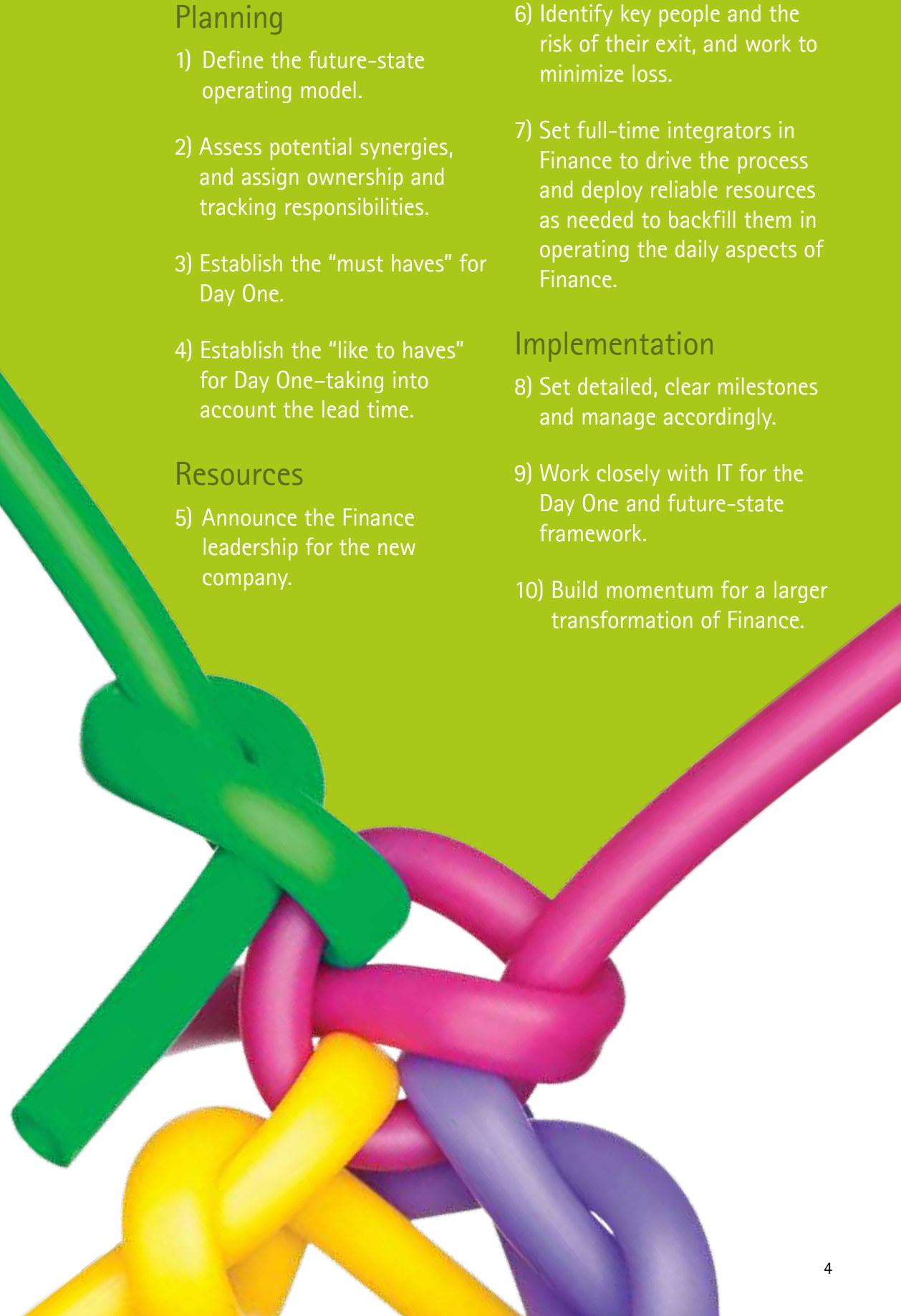
Resources

- 5) Announce the Finance leadership for the new company.

