



PERSPECTIVES ON MERGER MANAGEMENT

Boosting M&A Value with the Right Integration Leader







Boosting M&A Value with the Right Integration Leader

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More than many other factors, an effective integration leader will have enormous influence on the success of an acquisition. But how can CEOs be sure they're choosing the best candidate for the integration leader role?

Think Abraham Lincoln and General Ulysses S. Grant.

Or Franklin D. Roosevelt and General George Marshall.

Both partnerships achieved world-changing victories — first in the American Civil War, then in the global arena of World War II. And both offer important lessons for CEOs leading major mergers or acquisitions. In considering whom to tap for the crucial role of integration leader, CEOs will find helpful parallels in the relationships between these presidents and their most trusted generals.

Perhaps the most important lesson is this: Next to the CEO's own position, the integration leader's role is about as difficult as any a company can create. Thrown into an enormously complex role with no time to learn the ropes and with uncertainty inevitable, the integration leader must perform well quickly — and under intense scrutiny.

Finding the right person for the role — a leader with organizational savvy who brings great diplomacy, courage, and ability to get things done — is never easy. But as Lincoln

and FDR learned, it is one of the most important decisions a chief executive can make.

Defining the M&A integration leader's role

As deal “owner” and sponsor, CEOs must define the vision of success and steer the transaction in a way that reflects the true deal value. But while they are responsible for the transaction, they cannot manage the integration day-to-day. Instead, they must select an integration leader who can handle a multi-dimensional role and execute a number of essential campaign-level responsibilities. These include:

Value creation — establishing a process that sets aspirational but achievable targets, including timing, risks, and tradeoffs, within 6-12 weeks after announcement; reporting on performance against plan; managing risks and interdependencies; and sustaining a relentless focus on driving value, including thinking creatively to go beyond due diligence targets.

Integration governance — defining the integration organization and reporting structure; shaping the steering committee agenda and making substantive day-to-day integration decisions.

Since integration planning proceeds quite quickly on the basis of limited information and things seldom go according to plan, daily skirmishes are inevitable. The integration leader needs to foster a culture that prizes rapid progress while minimizing the impact of these disruptions.

Program management — Setting major milestones and managing the integration calendar; steering the cultural integration; guiding integration communications to all major stakeholder groups — in short, translating the CEO's deal aspirations into actionable plans against which the organization can measure progress.

Choosing the right integration leader



Although a major deal can change the fortunes of an organization faster and more profoundly than many other events, CEOs are often unfamiliar with the integration leader's role and, because of that, underestimate its complexity. Too often they hand it to someone less than superbly suited for it — an executive who happens to be between assignments or who has built a reputation for process management.

But major integrations call for creating value, not just managing process. Failure to understand this point is the biggest obstacle to choosing the right integration leader. Predicating integration leadership strictly on process management strength will almost certainly compromise the full potential of the deal. And even in organizations with a deep bench of executive talent, the demands of the integration leader role makes selecting the right person quite difficult.



Assembling the full complement of skills

The ideal integration leader brings the full complement of skills needed for success. But in an imperfect world, the CEO is well-advised to consider the integration leader's skills within the broader context of the whole team leading the integration effort.

For example, a multi-billion-dollar health care acquisition achieved superior results by tapping the distinctive expertise of three senior executives. The integration leader, a 12-year veteran of the company, brought significant experience as the commercial lead for the US — the company's largest market — and close ties with R&D. He knew where to find commercial value (both cost and revenue), how the sales force should take the acquired organization's products to market, and what gaps in the portfolio R&D needed to fill.

A second full-time executive — who was fairly new to the organization — brought complementary analytical skills. He was named integration director, reporting to the integration leader, and acted as integration CFO/COO.

The CEO brought deep experience in manufacturing and operations, and a steering committee of executives added even more complementary skills. This well-rounded team played a big role in the deal's ability to create multi-billion-dollar value, despite difficult macroeconomic and industry conditions.

