The Role of Finance in Achieving M&A Results

Senior finance executives wear four key hats during the deal-making process -- catalyst, strategist, operator and steward -- and each one has important bearing on the M&A lifecycle.

By Carol O. Bailey and Trevear A. Thomas

The current credit crisis may have put a squeeze on some deal-making dreams, but for strategic buyers with strong balance sheets and the wherewithal to withstand the pressures of a major transaction, this is a time of excellent opportunities.

In addition, for chief financial officers and other senior finance decision makers, this is a particularly viable time to exercise management strengths in supporting your company's bid for a mergers and acquisition venture that achieves significant results.

Merger, acquisition, divestiture and spin-off activities remain solid business strategies and can offer significant possibilities for value capture when managed well. The problem, however, is that few organizations actually get it right. A survey conducted by Deloitte Research in 2000 and Deloitte Consulting LLP in 2007, found that participants with recent deal experience said integration success was achieved only about 30 percent of the time.

That's because most participants misinterpret what determines deal success. Success is not just getting to the altar, or closing the deal sooner than expected. Success is realizing -- even before the process begins -- that a deal is not effectively "done" until the value of the transaction has been delivered.

This is where the senior finance leader can come in. As the role of finance has changed and grown in recent years, the role of senior financial executives has expand beyond the traditional expectations of operations oversight and accounting and reporting stewardship.

Today, CFOs and other senior finance executives wear four important hats: catalyst, strategist, operator and steward. Each of those roles can have an important bearing on the M&A lifecycle -- strategy, target screening, due diligence and integration. These are the phases of the process from which value can eventually flow.

As with any process, M&A results usually depend on the right person motivating focus, speed, structure and the commitment of the people involved. Value envisioned at the beginning of the process and value captured at the end are obvious areas for finance involvement, and, more than ever, the finance leader is usually in a position to drive the actions in between.

To be sure, the role of finance leaders vary with specific circumstances, but viewed through the prism of an M&A deal, the CFO can be a key differentiator in achieving transaction goals as follows:

- **Catalyst:** Stimulates behaviors across the organization to achieve strategic and financial objectives.
- **Strategist:** Provides financial leadership in determining strategic business direction and aligning financial strategies.
- **Steward:** Protects and preserves the organization’s assets.
- **Operator:** Balances capabilities, costs and service levels to fulfill the finance organization’s responsibilities.

The strategist’s role can be critical in the first three of the four phases of the M&A lifecycle as the company defines deal objectives in relation to corporate strategy; determines target criteria and conducts screening; and sets up a due-diligence structure and process that forms the basis for deal management.

In the fourth and possibly most critical phase, integration, the CFO’s other three hats can also be worn throughout, including through: blueprint development; detailed planning; Day-One implementation; and end-state implementation. Effectiveness in these areas is often dependent on asking the right questions and challenging assumptions and priorities in a way that plays to the strengths of a trained and experienced finance professional. Here are some examples:

Blueprint Development

Do the integration guiding principles align with the corporate strategy and culture?

Can junior staff interpret those principles and apply them on a day-to-day basis?

Can the program’s progress be assessed based on the guiding principles?

What are the must-haves?

What level of detail must be included?

How is success defined?

Detailed Planning

Do the finance synergy opportunities align with the investment thesis?

How will finance function synergy targets be achieved?

What role will finance play in measuring ongoing synergy capture?

How will the changes in policies, processes and systems required for Day One be captured and monitored to control the impact on the ability to comply?

How can the number of control points be reduced such that objectives are achieved at a reasonable cost point?

Which of the predecessor company's processes and systems should be adopted?

Should the company attempt to migrate to one common set of systems and processes?

Day-One Implementation

How can consolidated GAAP reporting be produced by first period post-close without disrupting the business?

What is required to align accounting policies and material judgment items?

How can accelerated reporting close requirements be achieved?

Will tax strategies and synergies drive a new legal entity reporting structure and what are the financial implications of such a move?

How can timely communications to the external markets and internal customers be provided?

End-State Implementation

Is the end state plan aligned with initial synergy plans?

How to determine whether captured desired synergies have been achieved?

What is the end-state vision for information technology? How soon can the company get there?

What is the return on investment on the integration effort and did it exceed the original planning assumptions?

Value for an acquirer is usually dependent on five key results: integration strategy and management; revenue growth; operating expense savings; asset efficiency; and reduction in cost of capital. Doing these well require high levels of effective management of both day-to-day responsibilities and the transaction process itself.

Integration in and of itself may not be conceptually difficult, but it require a strong focus on execution, the right cadence, and the ability to avoid being overwhelmed by the size of the effort. Again, these are actions that play to the strong-suit traits and responsibilities of a seasoned finance professional.

The Next Move

M&A opportunities continue to serve as strategically pivotal transactions in today's increasingly competitive marketplace. But they usually require careful attention by experienced professionals.

In effect, these deals can be high-stakes juggling acts, and the top finance officer is well positioned to play an important role in finding the balance and synergies required to achieve the objectives of the deal across the entire organization as well as within the finance function. The CFO can set the stage and should be equipped with the right information and level of responsibility to improve the financial results of the deal.

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