- 6) Identify key people and the risk of their exit, and work to minimize loss.
- 7) Set full-time integrators in Finance to drive the process and deploy reliable resources as needed to backfill them in operating the daily aspects of Finance.

Implementation

- 8) Set detailed, clear milestones and manage accordingly.
- 9) Work closely with IT for the Day One and future-state framework.
- 10) Build momentum for a larger transformation of Finance.



Setting and managing milestones

Successful integration of two previously separate Finance functions can hinge on the ability to effectively establish and meet a set of milestones. Organizations stand a better chance of meeting milestones if they make them achievable and spread them across several workstreams within the Finance integration program.

For example, it can be beneficial for executives to determine what the integrated Finance function's technology requirements will be and how technology solutions will be designed. Under this workstream, they should consider setting milestone dates for testing the solutions, deploying them and converting data from old to new systems. Finance processes constitute a separate workstream, as companies define and update standard operating processes and procedures for the newly combined Finance function. Organizational structure is another area, involving such decisions as when specific talent will be hired and trained and when key announcements about the integration will be made to internal and external stakeholders. Together, they arguably compose the body of work that will result in the future-state Finance operating model.

An integration program's milestones are often interdependent across workstreams and with the broader Finance organization. The integration program can progress while the organization is managing business as usual. Moreover, milestones often require resources beyond the core integration team. All of these conditions can create complexity and thus risk. To illustrate, the right skilled finance resources may not be available when

needed to support activities associated with key milestones. And if such resources are not available, errors and inaccuracies (for example, in new financial reports) can result. By anticipating and mitigating milestone-related risks, companies can set the stage for successful implementation of their Finance integration strategy.

Strategic definition of milestones can help. Companies may find it beneficial to state their milestones upfront in the integration process and break each milestone down into phases. For example, when will key activities associated with a particular milestone—such as data conversions or merging of legal entities—need to occur in order for the organization to meet the targeted deadline? How much time will people need to work through the inevitable errors that arise when a new process is activated? Will a new system be deployed by business line, country or region? Especially with complex system integrations or finance process redesigns, breaking milestones into phases can help employees see a step-by-step pathway to completion of goals. With a line of sight, even the most daunting milestone can seem more achievable and manageable.

