



BPM and Six Sigma

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Post Merger Integration through Business Process Management and Lean Six Sigma

The story of mergers and acquisitions (M&A) is as old as the story of history itself. Parents sought to increase the happiness of their families by arranging marriages between their sons and daughters; emperors formed alliances or conquered new territories in search of wealth, power and prosperity; today's CEOs seek to increase revenue, decrease cost, improve market share and strengthen competitive positioning through M&A activity.

The problem is that corporate M&As, while prevalent, are successful only about 20 to 50 percent of the time – depending on the industry, firms involved and different characteristics of the merging or acquiring parties.

So if M&As are so prevalent and their objectives are so well understood, how come they seldom achieve their objectives? I'll explore this question briefly and discuss how Business Process Management (BPM) and Lean Six Sigma accelerates the integration process to reach the desired objectives of a merger.

The Merger & Acquisition Process

The M&A process can be divided into three high-level steps:

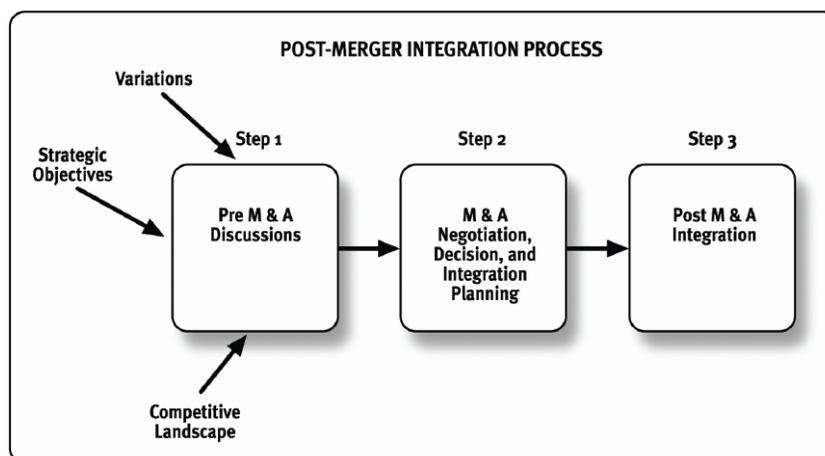


Figure 1. Post-Merger Integration Process

The first step of the process, "Pre M&A Discussions," is triggered by such factors as new strategic

initiatives, market changing events (new technology for instance), regulations, other mergers and changes in the competitive landscape. These are the reasons for engaging in an M&A, and all M&As can be traced to such a set of factors or “burning platform.”

Pre merger discussions in Step 1 revolve around some or all of the following objectives:

1. Economies of scale
2. Revenue growth
3. Cost reduction due to consolidation of similar processes
4. Market growth
5. Product and process synergies

The second step of an M&A is for the merging parties to engage in discussions and negotiations. Sometimes this due diligence period results in the decision to not merge or acquire, while other times it results in a solid agreement and detailed merger implementation plan. Some success factors at this step include:

1. Anticipating culture change needs
2. Selecting an appropriate merger management team
3. Developing a communication plan
4. Beginning the post-merger integration process

It's the third and final step of the merger process that most know the least about – “post-merger integration,” in corporate speak. What this really means is, “OK, now we have to figure out how to put these two monsters together.” In other words, post-merger integration is the hard part, the part most are least able to handle and the part that prevents most M&As from achieving their objectives.

But it doesn't have to be this way. Flawless post-merger integration can happen if you know what drives it and what stands in its way.

Post M&A Integration

When two entities combine, they have high expectations. But these expectations quickly start to diminish as strategic, cultural, process and other dissimilarities start to surface. Personal ambitions and lack of trust start to cloud the M&A objectives and hinder their timely alignment. Below is a J Curve that describes how process performance changes over time after a merger is announced.

