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The one task the CFO should not delegate: Integrations

The numbers show that when the finance chief is directly involved in identifying potential synergies, transformation and value-creation opportunities, and cultural pitfalls, companies see greater deal success.

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Today's CFO is busy in ways that previous generations of finance leaders could not have anticipated, with more responsibility for corporate strategy, board engagement, digital initiatives, and the like.[1] As the list of tasks grows, it is important for the CFO to identify and prioritize those business activities in which they can help to create the most value for the organization. Our research shows that M&A has become one of those critical areas of focus.

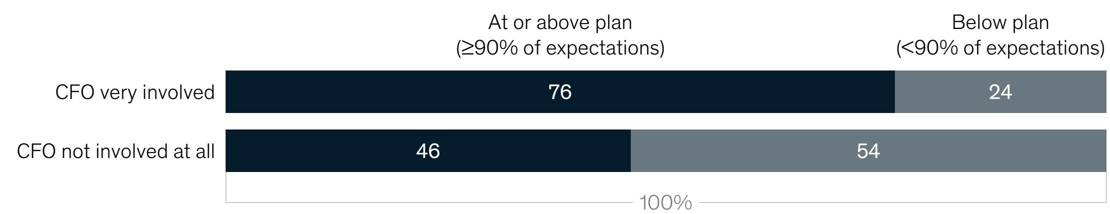
Of more than 200 global CFOs polled, 39 percent said they played major roles in initial merger strategy; 42 percent reported their involvement in deal execution; and 37 percent said they were involved in merger integrations. In all three categories, the numbers had increased since the previous years' findings. Even more revealing, when the CFO was "very involved" in merger integrations, companies were much more likely to capture cost and revenue synergies that were at or above plan (exhibit).

To successfully integrate companies and cultures, business leaders must have an informed perspective on the synergies to be captured, the transformation opportunities to be pursued, the value to be created, and the cultural pitfalls to steer clear of. The CFO operates at the nexus of all these concerns and has both the information and the expertise to provide that perspective and help lead the way.

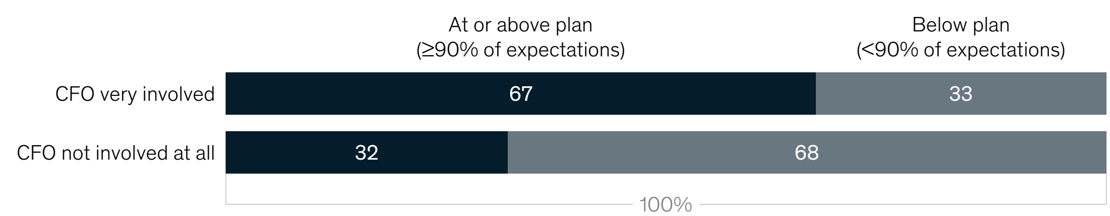
Exhibit

Cost and revenue synergies are more likely to be achieved when the CFO is involved in merger integrations.

Cost synergies achieved, % of respondents[1]



Revenue synergies achieved, % of respondents[1]



[1] The survey was conducted online April 18–30, 2018, garnering responses from 414 C-level executives and senior managers, and via phone interviews June 20–July 2, 2018, garnering responses from 34 CFOs. In total, 212 CFOs at the company, functional, or business-unit level responded to the survey. To adjust for differences in response rates, data are weighted by contribution of each respondent's nation to global GDP.

[1] "The new CFO mandate: Prioritize, transform, repeat," McKinsey Global Survey, December 3, 2018, McKinsey.com.

Whether and how the CFO chooses to do so can determine the success or failure of large integrations and corporate transformations. In the companies that outperformed peers, for instance, the CFO went above and beyond simply providing guidance on synergies. Forty-nine percent of respondents in outperforming companies said the CFO had designed the company's transformation road map (versus only 34 percent of peers saying the same). They pointed to the CFO as a cultural role model—47 percent said the finance chief took the lead in developing the capabilities required to support integration; and an additional 41 percent said the CFO was instrumental in encouraging new mindsets and ways of working in the wake of integration. Additionally, respondents in outperforming companies saw the CFO take on an important communication role—for instance, setting high-level goals for integration and transformation, and communicating them effectively to both internal and external audiences.

In this article, we take a closer look at the varied roles the CFO can play in ensuring that companies capture the most value from critical deals.

Synergy leader

This is perhaps the most obvious role for the CFO to play in integrations given the impact of such transactions on company financials and valuations. The finance chief must establish an end-to-end process for capturing the most value from a deal. This process involves assessing potential synergies, building forecasts and scenarios, and involving top leaders in financial planning and analysis (FP&A) to ensure that financial and strategic objectives can be met once the deal is completed. It means proactively weaving synergy targets and metrics into current financial processes—for example, building one-time costs into budgets and creating incentive plans that support deal objectives.

Ideally, the CFO starts this process during pre-close planning by developing a baseline that maps the costs for similar activities and business processes across the companies being merged. A detailed baseline can often be more effective than standard benchmarks; it becomes a "treasure map" that the CFO can use to identify duplicate costs quickly and rationalize the people, processes, and systems. As any finance chief will admit, it can be onerous to incorporate every single detail into the baseline—but it's worth the effort to give business leaders the fullest possible picture of the combined company's financials and potential synergy opportunities.

The CFO can also help to ensure that the company is targeting the full range of opportunities from the deal, not just those synergies required to justify it. The most successful CFOs put aside the deal model and "clean sheet" the design of the new organization or reimagine the way work is done today.

On day one, the CFO can embed synergy targets and metrics into normal finance processes. For example, variance analyses and forecasting processes for the newly combined company should break out the direct effects of the deal. In our experience, the most successful integrations involve companies that are able to merge synergies into the budget within the first quarter, even for large, complex deals.