A clear-eyed assessment of potential resource constraints can further help

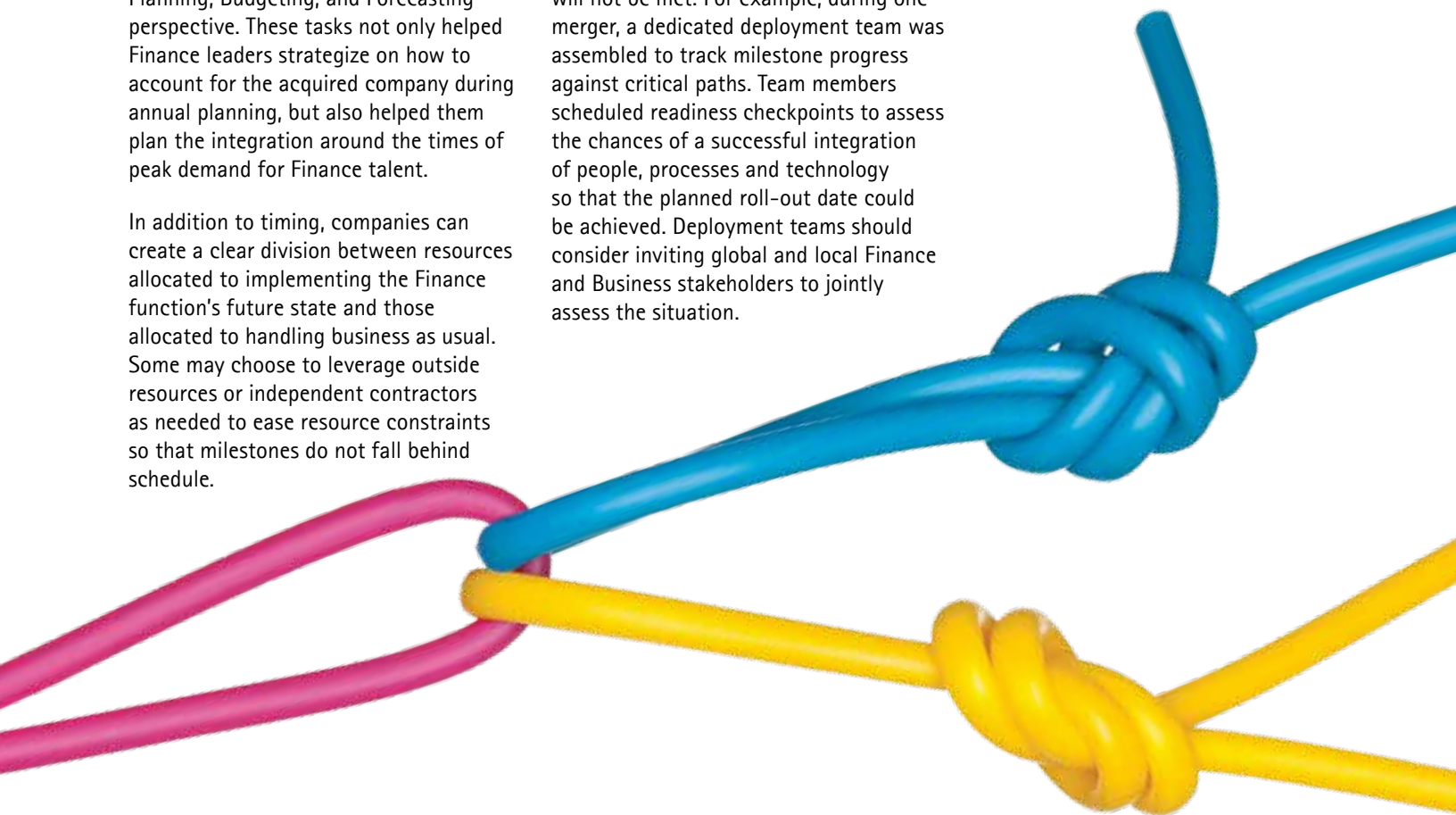
companies manage their integration milestones. Standard business as usual responsibilities—such as yearly, quarterly or month-end closes; earnings releases; audit schedules; and annual budgeting and forecasting—can draw resources away from milestone-related activities and thus impede the program's progress. To avoid this scenario, companies should think carefully about when to focus on milestone-related activities and when to focus on business as usual. For example, they may establish blackout periods by avoiding deployment of a newly integrated finance process or system during the quarter-end close period. By way of illustration, one professional services organization and likewise, a natural resources manufacturer, both planned such deployments to begin on a non-fiscal quarter-end or year-end month. The deployments would then continue every three months subsequently.



For example, in a unique case, as a frequent acquirer, a media and entertainment company developed a comprehensive integration planning checklist to set a standard approach toward each of its mergers. Also included in the list were activities to align the companies' financial calendars from a Planning, Budgeting, and Forecasting perspective. These tasks not only helped Finance leaders strategize on how to account for the acquired company during annual planning, but also helped them plan the integration around the times of peak demand for Finance talent.

In addition to timing, companies can create a clear division between resources allocated to implementing the Finance function's future state and those allocated to handling business as usual. Some may choose to leverage outside resources or independent contractors as needed to ease resource constraints so that milestones do not fall behind schedule.

Finally, ongoing monitoring and communication can also play a central role in milestone management. It can be helpful to hold regular meetings with the workstream leads, coordinated by a program management office (PMO) to discuss the status of critical milestones, especially if it appears that a target date will not be met. For example, during one merger, a dedicated deployment team was assembled to track milestone progress against critical paths. Team members scheduled readiness checkpoints to assess the chances of a successful integration of people, processes and technology so that the planned roll-out date could be achieved. Deployment teams should consider inviting global and local Finance and Business stakeholders to jointly assess the situation.



