"Because acquisitions tend to be periodic events, it is unusual for a company to have dedicated resources or a well-developed company-wide process for ongoing integration of new acquisitions."

Organization Development in Business

Creating a Corporate Merger Integration Process

By Myron J. Beard

THE ISSUE

First Data is a Fortune 250 company in the financial services industry and, after going public in 1992, has experienced steady growth through acquisitions, new products and organic growth. In the fall of 2001, as part of an overall evaluation of its growth strategy, First Data contracted with an outside consulting firm to conduct a 'growth audit'" The 'Room for Improvement' suggestions included maximizing the value of First Data's many acquisitions by implementing a consistent and standardized merger integration process.

Upon senior management's acceptance of the growth audit's merger recommendation, there was not a clear owner for the development of such an initiative. Any company-wide initiative that was to include a process to integrate all aspects of an acquired company would have to be a corporate initiative. In addition, any initiative of this scope would require the support of senior management to succeed. In conjunction with the CEO, the head of Organization Development was tasked to determine the scope of the issue and develop a company-wide merger integration solution. This article is the story of the solution development, with emphasis on the components of the merger integration process.

THE ORGANIZATION DEVELOPMENT EDGE

All too often, too little attention is given to the integration aspects of an acquisition. Typically, if acquisitions are integrated at all, it is primarily the human resource and possibly finance dimensions and may not include operations, sales, marketing or customers. This is the case because of the difficulty of integration, the general lack of integration skill sets and available resources. Because acquisitions tend to be periodic events, it is unusual for a company to have dedicated resources or a well-developed company-wide process for ongoing integration of new acquisitions. As a result, acquisitions often fail to live up to either internal or investor expectations (Beard 1999). First Data had, over a number of years, worked to reduce business silos and increase efficiencies gained through a shared services environment. In addition, the desire to maximize share holder value through more effectively integrating acquisitions helped drive a 'one company' approach to integrating new companies into the First Data parent. There was clearly a company readiness for this approach. Several other cross-company initiatives were in play which lent support to the timing and cooperation this process would receive.

Organization Development is uniquely qualified to take leadership on any initiative involving organization or culture change. The basic principles of managing change and creating change initiatives are at the heart of a well-functioning Organization Development program (Beard, 2000). OD has a systemic perspective, is collaborative, neutral, balances the needs of the organization with the needs of the individual and has process and change management tools. These advantages give the OD function an edge in leading any kind of a new company-wide effort. Focusing on increasing the organization's effectiveness and health is consistent with aligning to major business initiatives. In order to begin the process, the merger integration team recognized the need to have a guiding framework for both developing and implementing a company-wide change effort in the form of a standard merger integration process. While there are several approaches that were reviewed, the principles outlined by Rouda and Kusy (Rouda & Kusy, 1995) were adopted because of the systematic step-wise process and the overall application and practicality to our situation *(Figure 1)*.

Figure 1

Principles of organization development considered important for this initiative included (Rouda & Kusy, 1995):

1. **Assessment and Diagnosis** – the front-end need to conduct thorough discovery prior to coming to conclusions and formulating plans.
2. **Synthesis** – sharing the assessment data with targeted groups to clarify themes and begin the process of strategy development.
3. **Action Planning** – using the data with accompanying strategy to begin the development of a comprehensive intervention that will be results-oriented and value added.
4. **Intervention** – the implementation of a well thought out plan to impact and ultimately effect change in the system.
5. **Evaluation** – measuring the effects of the intervention on the organization and making necessary revisions where necessary.
6. **Adoption** – the adoption and incorporating into the culture the ongoing intervention as a business as usual practice.
7. **Sustentation** – building into the organization the ability to sustain and continually revise the intervention into a business-as-usual practice.

ASSESSMENT AND DIAGNOSIS

As in all robust OD initiatives, the process of organization-wide discovery precedes the development of the creation of a plan or intervention. To this end a professional merger integration consultation firm was engaged in early 2002 to help understand the depth and breadth of the issue. In addition to reviewing the growth audit document, Merger Managers held interviews with all key integration and acquisition stakeholders including representatives from finance, operations, legal, information systems, human resources, sales, marketing, business development and general management. In addition, they sought out best practices from companies known for having a competency in merger integration (e.g., GE Capital).

