Integration Management Office
Achieving effective integration across the enterprise

At a glance

Failure to capture deal value is rarely due to a flawed strategy and most often a result of not executing the strategy in a timely way.

Converting integration strategy into detailed actions that align people, process, and systems with integration objectives requires an effective governance structure – an Integration Management Office.

A well designed IMO will make sure an integration stays on course and sustains focus on the right activities at the right times.
Introduction

Doing deals is risky and too many acquisitions don’t achieve the expectations set for them. Carefully developed strategy too often does not translate into integration success.

Yet failure to capture deal value is rarely attributed to a flawed strategy and is most often a result of not executing the strategy in a timely way. Converting integration strategy into detailed actions and managing those actions across the combining enterprise is critical for success. To succeed, a governance structure must be in place to align people, process, and systems with integration objectives. This is the role of an Integration Management Office (IMO).

An IMO is the glue that holds an integration together. It is the nerve center of the effort. It serves as the central contact point for every function and individual involved. And it must be designed specifically to meet the needs of the deal it serves. An IMO staffed by experienced people working with a common timeline and applying a common methodology is necessary to make sure an integration stays on course and that the people involved in the effort focus on the right activities at the right times.

The integration process and underlying IMO activities laid out in this paper provide a successful framework for managing an enterprise wide integration that has been tried and proven time and again, and allows managers to focus their effort on sound execution.

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1 PwC’s 2014 M&A Integration Survey Report
The integration process

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

<table>
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<th>Phase I</th>
<th>Phase II</th>
<th>Phase III</th>
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<td><strong>Set the Course</strong></td>
<td><strong>Plan for “Day One”</strong></td>
<td><strong>Execute 100 Day Plan</strong></td>
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<tr>
<td>• Articulate the strategy for the combined company</td>
<td>• Identify and execute Day One requirements across all functions</td>
<td>• Deliver tactical integration projects</td>
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<tr>
<td>• Plan the degree of integration and non-negotiables</td>
<td>• Develop 100 Day Plan including quick wins</td>
<td>• Deliver quick wins</td>
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<tr>
<td>• Identify and protect core operations out of integration scope</td>
<td>• Secure resources and implement retention programs</td>
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<tr>
<td>• Customize the integration structure and approach</td>
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<td>• Designate integration leadership at all levels and establish the Integration Management Office</td>
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<tr>
<td>• Develop communication plan and execute early communications</td>
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<tr>
<td><strong>Design the Future State</strong></td>
<td><strong>Create Detailed Integration Plan</strong></td>
<td><strong>Maximize Value Through Future State Implementation</strong></td>
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<td>• Design functional and operational “to be” states</td>
<td>• Consolidate all integration initiatives into an executable plan</td>
<td>• Implement, track, and monitor integration execution to ensure deal value capture</td>
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<tr>
<td>• Identify, value, and prioritize key integration initiatives and synergies</td>
<td>• Ensure plan fits with core business and prioritize with other initiatives</td>
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<tr>
<td>• Develop leadership and organization structure</td>
<td>• Assess resource capacity and requirements</td>
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<tr>
<td>• Assess cultural differences and develop people change program</td>
<td>• Align incentive arrangements with integration objectives</td>
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*Figure 1 – The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.*
A disciplined process is important for all large and midscale integrations, but the process must be flexible enough to adapt to each transaction’s unique facts and circumstances and evolving needs. The primary purpose of an IMO is to put in place the management structure, people, and processes that match the integration requirements in pursuit of capturing deal value. An IMO accomplishes this by:

- Defining the integration basics, including the degree of integration and non-negotiables across functions and geographies
- Coordinating integration activities across the combining organizations through a disciplined and structured approach
- Rolling out the integration methodology and tools, including status reporting and dependency and issue management
- Implementing a centralized value driver process, including methodology, tools, templates, and a tracking mechanism
- Identifying issues, decisions, and resource constraints, and escalating to management for resolution
- Launching key communications and the communication planning process

Integration Management is more than project management. While some elements of traditional project management are found within an IMO, an IMO is much more. All too often even the best senior management can underestimate the complexity and level of effort it will take to drive an integration. Sometimes management makes a common mistake by assuming that general project managers have the experience to manage the exponential complexity of an integration.

