HOW TO RESTRUCTURE THE FINANCE FUNCTION

In their first article on post merger integration **Stephen Dawes** and **Danny A Davis** looked at how the FD helps to shape the future business. In the second article of the series they turn their attention to restructuring the finance function.

Unless you have acquired a radically different business to broaden your portfolio, the basics you will need from your finance team probably won't have to change much. So how much restructuring are you likely to encounter?

Dealing with complexity – process and systems

Acquisitions tend to bring with them operational complexity and our experience suggests that when this is the case it will be felt as much in the finance function as anywhere in the business. In fact frequently, complexity can be felt within the finance team while remaining hidden from the rest of the organisation.

It is important during due diligence to get a grip on the level of complexity you will be dealing with post acquisition as this should be a crucial input into your decisions about what will need to be restructured.

To skim the surface, the finance team is often faced with new legal entities, additional sets of statutory accounts to prepare, more IT systems to reconcile financial data between and more complex processes for pulling together management accounts.

On top of this it is not uncommon to find that the businesses you are merging have interpreted the same regulatory and compliance frameworks differently resulting in the development of largely similar but nevertheless divergent policies and procedures. Changing policy can be simple from the perspective of taking a management decision but sometimes harder to embed within the team from a behavioural and cultural perspective – do not underestimate the complexity of making these changes.

How you choose to handle process and system complexity will doubtless vary depending on the relative size and maturity of the organisations you are bringing together but broadly speaking, you have the following options:

1. Migrate the whole business onto the same systems and processes (usually but not necessarily the acquiring businesses platform).
2. Leave each business alone to run independently with their own processes and systems.
3. Choose the best processes and systems from the two businesses and combine them.

Any one of these can be the right solution depending upon the individual circumstances of the M&A project you have taken on. Some organisations are serial acquirers and have established operating models into which they can easily assimilate other operations, for them there is no option except the first one. The first is also a common choice when a large established business is acquiring competitors to consolidate market position.

The second option works best if you are establishing a flexible portfolio of businesses where you may want to be able to divest of one as easily as you acquired it. However, if this is not your model the risk is that you will be carrying an unnecessarily high cost base by ignoring the opportunities for simplification.

The third option is probably the most difficult and time consuming from a project perspective but when bringing together two established businesses that each have very clear strengths it can be the best way to build a robust and efficient operation. In this case a full process and system audit should reveal where the relative strengths and weaknesses of the two businesses lie and allow you to evaluate what you would like to keep and where you need to invest to bring them together.

If you are considering the third option then care should be taken to manage investment in infrastructure. There is a balance to be struck between deploying organisation-wide systems, which often take many years to roll out and doing enough to ensure everyone is operating on the same platforms so that the integration initiatives can be brought to a successful close. Bringing an end to the restructuring post-merger is an important moment that signifies the combined business is now ready to move forward. Postponing this moment because you have two to three years of system development to complete can slow your ability to build a new common culture. However, businesses that fail to address the complexity of their systems when integrating can leave themselves with higher costs than they planned for and a feeling later that they have not really unlocked full potential.

Restructuring the team: skills and location

Two of the most common and obvious areas that may need restructuring as a result of M&A activity are the size and location of your team. It is not atypical to find an assumption in an M&A business case that number of people required in head office functions such as finance will reduce post-merger. This is not to say that radical restructuring is necessary or desirable in all cases, only that economies of scale are often there if you look for them. How much though, naturally depends upon the circumstances of the deal. However, in two of the three scenarios above we would expect to find that process simplification would lead to a smaller overall headcount requirement.

Location: centralisation vs local resources

The extent to which you can reduce your overall resource requirements generally hinges on how far you wish or are able to head towards a fully centralised finance function. If you have one already this is probably a relatively easy decision and you will find yourself following the first of the three strategies: migrating processes to the existing centre and offering to relocate a few key staff to retain knowledge.

If you find yourself with two or more large finance centres the decision is not always so straightforward. You could choose to centralise on the basis of the forecast cost of, and access to, future talent within a particular region or city. A sensible enough approach but if you go down that path and it doesn't coincide with the balance of your resources you should be mindful of losing skills, knowledge and loyalty at a time when all of these are essential to making a success of your acquisition. In these scenarios you may need to offer incentives to relocate or retain some of your key players for a reasonable period of time.

If the acquisition radically extends the geographic footprint of the business then you may find you want provisions for a more dispersed team to give better support to your regional business centres. Generally speaking though, we find businesses feel that administrative, treasury and control functions can be collocated.

Location: outsourced vs in-house

When considering the whole business, it may also be a time to evaluate whether you can outsource some of your more administrative tasks without losing control over them. This can be very cost effective and because you are going through upheaval anyway, it is a reasonable time to make such a change. We, however, would not do this at the expense of gaining control and understanding of any new processes. Our view is that it is better to understand the processes and ensure you have control over them before looking to move to an outsourcer.

Skills assessment

Businesses that regularly make acquisitions understand the importance of quickly developing a strong understanding of the quality of people who will be joining them. It is possible to build up a picture of who will be joining you during due diligence by asking for access to documented appraisals, records of performance bonuses etc, or just by talking to the FD and HR director of the target business during this process, or even better, actually meeting the people yourself.

You will need to organise an effective talent review process that will allow you to build up a fair picture of where your new team's strengths lie, what motivates them, where they see themselves on their current careers paths and how they feel the merger will affect their career. How do they compare to the team you are bringing with you; would they fit well together and do they complement or overlap each other?

In large integrations some businesses will organise one or two day 'get to know the team' sessions where perceived high performers and management within the acquired business can be exposed to a range of senior managers from the acquirer. There is also nothing to stop you running this process the other way round as well particularly if you are going to have a mixed senior management team from across both businesses. Meeting the team will also let you understand how much of what they do is down to effective processes and institutionalised practice rather than what is in their heads. This can help you develop a feel for how quickly you can embark on substantial restructuring of the team without losing control of your new business.

One note of caution on this subject: early talent reviews should not be confused with the specific demands of any redundancy processes you may have to work through. If your restructuring is likely to require that sort of processes then you must be careful not to blur the lines between early 'get to know people' talent reviews and competency assessments that may be required for you to make decisions about redundancy. FDE

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