One of the central findings during the discovery phase was that a consistent enterprise integration process did not currently exist at First Data. The business segments into which an acquisition fit were responsible for both how, and the extent to which, an acquisition was integrated, including not integrating at all. Because each business segment operated more or less autonomously, deep silos had developed and there was no incentive for business segments to adopt a common integration practice across the company. It was clear that any attempt to develop a standard integration process was going to need these major requirements:

- Needed strong Executive support.
- Needed to be a corporate initiative and not seen as an HR initiative, but instead as a business necessity.
- Had to be aligned with the existing Mergers and Acquisition (M&A) deal team but separate in order to retain autonomy and objectivity. The importance of accountability and responsibility were two central issues to be determined.

Other key findings supported the earlier conclusion that a standardized merger integration process was a necessity and not a "nice to have:" there was an inconsistent and, at times, insufficient handoff from the acquisition team to the integration team; operational integration had been too slow on previous acquisitions; the acquired staff sometimes felt disconnected from the business segment staff as little cultural due diligence was conducted on target companies; there was vague synergy implementation accountability; and, finally, there was not sufficient on-site support for integration processes. Typically, the only consistent integration practice was in human resource

AUTHOR

MYRON J. BEARD, Ph.D. is currently the Senior Vice President in charge of Organization Development, Merger Integration and the First Data Sales Institute. Prior to joining First Data he was a Senior Consultant and the Merger Integration Practice Leader for an international management consultant firm. Beard has published several articles and book chapters on mergers and acquisitions and leadership development. He maintains Colorado licensure as a Psychologist. He earned his doctorate from the University of North Texas. He can be reached at *myronbeard@comcast.net*.

processes like payroll and benefits conversions and finance for reporting purposes.

Fortunately, the Mergers and Acquisition (M&A) deal team had recently been reorganized as a corporate function to better coordinate the acquisition activity among the business segments; reduce redundancy; create a common set of external consultants (legal, investment bankers, accounting firms, etc.); and streamline the deal flow throughout the organization. While this function was in its organizational infancy, it lent support to the concept that merger integration, like M&A, be a single corporate function.

SYNTHESIS: CREATION OF THE STRATEGY AND STRUCTURE

A small team was put together to translate the consultants' findings into a strategy and proposed structure. The strategy included both the scope and scale of the merger integration initiative and included the following:

1. Merger integration would be standardized across the company and part of the overall business strategy.
2. The Merger Integration (MI) function would be aligned with the existing M&A process and structure.
3. The focus of the process would be to maximize acquisition revenue and cost savings through efficient and effective integration processes.
4. The integration team would be brought in pre-close to begin the development of an integration plan and key people would be on-site prior to close.
5. Synergies would be measured against plan and synergy owners would be identified and held accountable.
6. Consistent internal and external communications plans would be implemented.

A merger integration mission was developed *(Figure 2)*. In order to support this strategy, the structure of the Integration function would parallel that of the M&A function in which processes and strategies were developed at the corporate level (in conjunction with business segment counsel) to be implemented at the business segment level.

Figure 2

Merger Integration Mission

The Merger Integration organization will maximize acquisition deal value by developing, teaching and sustaining integration capabilities while utilizing

- Dedicated integration teams
- Reusable tools
- Best practices and integration processes
- Integration measurement tools

To this end, an Integration Team was formed consisting of both corporate and business segment members who had a blend of acquisition and project management experience. Initially, these members would stay in their current jobs and, when an acquisition moved into the final stages of closing, the business segment members could serve as the integration leads for the entirety of the project. This role was different from the business lead who would run the acquisition post-close and to whom the integration lead would report until the acquired company was fully integrated and became part of business-as-usual. With this framework and virtual team, the next phase began.

ACTION PLANNING DESIGN AND DEVELOPMENT

Because there was not a uniform integration process in place, nor were there any easy to get at integration process details from previous acquisitions, the MI team had to start building a program from scratch. In addition to internal First Data members, it was decided to continue to use external experts in the design and development of the Integration process. Given the criticality of the number of viable acquisitions in the "deal pipeline" and need to be able to quickly capture both cost and revenue synergies earlier in an integration, external resources were used to assist with this phase of the planning process.

In order to leverage the data from Merger Managers, they were retained to be a part of the development team. In addition, professors from the Daniels College of Business at the University of Denver were engaged because of their expertise in the design, development and delivery of educational and business content. Finally, because of the need for professional facilitation expertise, an external OD consultant was hired to help OD guide the newly formed MI team through the planning process.