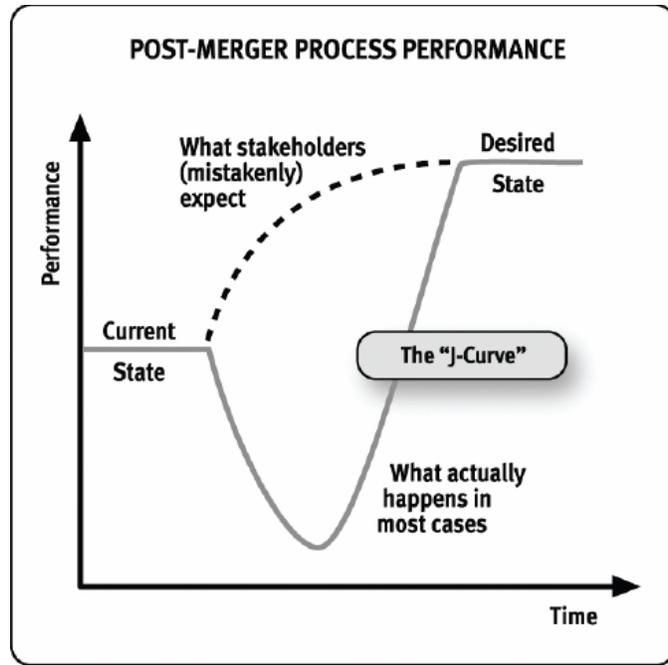


Figure 2. Post-Merger Process Performance

Executives and shareholders expect the performance of the merged companies to follow the dotted curve. But the strong historical tendency is for the performance curve to take a dip downward before reaching new highs. Needless to say, the shallower and shorter you can make the expected performance dip, the better your chances of achieving the objectives of a merger.

And the only way you can do this is by objectively aligning the efforts of different organizations. This is of course where BPM comes in: it provides the framework for focusing the merger's objectives, and the means for evolving into an efficiently performing merged entity. Therefore, let's examine BPM briefly before understanding how it can enable the post-merger integration process.

Business Process Management

BPM is the practice of viewing business as a collection of core and enabling processes, assigning metrics that monitor the performance of these processes, and developing an organizational structure that is responsible for continuously improving these processes. The figure below explains the key elements of BPM:

1. Core processes that deliver value to customers
2. Enabling processes that enhance core-process performance
3. Goals for each of the processes
4. Owners of each process
5. Tie to strategic objectives

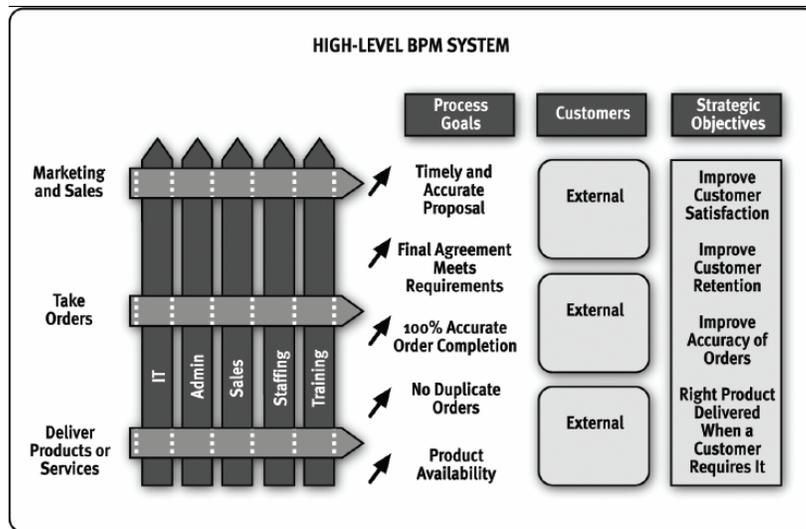


Figure 3.. High-Level BPM System

BPM describes a business in terms of discrete processes and the ability to monitor and control them. In turn, this ability under girds the effective implementation of a process-improvement approach like Lean Six Sigma. When properly integrated, the power of BPM and Lean Six Sigma together can greatly streamline and speed up the post-merger integration process - compressing the bottom part of the J Curve to its natural limit.

BPM and Post Merger Integration Process

The picture below describes how two different businesses can be combined using the principles of BPM, leading to golden (high probability of success) process-improvement opportunities. It is in this way that a functioning BPM system serves as the bridge between pre-merger sentiments and post-merger realities.