Partnering with IT

Many Day One and future-state Finance integration solutions require complex enhancements to a company's existing IT systems.

Implementing the future-state strategy for the Finance systems landscape of a merged entity (such as which systems will be retained, which will be retired and which will co-exist) to arrive at an efficient systems architecture can prove dauntingly complex. To manage activities toward that end and achieve milestones related to IT, Finance can be assisted by reliable support for managing the transformation. Finance leaders may find it beneficial to partner closely with IT leaders to ensure a successful integration of Finance-related IT after a merger.

The two groups can lay the foundation for an effective partnership by meeting early in the integration planning process to identify key milestones and the activities for achieving them. Participants should consider setting a tone for the relationship that emphasizes shared accountability for the program solution, timeline and outcomes. For example, leaders of a merger of wireless companies learned a hard lesson after Finance formulated requirements, without input from IT, to control for effort and time. The IT group took those requirements and proceeded to drive timelines and milestones without buy-in from business leaders. As a result, numerous program deadlines were missed. It is important for Finance and IT to engage the business in the integration program with an aligned approach. Otherwise, they risk causing a lack of awareness that could lead to delays in the program.

The partnership between Finance and IT can be shaped by how the Finance integration team is structured. For example, during a merger between energy companies, IT project managers were dedicated to the integration planning phase and worked with Finance function leaders to set Day 1 and Day 100 milestones. One large services firm went further and extracted IT personnel from their normal day jobs to work full-time with Finance professionals for the full duration of the Finance integration program. This design of dedicated integration teams fostered a strong spirit of partnership between the two functions. Furthermore, Finance at this company dedicated financial systems personnel to work exclusively on the future state. This was made possible by elevating other resources and backfilling with contract resources to support business as usual.

Supported by an effective partnership, Finance and IT can collaborate toward a goal that the right systems are in place for meeting both Day One and future-state Finance integration imperatives. For Day One, teams should consider articulating the system changes critical to the combined entity and assess whether IT can execute those changes. For example, they can ask questions such as:





- What will we need to transfer or exchange data essential for Day One between the companies' systems?
- How compatible are the financial and other data currently housed in the legacy companies' existing systems?
- What will be the consolidations and reporting systems solution for Day One and how does IT help enable it?

If the IT function is not yet in a position to address these issues, teams may need to develop workarounds for an interim period.

For the future state of the new entity's Finance function, Finance can work with IT to determine which systems to adopt, which systems will be phased out and when any desired changes can be implemented. Organizations often use one of the legacy company's existing enterprise resource planning (ERP) platforms, but on occasion, the right long-term answer may be to adopt an entirely new ERP system. Regardless of the pathway chosen, integration teams should consider addressing questions such as the following:

- What will be the future financial systems of record for the combined entity?
- How will we convert data from the old systems to the new systems? In what respects do the systems differ in terms of processes required and return on effort?
- What is our schedule for completion of all data conversion to the new systems?
- How will we manage any data that does not get converted to the new systems?
- What training will be needed to enable personnel to correctly use the new systems?

Again, workarounds may be necessary. To illustrate, in a newly merged company where some data must remain in local systems for small countries, the organization may have to combine manual journal entries with dual-data entry into the new system.

Building momentum for further transformation of Finance

A successfully executed merger can provide the momentum for bolder transformations of the newly integrated company's Finance function—transformations may generate valuable new gains in efficiency and effectiveness.

Consolidation of operations is one example. After a merger, the new company can consolidate vendors, using the consequent scale to achieve vendor discounts. Customers can also be pulled together in the system, reducing the effort required to serve them and streamlining the administrative processes (such as invoicing) needed to manage their accounts. In a similar respect, multiple offices in the same geographic location can be consolidated, further simplifying processes and reducing costs.