From a basic change management perspective, it was determined early on that extensive training of potential integration team members would be the best approach to establish the integration function. Because merger integration is, in reality, a large project, standard project management discipline and tools could be utilized. However, because it is a unique project, and one with clear business consequences, the team wanted to differentiate integration from more routine projects like those found in operations. In order to make the training "life like," an *action learning* approach, including an introduction to M&A and a business simulation, was determined to be the best vehicle for designing and sustaining this training initiative.

The design and development team worked over six months in the creation of the action-learning program complete with a full business case (drawn from a number of companies in the financial services industry that First Data might acquire). The simulation, code named "Project Salsa" included integration related content areas incorporating the business case, inter-

Figure 3

Workshop Agenda
(Content Presentations in **Bold**)

Day 1 (pm)	Day 2	Day 3 (am)
Introduction of Program	Team Leader Meetings	**Change Management**
Project Salsa Introduction	Homework Report Out	**Managing Integration Challenges**
Team Meeting I	**Role of PMO**	Team Meeting VI
Report Outs	**Integration Process**	"Executive Committee" Presentation
M&A Strategic Foundation	**Creating Integration Plans**	Final Report
Team Meeting II	Team Meeting IV (3 hours)	Graduation
Integration Success Themes	Report Outs	Adjourn
Cultural Assessment	Conga Line ("Premature Celebration")	
Team Homework	**Integration Surprise**	
Team Meeting III	Team Meeting V (night)	

spersed with additional time for team planning meetings (see *Figure 3*). The workshop content and business case were delivered over a time period of two days, with work spread over three days. This was determined to be enough time for work and learning without compromising the value of the training.

Each workshop was divided into teams made up of eight members with the final expectation being to develop a comprehensive integration plan to present to an "executive committee" for approval. The integration plans included major cost and revenue synergies; operational objectives; initial financial data; high-level functional integration plans; and a priority-delivery worksheet, indicating some early prioritization of the sequence in which work would be done. The integration plan presentation was the culminating event of the training and an indication of the extent to which each team was able to apply the material to the acquisition simulation.

INTERVENTION: PILOT DELIVERY

The first training presentation was seen as a pilot. The faculty team determined to make each training a learning experience, capturing lessons learned and adapting subsequent training to reflect best practices.

Day 1. The training was delivered to a group of over 40 participants in the fall of 2002. The realism of the presentation (including a "memo" to the participants from the CEO) was such that many participants early in the training believed the simulation to be an *actual* acquisition for which they were being tasked to develop an integration plan! The participants were divided into groups of 8 members to work on an integration plan. The composition of the teams was predetermined to have cross-functional representation as possible. When a function was missing, the group could opt to come to one of the "experts" (i.e., training faculty) for advice and counsel. The training interspersed content presentations with structured time in between presentations for the teams to work on their integration plans. In order to simulate real time office application, each team was expected to use of a laptop computer. Electronic integration templates were provided for both capturing the elements of the integration plan and the presentation to the "executive committee" at the end of the training.

The simulation was developed to replicate the stress and storm of rapid integration planning. This included significant time and resource constraints, "surprises" along the way to "throw a wrench" into planning and to work late nights. Both a sense of importance and a competitive edge were emphasized in order to get the highest level of participation from group members. Even training faculty were surprised to observe just how effective a business simulation could be in creating a sense of realism of the process that fostered a high performance team experience. In addition, fun was part of the experience and this was done by exploiting the "Project Salsa" theme complete with salsa music, Mexican hats and great food. Juxtaposing content and work with interaction and fun proved to be an effective means of getting and sustaining a high level of engagement and participation.

Day 2. Groups worked together during the day and into the night to get all aspects of the integration plan developed. This included employing the right staff on the right tasks; working to develop a financial plan to capture both revenue and cost synergies; creating preliminary functional plans and high-level task lists; and addressing just how they would tackle cultural issues between the two companies. Most of the work was completed in the first day and a half.

On the second night when all groups believed their integration plans were complete or nearly there, a group celebration was held to acknowledge the hard work. This culminated in a raucous conga dance (holding to the Project Salsa theme) with drinks and dinner to follow. However, at the culmination of the conga dance the lead faculty got an "emergency call" from the CEO. The call indicated that some unforeseen events had occurred and needed to be factored in to the integration planning. Again, to simulate reality, just as participants were beginning to feel relieved their team leader was handed an envelope with an "emergency problem" which had arisen and would have to be dealt with in the integration plan. Examples of the problems that were presented to the team included a union organizing attempt, major customer leaving, or a major data center blow-up. As a result the party was deemed "premature celebration" and the groups were sent off to work into the night.

