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Business Combination Competences: What to Do with those Great People

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M&A deal flow in 2020-to-date is currently down, and your pipeline is probably somewhat dry. And given the proposal of a Pandemic Anti-Monopoly Act in the U.S. Congress, M&A activity could slow down even more this year.

Yet you might still have acquisition integration staff on the payroll. What to do with these specially-skilled people during this slow down?

First, you can peel away the veneer of titles and names of groups (for example, Integration Management Office) and look deeply at the core competences of your teams. Next, you can determine how to redeploy the teams into other large-scale initiatives that will fully leverage the people's strategic talents.

Figure 1: Problem-Solving as a High-Performing Team

A Story

A global Japanese conglomerate purchased a major division of a global information technology firm. Purchase price was in the 10-figure (USD) stratosphere. The acquisition integration lasted two years with upwards of two hundred people working on this transformative program at one point in time. A highly competent core team of integration professionals, a group of fifteen employees of the conglomerate, led the effort that spanned strategy, manufacturing, product development, information technology, finance, human resources, and every other function previously in the acquired division.

Once the acquisition integration was completed, the core team of integrationists was redeployed to drive the formation of shared services, a form of "Business Combination", for the North American arm of the Japanese firm. This formation was a major program requiring the competences and skills of the integration team. Over one hundred North American subsidiaries comprised the internal customers of the newly formed shared services organization resulting in a high level of complexity. The successful implementation of shared services, in this case, lasted eighteen months for most functions and another six months for information technology integration.

Fortunately, the conglomerate in this story had available the strategic competences required, resident in the people who had led the acquisition integration. The firm “lifted and shifted” the acquisition team and placed them onto the shared services team.

Business Combinations

Merriam-Webster Dictionary defines the verb “combine” as: *to bring into such close relationship as to obscure individual characters*.

I define “business combination” as the coming together of two or more separate business organizations into a single entity. Five distinct situations comprise a set of strategic moves under the umbrella of business combination: (1) acquisitions, (2) mergers, (3) strategic business unit consolidations, (4) functional consolidations, and (5) the formation of shared services. All five are different in some ways and the same in others.

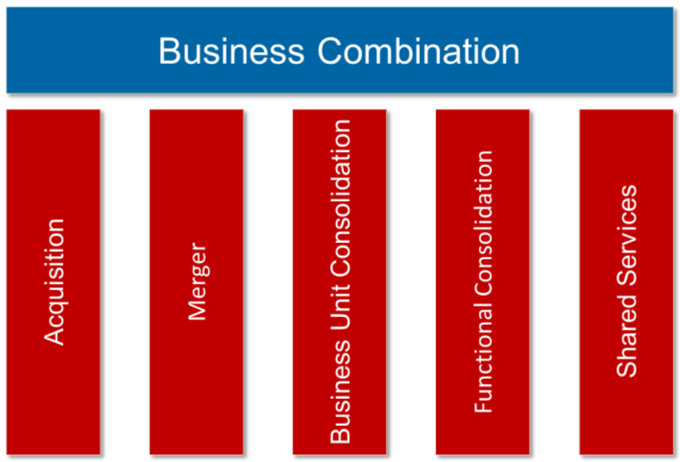

Figure 2: Types of Business Combination

What’s the Difference?

The first two combination types, acquisition and merger, tend to have growth and innovation as a key deal value drivers. Business unit consolidation, functional consolidation, and shared service formation tend to have cost elimination as a key driver. Although BU consolidation can occur in times of growth, what we typically see is this consolidation is more a defensive move. The rationale for functional consolidation and formation of shared services is often touted by executive leadership as “improved service” to internal groups, such as a firm’s profit centers. But in reality, it is often cost reduction that is the primary driver.

A high-level description of each business combination type and examples appear below:

<u>An Acquisition</u>

- One firm consumes another, establishes a subsidiary, or creates a business division
- For example, Texaco-Getty Oil, Intel-Altera, Chrysler-Jeep, Cisco-Scientific Atlanta, Alaska Airlines-Virgin America

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A Merger

- Two firms come together as equals (although one could say one firm is "more equal" than the other)
- Examples: United-Continental, Kraft- Heinz, JP Morgan-Chase, Yakima-Perception Kayaks

A Business Unit Consolidation

- Two or more strategic business units are brought together into one unit
- Examples: Boeing Defense Group, DuPont Materials

A Functional Consolidation

- Combination of separate instances of the same function, e.g., regional accounting groups into a single global group
- Examples: Yahoo!, McKesson, U.S. General Services Administration

A Shared Services Formation

- Creation of a centralized, multi-functional group to support operating units (SBUs, divisions, subsidiaries, etc.)
- Examples: Hitachi America, General Motors, BP

What's the Same?