On one hand, traditional project management usually involves a very targeted audience and goal, often focused on only a few workstreams or functions. Scope is also typically limited, as is time frame. Integration management, on the other hand, is much more pervasive. It normally involves all aspects of two organizations over a longer period of time, and with a greater need for the integration organization to be flexible, adjusting to the needs and requirements over different phases of an integration. And the levels of executive support and oversight required are often much higher given the strategic nature of a transaction. Failure to recognize and address these complexities early is the first warning sign of integration problems to come.
Set the course

An acquisition, like other large-scale corporate change, is an excellent opportunity to set a new course, both operationally and across the various support functions of the newly combined business. Setting the course involves defining clear objectives and establishing clear leadership and role clarity during the transition.

Key areas for the IMO to set the course include:

Planning the degree of integration

Every organization is different, and every deal is different. So it’s critical for the IMO to assist in defining the degree of integration across functions and geographies and to effectively communicate that information to the integration organization. This will serve as the initial set of guiding principles each business unit or function will use to develop and execute its detailed plans. Without such guidance, people are more likely to focus on the actions easiest to accomplish and most personally rewarding, as opposed to the actions most likely to create shareholder value and result in sustainable returns.

The degree of integration often depends on the type of transaction, the similarity—or dissimilarity—of the businesses involved, synergy targets, the potential for disruption to core operations, and control decisions. For example, in an absorption-type transaction commonly based on industry consolidation, the degree of integration across functions and geographies tends to be high, with significant cost synergies expected. On the flip side, in a standalone-type acquisition—common when the acquirer is expanding into a new product or market—the degree of integration tends to be lower, with more of a so-called nurture, or investment, approach to the new addition. Figure 2 illustrates the types of transactions and the degrees of integration typically associated with them.

### Degree of Integration

<table>
<thead>
<tr>
<th>Degree of Integration</th>
<th>Approach</th>
<th>Considerations</th>
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<tbody>
<tr>
<td><strong>HIGH</strong></td>
<td></td>
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<tr>
<td>Full</td>
<td>Absorption: Fully integrate target into buyer infrastructure</td>
<td>Synergies:</td>
</tr>
<tr>
<td>Partial</td>
<td>Best of both/hybrid: Choose best elements from buyer and target for combined company</td>
<td>Similarity of businesses:</td>
</tr>
<tr>
<td>Low to none</td>
<td>Back-office integration: Target front-end business remains as is, back office functions integrated</td>
<td>Disruption to business:</td>
</tr>
<tr>
<td><strong>LOW</strong></td>
<td>Stand-alone: Minimal integration of target into buyer infrastructure</td>
<td>Control:</td>
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<td></td>
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<td>Risk of financial misstatement:</td>
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Figure 2 – The IMO plans the degree of integration after evaluation of several key factors.
Establishing the integration organization

The integration organization comprises the larger cross-functional team responsible for executing the strategic integration action plans within each business unit or function. It is a team-based control structure that links integration strategy and leadership with task-level actions. The integration organization is best assembled once the overall integration strategy has been translated into guiding principles that define the desired degree of integration across functions and geographies.

To achieve success, an integration management structure must be established with clearly defined responsibilities and reporting relationships. Teams of functional specialists are tasked with integration of core functional areas. They in turn report to an IMO, which consists of the team of individuals with responsibility for managing the overall integration. Finally, a steering committee of senior leaders oversees the effort. Figure 3 illustrates what a typical integration structure may look like.

The IMO is responsible for coordinating actions across workstreams, ensuring cross-functional dependencies are resolved, reporting to executive leadership, and monitoring resource needs. The IMO is also responsible for starting the communication process to set the tone with stakeholders, and centralize the value driver realization and synergy tracking process.

Planning to resource the integration

Resource needs for integration are generally underestimated. The number of resources required and the associated time commitment to accomplish the many tasks from deal announcement to 100 Days Post Close and beyond sometimes catch management by surprise. Integration is typically complex—with many moving parts—and often demands lengthy commitments from an organization’s best and brightest, with greater involvement on the parts of senior managers than expected.

An IMO plays a central role in determining the level of resources required during the course of the integration. Of critical importance is the need to balance integration objectives and requirements with making sure to avoid disruption to ongoing business. The first matter to decide is where resources will come from and what their roles will be. Other considerations include staff availability and bandwidth, the degree and duration of their involvement, how to backfill the roles vacated by those serving on the integration team, and the transition of team members back into their former—or new—roles once their integration service is complete.
**Plan for and execute Day One**

Even if the best decisions are made as you set the course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it’s also the time for a smooth transition of essential operations.