Day 3. On the morning of the third day (the last half day) each group had to present their final integration plan. This PowerPoint presentation was given to the "executive committee" made up of training faculty simulating actual First Data executive members. Other teams critiqued the presentation and gave written feedback to each group. The "executive committee" then grilled the groups on their plans and offered suggestions as to how to improve. Surprisingly, the seriousness, anxiety and tenseness with which the integration plans were delivered once again simulated the environment of a real presentation. As the plans were presented in their entirety, every participant and group demonstrated the breadth and depth of the learning.

EVALUATION: PILOT FEEDBACK AND REVISION

At the end of the presentations, the teams regrouped and compiled their learnings over the course of the three days. In addition, all participants took a post-training evaluation on both the content and the presenters. These results were compiled by the faculty and served as more data to make revisions to make better future training. This pilot was extremely helpful in creating revisions for subsequent trainings. We used internal resources to analyze the evaluation results, including themes that emerged from written comments. The majority of the feedback suggested that over the six-month development process, the workshop was well structured. Participants indicated they learned significant new content on merger integration that they would use in an actual integration. The unanimous view was that the action-learning format was an effective means of teaching the content.

There were, however, several areas for improvement, most of which were incorporated into additional training. Included in the improvements were making the content presentations more interactive with fewer lectures; sending pre-reading further in advance of the workshop; providing greater post-integration training; incorporating broader functional representation on each group; enforcing tighter group integration plan presentation templates and direction; and shortening some presentations.

Each of these recommendations was addressed in subsequent workshops with the exception of one. There was strong feedback that not enough time was allotted for the development of the integration plan (6 hours plus any additional time the teams wanted to put in). However, the development team decided not to increase the time allotted for integration planning work. First, in the development of an actual integration there is never enough time to get the plan as good as a team would like. Second, there are almost always "surprises" or unanticipated contingencies that arise derailing even the best plan. Finally, lengthening the workshop was not seen as feasible given the fact that many participants are taking off three workdays and also have to allot time for travel. Therefore, the development team elected to stay with the existing schedule.

INTERVENTION II: A REAL APPLICATION

In the spring of 2003 a large acquisition very quickly and unexpectedly provided the opportunity to put all of this planning and theory to practice and caused business leaders to search for resources. In the midst of this "acquisition crisis" an integration lead with deep project management experience and some integration experience was selected to manage the integration while reporting to the business owner. Unfortunately this project lead had not had an opportunity to attend a training workshop - not to worry, just improvise! With a quick personal overview an integration Project Management Office was formed and trained, and we were off to the races!

As a part of the overall integration initiative, each of the different functional groups (finance, HR, IT, properties, internal audit, etc.) were able to use their pre-developed integration templates. Technology had not yet been standardized but Microsoft Project was selected and integration planning began.

Many, but not all, of the merger integration practices developed in the training were instituted. Practices included the functional integration templates, work stream owners and integration metrics. In addition, some new best practices emerged in this "real world" laboratory that were incorporated into the merger integration training. Chief among these was the development of the Program Management Office (PMO), and the development of integration dashboards, milestones, issues and risks. Meat was truly put on the bones.

Perhaps the most gratifying aspect of the integration was that the majority of integration leaders came from the population of participants who had been previously trained and had a fuller appreciation of the scope and scale of an integration. These trained leaders were able to jumpstart the integration planning process. The integration lead was able, with their help, to translate her project management experience into an effective merger integration plan. Her team went through 'just in time' integration training to complement their project management skills. They were also able to effectively leverage the integration knowledge of those integration leaders who had been trough the training. An added benefit was that 'necessity' required this new team to develop integration tools not previously developed, including the way in which a large integration could be managed both vertically by business function (HR. finance, operations) and horizontally (by business/customer readiness). In this manner, there were linkages between the functions at critical junctures and projects could be carried out with fewer issues 'dropping' or being overlooked. The learning on both sides was synergistic and built into subsequent trainings.