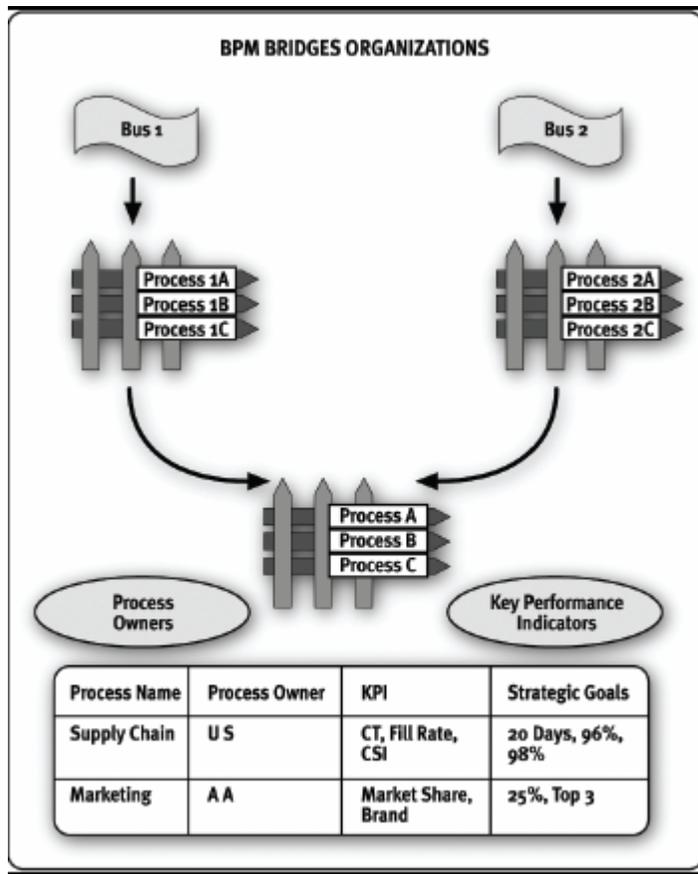


Figure 4. BPM Bridges Organizations

Essentially and briefly, here is how it works:

1. Map the core processes of individual businesses to the appropriate level of detail.
2. Determine the output of core processes that are not common between the two businesses, and compare them against the strategic objectives of the merger. If there is clear alignment of these core processes with strategic objectives, then retain them as is. Otherwise, mark them as another improvement opportunity
3. Map all enabling processes. Intuitively, all these processes should be redundant processes. Determine the capability of these processes and compare them with the requirements of the combined core processes. If there are gaps in the capabilities of some processes, then mark those processes as opportunity areas.
4. Identify two to four key performance indicators (KPIs) per core and enabling processes. These indicators gage the efficiency and effectiveness of mapped processes. Once KPIs are identified, they need to be aligned with the strategic objectives of the merged businesses using various tools and the involvement of senior management from both companies.
5. Identify the high-level process owners of each of the core and enabling processes. This is the most difficult and emotionally charged event of the integration process and has to be done as objectively as possible. Best practice in this area is to form an interview team of executives from both merging companies and develop a candidate-selection matrix and evaluation criteria before the interview process begins. This helps avoid friction that

- could otherwise occur between the two organizations. Selected process owners then become the new management team, and the KPIs for their processes determine their incentive structure.
6. Pool all identified opportunities in steps two through four and prioritize them based on strategic objectives of the merged business. Assign Lean Six Sigma or other highly trained business transformation professionals to work on these opportunities under the guidance of process owners.

Turning art into science

The post-merger integration process is undeniably an art and a science, same as everything else. But know this: the art of making the deal, no matter how beautiful it is, has to keep its shine through the act of integration. Typically, when science is needed most, during the painful mechanics of integration, it's most missing – and this drives us deeper down into why mergers and acquisitions often fail or don't achieve their optimistic projections.

BPM provides more science to the difficult task of merging organizations and processes. In turn, the presence of a defined process infrastructure enables the efficient and effective execution of important process-improvement systems like Lean Six Sigma. These are the “synergies” corporate officers ought to be discussing in Step 1 of the M&A process (early discussions), and these are the synergies they should be planning in Step 2 (integration planning).

How can we leverage our respective process infrastructures to blend the capabilities we think we jointly have? What if we staged in a Lean Six Sigma deployment around the time we are doing our process integration work? These are good questions to ask at the outset of merger talks, because they lead beyond the obvious market synergies that drive most decisions to merge. In fact, they expose barriers that usually remain hidden and don't rear up until it is time to actually integrate.

In my experience, businesses that have used the above seven-step post-merger integration process have substantially outperformed their competitors – especially when using BPM principles in the process and following up with a Lean Six Sigma process improvement regimen. By doing so, they bring more objectivity to a process that is otherwise slowed down by skepticism and emotions.