Key areas for the IMO to plan for and execute Day One include:

**Launching the integration**

An effective launch to the integration effort is the first step in planning for Day One. The IMO would typically invest a large amount of time in planning a kickoff event—usually through a series of meetings—to ensure the event is executed flawlessly. After all, this event often sets the tone for the entire integration. Getting the integration launch right is critical because it’s usually the first time a sizable cross-section of people from both organizations will meet face-to-face. Often, the buyer company will hold a prelaunch meeting with its functional team leaders and key team members to prepare to engage with the target company.

An integration kickoff event would include:

- An executive-level presentation on the deal rationale
- A general introduction to both companies, including their products, geographic footprint, etc.
- A discussion of the guiding principles based on the desired degree of integration
- A primer on the integration’s organization structure and resources
- An overview of the role and processes of the IMO
- Functional break-out sessions that get teams working on defining integration activities, including important Day One action items

The integration launch should be an “output driven” meeting where the functional teams get focused on defining Day One, 100 Day, and longer-term activities. The launch should also outline executive issues to be resolved and decisions to be made, cross-functional dependencies, and communication needs. Identifying potential quick wins for capturing immediate synergies is another important outcome. The point here is to leave the launch event with a defined set of objectives and activities by functional area, including tactical requirements for closing.

The use and exchange of information between the deal parties prior to close are sometimes restricted by securities, antitrust, or other regulations. Those restrictions can impact the work of functional teams and information that can be shared—but more commonly information related to aspects such as pricing and customer agreements. Even with the limitations, a considerable amount of integration planning can still take place. If necessary, the most sensitive information can often be sequestered through use of a “clean room” or “clean team.”

**Developing the workplans**

The plans made and the priorities set during the integration launch are major inputs to the workplan development process. Good, detailed workplans result in better integrations. But building comprehensive workplans takes time, and some companies overlook the importance of this activity. Failure to invest the time and resources necessary to build workplans is another warning sign of failure to capture deal value.

Each functional team should develop workplans that detail the tasks, resources, due dates, and cross-functional dependencies required to get the job done. These workplans are never static and should constantly evolve over the course of the integration as new details become known and milestones achieved. In the early stages prior to close, workplans should focus on the tasks most critical to Day One. This allows for timely identification of long-lead items well before they can turn into closing-day surprises.
The breadth of Day One needs will vary by transaction, though generally there is not enough information, time, or legal approval granted between deal announcement and close to make significant changes to front-office, customer-facing, revenue-generating activities. Progress in these areas is typically limited to ensuring good customer and sales force communications and a thorough review of customer information made available.

Day One efforts tend to focus more on gaining control and mitigating risk within back-office functions (e.g. finance, information technology, human resources, legal).

An IMO should work with each functional team to ensure sufficient workplan detail, and then review each workplan to confirm its consistency and completeness. In reviewing the workplans, an IMO should also point out dependencies and critical-path prerequisites and assess resource gaps and requirements.

**Rolling out processes and tools**

During the early phases of integration, an effective IMO will introduce the broader integration organization to common processes, tools, and templates to make sure the integration is executed in a coordinated manner. The job of the IMO is not to perform the detailed work of the integration, but to coordinate its completion by the functional teams.

An effective IMO manages by exception. If the integration launch is a success and workplans are sufficiently detailed, then the IMO can move to an exception-based-management approach. An IMO can accomplish this by several key processes, including regular status reporting and dependency management and tracking.

- **Status reporting.** A periodic reporting cadence is established with the functional teams as a safety net to ensure issues and risks are readily identified and quickly resolved. This is done by using standard reporting templates that capture progress on key milestones, decisions to be made, issues to be resolved, and cross-functional dependencies to be managed. A typical reporting cadence is weekly through 100 Days Post Close and either monthly or bimonthly thereafter.

- **Dependency management.** A dependency is a need by one functional area for action, information, or decision making from another functional area. Generally, a dependency must be satisfied by one function before another function can move forward with an aspect of its integration effort. Managing dependencies across functions can be complex, confusing, and time-consuming. But the activity is similar to tightening the lug nuts after rotating the tires on a car—if you don’t do it, the wheels will come off. In a smaller transaction, the use of a simple dependency log may be all that is required. However, in larger-scale and cross-border transactions, a more rigorous process and a stricter set of tracking mechanisms may be needed. In either case, the main goal is to identify dependencies and then properly assign them to those tasked with resolving them in time to prevent integration delay.
Dependency tracking can provide critical insights into integration complexity over time, and “hot spots” requiring management involvement. For example, tracking the volume of dependencies identified and open at a particular time is a good indicator of integration complexity. Figure 4 illustrates a dependency tracking report.