RE-EVALUATION: NEW DEVELOPMENTS AND DESIGN

As a result of the training, technology and a fortuitous acquisition, the merger integration tools and processes were tested, revised and validated. While the integration leadership, structure, processes and tools continue to evolve, several major changes and additions have been added in an ongoing process of applying and adjusting best practices.

1. **Just in time training (JIT):** The training of a generic employee population to prepare them for potential acquisition integrations using a simulation clearly had an impact on the business culture of the company. The awareness of the necessity to integrate and adopt integration process and technology solutions was heightened. However, the next evolution of the training was in a more "real life/real time" environment. The decision was made to provide customized training at the time an acquisition is announced and when an integration team is identified. Using the real business case of the acquired company, actual integration teams spent time together learning the integration process with the ability to apply the tools on a real time integration. While the generic training was instrumental in the development of the processes, tools and training approach, the highest impact was clearly on an actual situation. This JIT model has become the new standard for integration training.
2. **Project Management Office (PMO):** The large and unanticipated acquisition caused the rethinking of the leadership role of an integration. As a result, the development of a pre-established integration PMO became a critical new addition to the training portfolio. The ability to identify and train the leadership of the integration with an understanding of roles and responsibilities of the PMO is now a standard practice. This training is of a smaller integration leadership team on how to effectively manage an integration on a daily basis. This includes the division of labor between the PMO and the functional and business project administrators. Putting extensive project management tools in place with the ability to identify and address risks and issues is an essential job of the PMO.
3. **Technology:** Finally, during this period, an enterprise-wide technology was adopted for all future integrations—Microsoft Project Server. This tool provides the flexibility, the rigor and the breadth of project management to make it the technology of choice for all integrations. With the adoption of Microsoft Project Server as the standard for integrations, extensive training now takes place with entire integration teams on the tool. Early returns on the use of this tool have been extremely promising in being able to capture, monitor, query and address multiple streams of data in a near real time. In addition, the on-line development of an integration dashboard to quickly assess key integration metrics is a major benefit of the tool.

ADOPTION: CURRENT STATUS

Four years after the recognition of the initial problem and three years following the initial training, First Data has a robust integration training process complete with an accompanying standard technology. Over 300 people have been trained in the integration planning process. In addition, over 200 people have been trained in subsequent specialized training (PMO, JIT, etc.). Training has taken place on three continents and with participants from over 12 countries.

More importantly, the integration process, templates, tools and technology have been adopted company wide. The process, tools and technology keep evolving. Each integration team adapts and adopts as necessary. There is enough built-in flexibility so that local changes or preferences can dictate appropriate customization. However, a basic framework is maintained as the backbone for all integrations. No integration of consequence takes place without the consultation of an MI team and the utilization of MI processes, tools and technology.

SUSTAINING THE PRACTICE

The evolution of the process is a never-ending endeavor. A small full-time corporate staff is involved with virtually every integration and offers experience and resources for training, consultation, or implementation assistance. Integrations continue to be owned by the particular business segment making the acquisition. However, the MI function has become a "Center of Excellence" with a small but effective corporate staff who own the standardization of processes, tools and technologies. The interaction between the business segment and corporate resources has become one of collaboration, synergy and mutual respect. The evolution of the process continues to be a collaborative process but still owned by corporate.

The MI staff links external and internal resources; develops a corporate learning environment; and develops a community of experts within the company who have the attributes, skills and desire to sustain the initiative. As we capture these learnings, the MI staff has developed a best practices library that is sent to all participants post-training. Each team member is given a comprehensive workbook with all aspects of the training for their use in real future integrations. An integration contact list is developed, updated and disseminated (now numbering over 300 participants). A monthly internal newsletter is sent to each "graduate" with integration best practices (now in its 30th month).

This very successful initiative has been developed using organization development principles and practices. By using the framework postulated by Rouda and Kusy, we were able to have a systematic way in which to proceed. In post-investment reviews as well as in company communications, merger integration is now seen as a core company strength. ■

REFERENCES

Beard, M.J. (1999). Developing an Effective Strategy for International Mergers and Acquisitions. *International HR Journal,* 7, (4), 22-30.

Beard, M.J. (2000). Organizational Development: An EAP Approach. *Employee Assistance Quarterly,* 16 (1/2): 117-140.

Rouda, R. H. & Kusy, M. E. (1995). Organizational Development: the management of change. *Pulp and Paper Industry Journal,* 78 (8): 253-255.