Through these actions, the CFO and top FP&A leaders can see and help remove roadblocks that are preventing a company from capturing value from an integration. For instance, the CFO at one software company continually monitored the progress of its integration with the target company, comparing objectives with outcomes and establishing a monthly review process to update forecasts associated with the initiative.

The software company aimed to combine its products with those of the target company, thereby reducing costs. The risk was that some customers might switch if their favorite products were discontinued. During one review, the CFO and finance team discovered that, in their attempts to rationalize products from both companies, they had overestimated the savings coming from slimmed-down product lines. Given the reduced savings, the CFO realized that certain products should not be discarded. By forgoing some synergies, the company more than met its target customer-retention rate, which created even more value for the company than promised cost savings. The CFO's willingness to consider value, not just costs, helped make this deal successful.

Transformation sponsor

As most finance leaders know, a focus solely on traditional postmerger synergies, such as greater efficiencies and lower costs, will go only so far in creating the value most companies are targeting with M&A. With guidance from the CFO, business leaders can open the aperture and view integrations as opportunities for broader organizational and process change.

As transformation sponsor, the CFO can facilitate discussions about the financial and strategic trade-offs that are inevitable in any merger—for instance, how to set up shared services, how to rationalize IT systems, or how to upgrade talent and capabilities.

In one recent integration, for example, the CFO reimagined what the combination of two large technology companies could look like. One had a strong brand and had increased market share by aggressively spending on marketing. The other had a lean operating model and was keen on cutting costs to invest in adjacent areas that promised growth. Rather than taking sides and saying one approach was right and the other wrong, the CFO took a market-back view of the companies' strategies and, with help from the finance team and business-unit leaders, conducted a zero-based budgeting exercise to align the companies' cost structures.

The CFO also created a monthly review process that brought the combined leadership team together to openly debate financial and operational choices and gain agreement on important issues. In this way, the CFO was able to guide the conversation by what was possible for the newly formed company instead of just looking for postmerger synergies. The CFO was also realistic about the costs required to achieve the merged company's potential. Teams were allowed to reinvest any synergies captured after the merger in transformational initiatives. For instance, senior leaders in both companies reduced their marketing activities for certain products and reallocated some of those marketing dollars toward the launch of new offerings from the combined company.

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Communication leader

Given their proximity to the deal rationale and value-creation goals, the CFO is in a strong position to help senior management build and communicate a compelling story (from announcement through postclose execution) about how the acquisition has progressed and potential outcomes from integration. More than the CEO and other C-suite leaders, the finance chief has the information and expertise required to present a complete financial picture while tailoring the value story to each set of key stakeholders—customers, suppliers, investors, employees, and board directors.

This capability is particularly important during integrations, in which the company will have new sets of investors, with a limited understanding of the combined entity, or groups of employees being asked to work in the new entity without a clear sense of what the long-term organizational structure will look like. The wrong message to investors can make it appear as though an integration is off track. An overly simplistic message to employees may sound deceptive. An ambiguous update to the board may create anxiety about the true progress of the transaction.

The CFO can help senior management address key concerns from individual groups of stakeholders. In the case of one large healthcare merger, for instance, the CFO spoke frequently and consistently about merger priorities, time frames for capturing various synergies, and how the company was tracking synergies. He tailored his message for various stakeholders. For investors, the finance leader referenced the same metrics each quarter, with detailed supporting discussions on the progress made and opportunities that remained. For employees, the CFO continually referred back to the deal's priorities and their connection to changes made in performance management, financial metrics, and incentive rewards. For board members, the CFO emphasized transparency on milestones achieved, as well as on any challenges and risks (anticipated and unanticipated). The CFO also convened a special session in which the board and senior leadership conducted a full postmortem on the merger and identified things to do differently in future deals.

Cultural role model

Integrations inevitably pose cultural challenges for business leaders. This is particularly true for the finance function, as employees come together and realize that, given the many duplicative roles and processes, there might not be room for everyone in the new organization. As a highly visible member of the top team and the leader most closely associated with strategies and decisions relating to resource management and reallocation, the CFO is in a good position to ease such concerns and model the culture of accountability required in such situations.

Consider the following example. The CEO of AcquireCo selected the CFO from TargetCo to lead the finance function of the newly merged entity. Members of the finance function within TargetCo welcomed the news happily, of course, while their counterparts in AcquireCo were unsettled. Their anxiety increased further when, weeks later, the CFO who had been selected decided to leave the organization.

The new CFO leading the merger between AcquireCo and TargetCo had her work cut out for her. Her first task was to work with the new top team to outline a clear vision for the future of the finance function, factoring in the structural and cultural changes that would be required. She translated that vision into specific goals for members of the finance team. The CFO shared the merged companies' aspirations to automate specific tasks, thereby freeing up finance-team members to work on higher-order assignments. She also shared plans to move the finance organization to a shared-services model to take full advantage of scale and expertise across both companies. The CFO also publicly committed to retaining top talent because the merged businesses still needed support from different kinds of subject-matter experts.

The CFO's actions sent a message to the whole organization that transformation was central to the merged companies' strategy and purpose, that top talent from both companies would be valued, and that she and other leaders would be accountable for successes or failures resulting from the changes. The finance leadership, inspired by the CFO, mirrored this culture of accountability.

CFOs already play a leading role in the execution of mergers and acquisitions. Their hats are getting bigger, however, with an expanding focus on the end-to-end management and integration of such deals. The reward for taking on this added responsibility? Improved operating models and investor confidence, new capabilities, and value capture that goes beyond traditional synergies and veers toward meaningful transformation.

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