EXECUTIVE INSIGHTS

Matching Integration Strategy and IMO Team Structure

The success of any merger depends on translating the deal thesis into an effective integration strategy. At L.E.K. Consulting, we take a value-centric approach that is focused on prioritizing and accelerating those aspects of the integration that will most benefit the combined entity, and putting in place the management structure that will support it.

As management reaches decisions about the nature and degree of integration between the acquirer and the target, it must also begin to think about the best approach to implementation. We usually recommend setting up an integration management office, or IMO. The IMO serves as the central nervous system for the integration, disseminating guidance and decisions from the steering committee (SteerCo) to the workstreams, and coordinating, overseeing and ultimately communicating workstream progress back to the SteerCo. The IMO sets the pace of the integration while creating transparency and accountability for progress. Figure 1 illustrates the typical hierarchy and information flow between the SteerCo, IMO and workstreams.

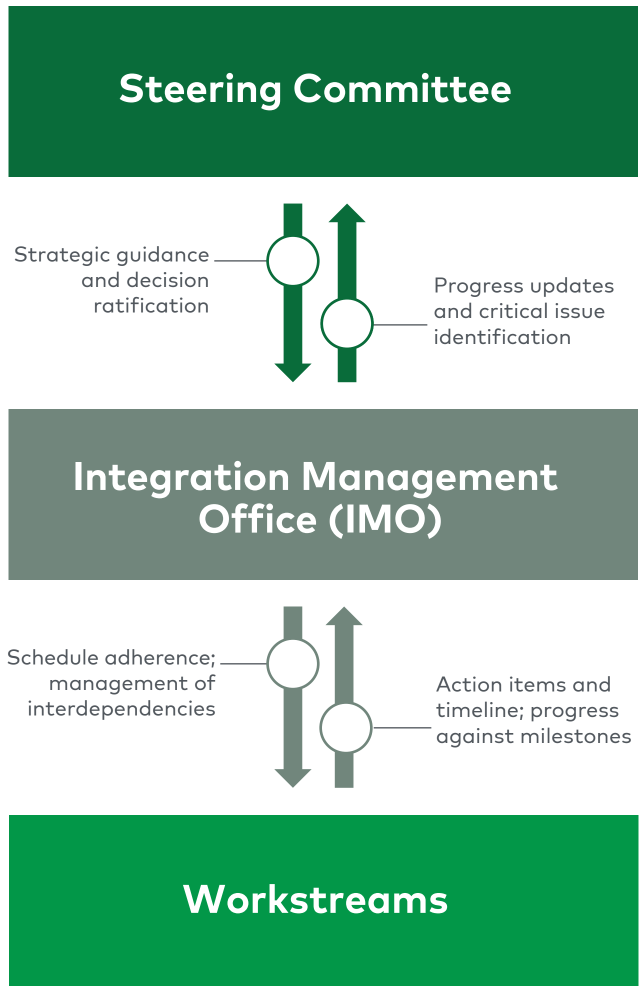
While the structure of the IMO can vary, we have observed a number of best practices.

Appoint an internal IMO leader

For complex integration programs, overseeing the integration would ideally be the full-time (or near full-time) job of one individual from the company. When this is not possible or practical, we recommend that the person spend at least 50% of her or his time on the integration program, at least for the opening months.

What is the right level for this leader? While the specific title can vary, this individual is optimally someone who understands, has access to and has the respect of functions across the organization. This role, by definition, will have an expiration date. It also requires access to the most senior levels in the company. We therefore find this can be a great step-up opportunity for rising stars within the organization.

Figure 1
Integration program hierarchy



Source: L.E.K. research and analysis

Connect the IMO directly to the finance team

If synergy capture is a significant element of integration success, it is important for the finance team to be closely aligned to how and to be on board with how synergy targets are being assigned, how synergy capture estimates are being made, and ultimately where synergy dollars are realized in the P&L. Creating a linkage between finance and the IMO early in the process can limit confusion or disagreement as synergy targets are realized.

Define clear integration workstreams

We find aligning workstreams with functional groups is an optimal approach because ownership and roles will reflect the existing reporting structures. In some instances, it may be appropriate to establish specific workstreams around synergy targets — for instance, a team focused on realizing "rooftop" synergies, namely savings derived from location consolidation and closure. While some synergies are significant enough to warrant their own workstream, our bias is to try to link those synergy targets to the overall workstream structure. In the example above, rather than having a group focused solely on rooftop synergies, it might make more sense to place the responsibility within the operations workstream, since consolidation decisions will likely have other workflow and process implications.

Assign leaders to each workstream

There are different ways to structure workstreams, depending on the size and complexity of the business and integration (e.g., executive-level sponsors plus workstream owners, workstream co-owners from both the acquirer and the target), but fundamentally a leader must be responsible for the creation of the plans and the execution of the work across each workstream.

Generally speaking, executives tend to make poor workstream leaders. The workstream leader must be tactical and willing to dig into the details of activities and decisions. On the other hand, mid-to-senior-level executives (L2 and below) usually have sufficiently detailed knowledge of the operations of a given function or workstream and are still able to connect decisions to the overall deal thesis and strategy of the transaction. However, sometimes another layer of workstream oversight is desirable. In such instances, a set of executive sponsors can be appointed to sit above the workstream leaders and provide additional guidance to the workstreams, while also helping ensure there is senior-level buy-in on decisions.

Another option for workstream leadership is to appoint co-leaders from both the acquirer and the target. This approach can be effective, but there are some inherent risks and challenges. On the positive side, having two workstream leaders can generate greater buy-in for the integration program. It also signals to employees the importance of both legacy organizations in decision-making for the new company. However, having co-leaders can create confusion over the ownership of the workstream. IMO leaders lose the "one throat to choke" accountability for the workstream. Furthermore, if there is tension between the co-leaders due to competition for longer-term management positions, infighting or friction can delay progress.

Build strong teams to execute each workstream

We prefer to have the workstream team members identified by the workstream owners. We advocate thinking about two types of team members. First are the initiative owners — those individuals who will have direct responsibility for overseeing and completing key action items for the integration. For example, one person may be responsible for the benefits package, another for the customer relationship management system, and another, presumably the controller, for overseeing the general ledger account structure. Second, workstream owners will want to identify and enlist subject matter experts (SMEs) who have valuable knowledge of business operations. These team members may be initiative owners as well, but it is important to ensure that the people most knowledgeable about underlying systems, processes and organizational configurations are included on the team.

In many cases, it may not be clear early on who from the target company should be appointed to each workstream. But identifying target SMEs and initiative owners is a critical action item in the opening weeks of collaboration across the two (or more) companies, which can be either pre- or post-close, depending on the nature of the transaction.

Providing structure and guidance for the organization on integration roles and expectations will accelerate delivery and reduce confusion that can result in delays or dis-synergies. When team members clearly understand what is expected of them, they can focus on the important aspects of bringing the companies together and hitting (or exceeding) performance goals.

For more information, please contact **strategy@lek.com.**

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