Alternatively, other organizational structures may be created. For instance, a regional "hub and spoke" structure can consolidate managerial span of control, enabling a more leveraged organizational pyramid and create more efficient reporting lines. Or a shared services model, with defined key performance indicators, can position the company to capitalize on the competitive advantages that each legacy enterprise has to offer, such as existing low-cost locations and infrastructure. One large natural resources manufacturer, for example, acquired a company that had a shared service center for Finance activities such as accounts payable and travel and entertainment expense processing. The manufacturer retained the center after acquiring the company and funneled their own similar activities into it. Many other companies have expanded the service scope of acquired service centers.

Mature organizations with established leveraged structures may be more likely to consider new outsourcing strategies (onshore, offshore or a blend of both). However, organizations of any maturity may want to explore them as well if they


face unique challenges. For example, in one merger, the acquirer was a nonprofit organization and the acquired was a for-profit corporation. Executives had to maintain separation of operations to avoid conflict of interest. The merged company moved the for-profit entity's Finance unit to an outsourced model that included the use of offshore resources and a newly-implemented set of financial tools to deliver planning, budgeting, forecasting and reporting capabilities. In this case, the operations that were outsourced had previously been handled by an existing captive shared services center.

A company may also take the opportunity presented by a merger to redesign specific Finance processes as well as enhance reporting and analytics capabilities to support the Finance systems strategy. However, consideration should be given to prioritizing and closely evaluating with a goal of clearly tying to synergy benefits rather than using the merger to fund capabilities which would otherwise not be justified through a standalone business case.

Finally, mergers can provide a chance for companies to strengthen workforce effectiveness and engagement. With an enlarged pool of talent, a company may have more people at the higher end of the skills curve than it had previously. The increase in quality of talent could create new strategic advantages. For instance, it can afford leaders the flexibility to allocate competencies where there is a demand or a supply shortage across Finance, but also into the Business Units. From an employee's perspective, the increased mobility would be a welcome bounty. For such gains to

materialize however, leaders often must prepare for the task of bringing together people from different companies with diverse organizational cultures. If the cultural differences are managed poorly, advantages can become impediments. If managed adeptly, they can spark a spirit of collaboration and infuse a workforce with new vigor.

As evidenced, mergers can create immediate opportunities for synergies. However, those opportunities often initially present themselves as challenges. For example, during a merger of large steel manufacturers, the challenges of integrating two very distinct cultures drove leaders to first commission a formal Finance Strategy assessment to develop a clear vision for the development of the Finance function over the ensuing five years. The project supported the development of a revised Finance operating model for the combined global organization. Short-, medium- and long-term improvement opportunities across corporate, transactional and business finance were identified and prioritized. Among them included a new enterprise reporting framework, shared services organization model, and workforce talent strategy. As a result, Finance leadership was armed with a plan of PMI initiatives and a roadmap toward achieving the benefits as first hoped the acquisition would yield.



Yet, merger-related activities can also inspire companies to sharpen their focus on existing areas of opportunity. For example, even though a merger of two firms in the financial services industry failed to gain approval, the effort prompted one of the companies to pursue a significant cost take-out plan through significant corporate restructuring toward a more centralized operating model. Before the initiative, the company's Finance, HR, IT and sales operations were heavily decentralized and distributed within the business units. In this instance, even a failed merger helped stimulate a broader transformation program.

Ensuring a successful integration strategy

The fact that even brilliant strategies do not always produce the intended outcome once they are implemented is well known. Implementing a Finance integration strategy is no exception. However, companies can better position themselves to deliver the targeted value by anticipating and addressing the most serious obstacles to a successful implementation.

Clearly stated and strategically managed milestones, a close partnership with IT and the ability to build on momentum created by the merger to achieve bold transformations in the Finance function can all go a long way toward ensuring that a merger integration strategy pays the desired dividends.

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References

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