Similarities across the business combination types do exist. The variables of similarity include value drivers, end game visions, challenges, and transformation dimensions.

Same value drivers

- Customer success, improved financial results

Same end game visions

- Harmonized businesses with additional growth opportunities, higher quality of earnings, and lower cost structures

Same challenges

- Execution with speed, predictability, control, accuracy, minimal disruption, and directed change management

Same transformation dimensions

- Customers, competitors, process, people, information technology, financial goals, and change management

Core Competences for Combining Business Organizations

For large-scale business combination scenarios, an enterprise typically forms a team of people to execute the integration of two or more organizations. Be they two companies or four functions, the core competences that must be resident on the team are similar. Some firms have these competences in-house, while others choose to hire outside experts. In many cases, we see a hybrid of in-sourced and out-sourced competences.

The set of core competences required on business combination teams is rather large. In best cases, the designated leader of execution has an understanding of all competences and deep skills in a few, such as leadership, integrative thinking, and project management. Quite an exhaustive list of the required team competences appears below. I categorize the competences as “Trainable Skills” and “Coachable Skills”. I assume that most people can learn either formally or informally.

<u>Trainable Skills</u>

- Large-scale program management
- Stakeholder expectation management
- End customer focus
- Fact-based decision support
- Financial analysis
- Facilitation
- Problem solving
- Operations improvement methods
- Process redesign
- Information technology
- Managing change (the mechanics)
- Coaching and counseling
- Communication skills – spoken and written

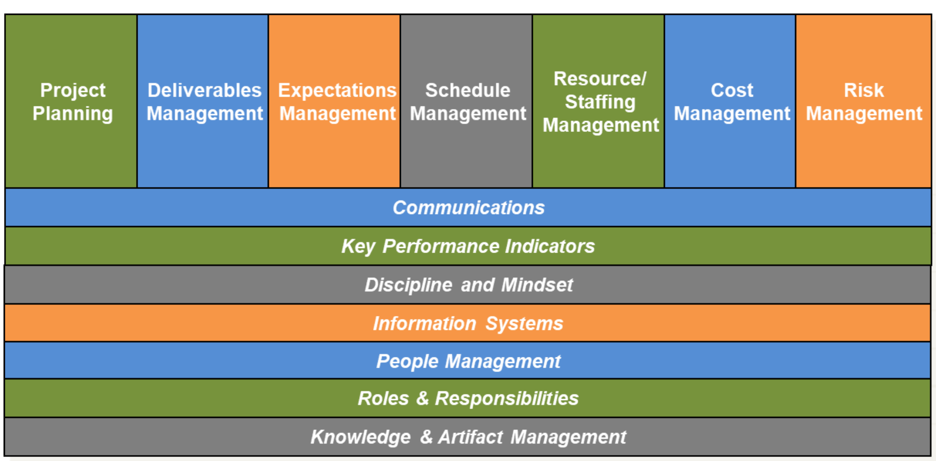

Figure 3: Building blocks of world class program management

Coachable Skills

- Leadership
- Strategic and forward thinking outlook
- Transformative perspective
- Creativity
- Holistic mindset
- Integrative thinking
- Working with complexity and ambiguity
- Active listening
- Managing change (the intangibles)
- Resilience, empathy, perseverance, persistence

To train and coach or not to train and coach? That is the question. Should acquisitive firms release their staffs with strategic competences during times of low M&A activity? Or should these firms retain these difficult to find people for redeployment to non-M&A complex initiatives such as other types of business combinations? No blanket answer exists. However, chief executives can make informed decisions with support and counsel from their senior teams and experienced outside business combination experts.

So What?

During recessions, strategic business unit consolidations, functional consolidations, and the creation of shared services become more prevalent than during periods of growth. People who have successful experience in one type of business combination program can apply their skills across other types of combinations. Firms can shift the strategic competences of their acquisition integration staffs as other types of business combinations arise during a recessionary period.

An Afterword about COVID-19 Response

I know of at least one company that has shifted its acquisition integration team to manage the firm's response to the COVID-19 crisis. Here, we see a creative solution to the dire need for program leadership, workforce management, deployment of work-from-home enabling technologies, revenue stream security efforts, free cash flow preservation initiatives, and other extraordinary actions during the "new abnormal". Executives at the company were able to recognize the strategic nature of the competences and the people who, in normal times, lead and execute acquisitions.