Another indicator of integration complexity can be found by tracking dependency clusters. These result when a high number of multifunctional dependencies are concentrated on management decisions required, or key activities to occur in a common area such as people selection, legal entity structure, systems migration, and branding changes. These often require setting up a centralized multifunctional task force to choreograph the timing each function will have to meet and the steps each function will need to take to accomplish the overall objective.

Figure 4 – Proactively managing dependencies is critical to understanding and reducing integration complexity.
Design and maximize future state operations

When it comes to delivering an effective integration and realizing sustainable long-term synergies, the period before deal announcement through Day One is only the beginning. After that period, which can be as short as a few weeks, operational and cultural integration begin in earnest as the major components of the combined organizations are integrated.

Key areas of focus for the IMO during this phase include:

**Value driver realization and synergy tracking**

Ultimately, the market will reward or punish shareholders of the combined company depending on how well management succeeds at achieving stated deal objectives. Given this, it is important to maintain focus on initiatives that result in value.

An IMO can be instrumental in launching a value driver program, particularly once the Day One workplan building process is complete and tactical implementation is under way. An IMO can start a process that includes identifying, prioritizing, developing, and executing on key value driver and synergy initiatives. This includes both revenue-generating synergies, such as bundling buyer and target company products and cross-selling into new channels and geographies, and cost reduction synergies, such as eliminating redundant facilities, systems, processes, and people.

It is not possible to seize every synergy during an acquisition. For most companies in transition, though, nearly everything becomes a priority—the head of each functional area, business unit, or special project focuses primarily on the needs of its own group. Resource workload limitations, however, demand that integration efforts be prioritized, and an IMO is the management body best positioned to ensure that shareholder value will drive the allocation of resources for meeting these priorities. Figure 5 illustrates how initiatives can be ranked and prioritized.

![Figure 5 - Identifying, prioritizing, and developing plans to implement value driving initiatives is an important function of the IMO. Initiatives are ranked according to financial impact and probability of success. Those with the highest financial impact and highest probability of success receive resource priority.](image-url)
As the integration progresses and synergies get realized, it is vital that company executives can communicate effectively and with confidence on what has been achieved. The IMO, often working with either the Corporate Development department or the Financial Planning and Analysis (FP&A) group within the Finance department, should design and roll out a centralized process and set of tools for monitoring, tracking, and reporting synergies. This will help keep the combined company on task to deliver measurable results.

**Business Process and Systems Integration (BPSI)**

Integrating systems and the business processes that surround them can be complex and fraught with risk. Often, this activity is at the heart and soul of integration success or failure (particularly in large-scale and cross-border transactions). Whether to support revenue-generating synergies or to drive cost reduction synergies, integrating multiple, disparate applications and their associated financial and business processes is a critical path prerequisite. And it’s here where companies so often falter. Once again, developing comprehensive workplans takes time, and some companies overlook the importance of this step. Failure to invest the resources and time necessary to build these plans often limits an organization’s ability to capture the desired synergies.

An IMO can play a critical role in launching business process and systems integration (BPSI) activities by working with primary functional teams (generally finance and information technology) to govern the business requirements gathering process across the organization. The requirements often begin as outputs from the IMO dependency management process. In large-scale integrations, the IMO can sometimes be converted into a BPSI team at some point following 100 Days Post Close to centrally manage the requirements definition and prioritization essential to longer-term cross-functional BPSI initiatives.

**People and change management**

When combining two of anything—let alone two things as dynamic and complex as productive, active companies—you first need to agree on a shared purpose, set common goals, and learn how to work as one to achieve results. But none of this is possible without effectively engaging the people in both organizations, helping them to understand one another, and operating efficiently in an environment with clarity and purpose.

An IMO can play a critical role in helping formulate and initiate an overall change management effort. The IMO will often have unique insights from working through planning efforts and can work with human resources specialists in assessing and addressing core differences in the cultural and behavioral dimensions of the two organizations. Executive input can also determine the desired behaviors of the new organization. An IMO can help coordinate communication specialists as they attempt to design effective communication programs that foster needed changes.
Conclusion

A disciplined approach to integration is critical to deal success. A well defined integration process and set of fundamental activities rolled out by the IMO helps achieve early wins, build momentum, and instill confidence among stakeholders. Adherence to a well planned integration process and recommended set of IMO activities laid out in this paper can guide companies along the path to a successful integration and allow managers to focus their efforts on sound execution.
Acknowledgements

For a deeper discussion on the content of this paper or other deal considerations, please contact one of our practice leaders or your local PwC partner.

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