Accelerating business value realization using the Agile approach:Part 1

This article is the first in a two-part series, "Mergers & Acquisitions: Accelerating business value realization using the Agile approach," in which we outline the challenges inherent to acquisitions, and present the solutions offered by the Agile approach.

Businesses have long recognized the acquisition of a company as a means to drive growth and gain a competitive advantage. Yet, acquisitions entail serious risks that companies must manage through negotiations, legal transfer and post-acquisition integration.

An acquisition can lead to myriad problems – a flawed valuation of the assets of the target business, cultural issues created by integrating diverse workforces, conflicting operating models and policies, challenges posed by a workforce spread over disparate time zones, legal and regulatory hurdles, represent only a few. Even if a business successfully navigates these risks, either the target business or acquiring company might still lose value before the acquisition is complete, if the integration process drags on too long or no clear agreement is reached regarding the best operating model for the business in the future.

The mergers and acquisition (M&A) team within the acquiring business typically holds the unenviable job of mitigating all these risks while meeting the sky-high expectations of the acquiring company board and stakeholders. This paper looks at ways to reduce integration risks through a pragmatic approach to planning the integration phase, accelerating the delivery of business value to the board and stakeholders, and minimizing the activities required to deliver an integrated business as a process outcome.

The key challenges of integration

Given the integration challenges, acquisition failure rates could be as high as 70 to 90 percent, although there is no clear standard for determining failure. Since most acquisitions are considered complete from a legal standpoint once offers have been made and accepted. For this paper we will define a failed acquisition as one that did not deliver the level of returns anticipated by the buyer.

While most companies assume a failed acquisition is the result of insufficient due diligence, the root cause of failures typically lies in how they approached the acquisition. Since a company's acquisition plans are known only to top managers, due diligence is frequently left to senior stakeholders, who may not understand how their own business operates at the level of detail that enables optimal decision making. Meanwhile, these managers have to balance their acquisition responsibilities with their day-to-day duties, so due diligence may not get its fair share of time and effort.

As a result, the focus tends to be on regulatory considerations, and the target's valuation and financial performance by using Excel templates, to understand all the dynamics of a business. This approach overlooks integration, operating models, business value protection and the details of pre-acquisition planning. Consequently, it can take an inordinately long time to conclude due diligence and be ready to make a recommendation to the board for even the smallest of business targets.

Due diligence from a new perspective

We recommend a few changes to this approach. First, to tackle the problem of too much information, create a due diligence plan designed with the post-acquisition integration in mind. For example, if the plan is for the acquired company to continue to operate at arm's length, with only financial reporting integration required initially, then it isn't necessary to consider dynamics such as the impact on bill of materials (BOM) systems, logistics, website, email, or HR policies as part of the initial integration activities. With an eye on the end state, due diligence can focus on areas that will be impacted, such as charts of accounts integration and reporting processes.

Partner to succeed

Our second recommendation for improving the due diligence process is to take on a partner. Most companies, without an in-house M&A team, may need to seek the expertise of external parties for specific integration or divestment programs. Even where an in-house team is available, supplementing the team with independent third parties offers a number of tangible benefits.

Often, the diligence focuses on the target company's people, processes, products, financial performance and overall value to the acquiring company. There is an unspoken assumption in most cases that the acquiring company has superior processes, tools, systems, and structures. Thus, the question becomes about how best to integrate the target company into the acquirer's way of working, rather than whether there are areas of the acquired company's business that are superior and should be retained. Considering that the acquiring company may have initiated the acquisition in order to gain new capabilities, it's essential to be critical of the acquiring company to ensure the best parts of each business are retained.

Partners can bring their independent experience of acquisitions together with run books, planning tools, and a knowledge base acquired through multiple programs. They should also be able to challenge the buying organization on its approach, suggest viable alternatives to in-house views, and act as a sounding board for the leadership team to assess the risks of the proposed acquisition.

Be more agile

Here's the typical acquisition approach: a business conducts due diligence, decides to purchase the target company, plans the acquisition, determines the final integration plan, and finally enters the execution phase. A few legal processes run in parallel with these activities, but the process is serial.

This makes for a long-winded process that consumes considerable resources and takes a big bite out of the acquisition price. It also does not scale well, as each phase becomes more complex and onerous as the target business increases in size.

Applying the Agile approach can significantly accelerate the entire process. Though it was originally applied to software development, the Agile methodology has now proven applicable in many areas. An Agile program breaks up work into manageable chunks, known as sprints with each sprint comprising a complete "mini-project" that delivers a designed outcome. Between sprints, an Agile team undertakes a quick exercise to assess whether the target end state is still relevant and achievable. Then it makes small adjustments to the target objectives to address challenges encountered in the completed sprint and ensures the team remains on track. By constantly monitoring the progress of a sprint, a team can make micro-adjustments to the overall plan without major impact on the timelines or costs.

Embedding both business and technical resources within the same Agile sprint team, or "cell", and empowering this team to drive solutions and make decisions, considerably shortens the timeline between idea and delivery. This dual-function approach also ensures close, consistent alignment between business and technology, ensuring that technical solutions are more likely to support business needs with fewer compromises, in terms of functionality or business process support.

Multiple Agile cells can operate simultaneously, each working on different areas of the business. However, a central design authority should coordinate change and solution architecture to avoid incompatible decisions or solutions.

Another reason for applying the Agile approach to acquisitions is to accelerate some of the activities that are typically undertaken in later phases. Tackling activities earlier allows teams to plan ahead better and minimize focus on non-essential activities. Consider the following diagram, which lists some of the activities performed in each phase of an acquisition program:

Due diligence

- People analysis
- Analysis of processes and policies
- Systems analysis
- Legal risks and issues
- Regulatory risks and issues
- Historic performance

Day 1

- Target operating model
- Process modifications
- Legal or regulatory changes
- Interim support processes and systems

Integration plan

- HR planning
- IT integration planning
- Infrastructure migration
- Communications strategy

Integration execution

- IT migration, optimization and rationalization
- Buildings and facilities consolidations
- FTE rationalization
- Automation opportunities assessed

Figure 1: Typical activities performed in each phase of an acquisition program

If a team can bring an activity in scope even a single phase earlier, then the business will not only save money but also identify key risks and activities earlier. In the next article in this series, we will discuss in more detail how to apply the Agile approach to your acquisition process. To see part two, please click here.

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