Looking for the right stuff

Successful integration leaders tend to share three critical competencies.

A maniacal focus on business performance, not just financial results, to achieve the business case for the deal. Success requires deep knowledge of the acquiring company, its business, industry, and opportunity to create value.

This knowledge gives the integration leader the credibility to probe for new sources of value.

For example, in one major pharmaceutical industry merger, the integration leader's knowledge of the competitive environment helped him exceed the multi-billion-dollar targets set during due diligence by 30-40%. His experience in finance only supplemented his more critical knowledge of the commercial landscape, which allowed him to uncover critical sources of value.

Such knowledge also empowers the integration leader to act decisively on substantive issues as the CEO's surrogate, confident that other executives will respect and support those actions.

Because of the extraordinary talent required, the ideal candidate is usually closer than people think. As one CEO put it, "The fact that nobody really recognized the name proposed for the integration leader meant we had the wrong name."

The ability to work through others without line authority. This requires excellent communication skills, especially the ability to make complexity simple and uncertainty acceptable at every level of the organization, from the front line to the executive suite. The integration leader must be a nimble communicator for effective downward management that elicits the best from every integration team, upward management that keeps the delivery expectations of the CEO and steering committee reasonable, and lateral management that aligns peers with integration priorities and activities. Taken together, this adds up to diplomatic skills more often associated with the most astute ambassador or secretary of state.

The integration leader must bring to the role deep respect across the organization as well as demonstrated ability to achieve impact. (The integration timeline leaves no room to build respect or figure out how to have impact on the job.)

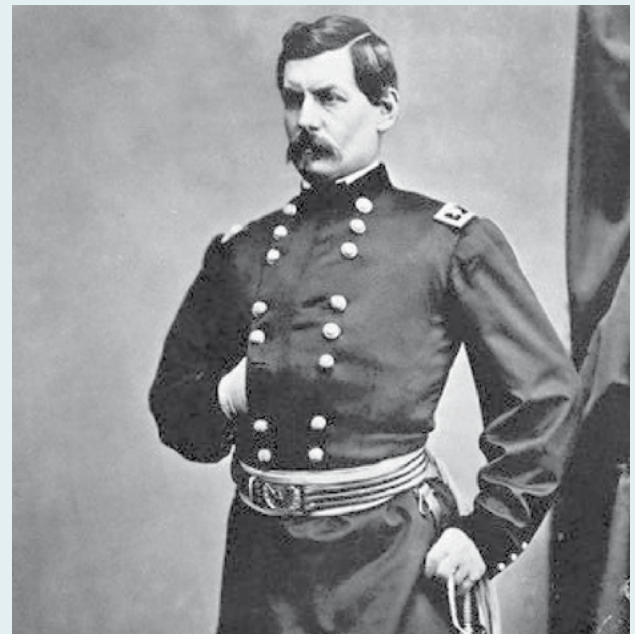
For example, strong organizational relationships allowed one integration leader at a high tech company to clear a critical hurdle early on. Late one Friday afternoon, he learned that the sales force was holding back orders of acquired-company products at the end of the quarter for fear of not receiving credit. To avert an artificial drop in the company's reported sales, he worked through the week-

end with colleagues from the accounting, incentives, compensation, and sales departments to get the sales information into the system, quota credit banked, and pay promises delivered to salespeople in 40 countries. This ability to rapidly tap allies across, up, and down the organization is essential every day, so CEOs should look for diplomacy as they weigh candidates.

Looking beyond the résumé

To appreciate the importance of really knowing candidates, consider George McClellan, who preceded Grant as the Union Army's general-in-chief. On paper, he seemed a perfect fit: number 2 in his class at West Point, a meticulous planner, and a handsome man with patrician manners who looked every bit the dashing officer.

Although McClellan raised a well-trained and well-organized army for Lincoln, his battlefield skills proved inadequate. He repeatedly overestimated enemy strength and refused to challenge opponents, keeping his army safely sequestered while he waited to engage. At Antietam, McClellan failed to crush General Lee's heavily outnumbered Confederate forces in what should have been a decisive Union victory. Losing patience, Lincoln said, "If General McClellan does not want to use the army, I would like to borrow it for a time," and soon handed the command to Grant.



General George McClellan

The ability to make tough decisions quickly with imperfect information — seldom more than 70-80% of what's needed. Unlike most major organizations, the Integration Management Office does not have a mature, tested information infrastructure. Information comes from a variety of sources — status reporting, weekly meetings, and more often, from ad hoc escalation of issues.

With information difficult to get and never totally accurate, the integration leader must be able to act independently in an often murky, uncertain environment. It's critical to act on assumptions and interpretation of 80% of the data to maintain momentum and avoid information paralysis.

Finding the right candidates

The ideal candidate is typically a successful general manager with a broad portfolio of skills, often a high performer in a BU leadership position, a CEO-to-be, or the second-in-command in a function relevant to a particular deal — for example, finance for a deal focused on cost cutting, or sales for a deal focused on commercial growth.

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No résumé can capture some of the most important attributes of a successful integration leader, especially the sophisticated communication and influencing skills required. Can a potential integration leader align senior executives effectively? Can the candidate inspire, persuade, and challenge peers all at the same time? Answering “yes” to these questions bodes well for success. Ignoring a candidate's leadership, management, and communication skills until the first steering committee meeting — or the first challenge by a peer — does not.

Positioning the integration leader for success

After selection of an integration leader with the right attributes, two steps are necessary to position that leader for a successful start.

Involve the integration leader early. Ideally, selection of the integration leader precedes due diligence. At the latest, the integration leader should join 6-8 weeks before deal announcement to ensure that initial hypotheses on value ultimately influence the design of the integration program. An early start is equally important to build detailed under-



General Grant and President Lincoln in a wartime strategy meeting

standing of the deal rationale and to deepen ownership of the overall integration strategy and architecture.

This is also the time to agree on decision-making protocols — including the CEO and integration leader roles in decisions and the desired participation of other executives (e.g., steering committee composition and decision rights). The integration leader can start participating part-time but needs to ramp up quickly to full-time as the deal becomes more likely.

Forge a strong, highly visible relationship with the integration leader. At deal announcement, the CEO should introduce the integration leader as the general-in-chief responsible for executing the campaign plan. Then these executives need to forge a close working relationship.

Think Lincoln and Grant. Their teamwork brought victory in the Civil War scarcely more than a year after Lincoln tapped Grant to lead the Union forces. Their close working relationship was key to their success, as was Lincoln's support of Grant's tough decisions and his refusal to let the other Union generals circumvent his general-in-chief. The CEO should do likewise — building a strong open-door relationship with the integration leader, including refusing end runs by other executives and meeting frequently one-on-one to review progress (every week or two).

And as Marshall did with Roosevelt, the integration leader should bring total candor to these meetings, refusing to filter information and soliciting unvarnished feedback.

A major deal can define a CEO's administration — and a company's legacy. Equally important, an integration leader can boost or diminish the value of a transaction and in turn, influence an organization's success for years to come. That certainly warrants making the effort needed to get the right person into the role and doing the right things to help that leader succeed.

Sharing the whole truth

Total candor marked the relationship between FDR and General Marshall, who quickly learned how to negotiate with the president to get things done.

As Marshall reflected, “I never haggled with the president. I swallowed the little things so that I could go to bat on the big ones. I never handled a matter apologetically, and I was never contentious.”

Marshall’s greatest moment of candor came on the eve of World War II, when he told FDR that he did not believe the US was prepared to fight and win the looming war. The president accepted Marshall’s message and tasked him with organizing the largest military expansion in US history — a fortyfold increase in just three years.

In the words of Winston Churchill, Marshall became the “organizer of the Allied victory,” including planning the invasion of Normandy — a definite turning point in the worldwide war.



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