Perspective

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The Role of IT in Successful Merger Integration

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EXECUTIVE SUMMARY

As the global economy slowly gathers steam and merger-and-acquisition activity returns to pre-crisis levels, the crucial role of information technology in merger integration is worth underscoring. Successful IT integration requires that technology leaders balance their resources among three priorities, each of which carries risks and benefits for the whole organization. First, IT departments are tasked with "keeping the lights on," or ensuring business-as-usual operations during the integration process. Second, they must combine the IT departments of merging companies, often with the aim of reducing costs or recognizing other synergies. Finally—and most important—they must provide IT support for integrating all business units while establishing an end-state architecture for the long-term business objectives of the company in its new iteration.

Balancing these priorities requires regular communication between technology leaders and management, starting as early as possible in the merger process, so that IT departments understand the strategic goals behind a potential deal and can prepare to support those goals. IT and business leaders must undertake a deliberate planning process in order to develop a realistic, detailed road map for the many steps in IT integration—within the IT department and throughout the rest of the company—along with the optimum sequencing of those steps. Fundamentally, this close partnership and communication between business units and IT leadership requires a strong governance structure.

BALANCING COMPETING PRIORITIES

As macroeconomic conditions gradually begin to improve, investor confidence stabilizes, and liquidity returns to the credit market, global M&A activity is likely to regain momentum. IT departments will play an increasingly larger role in the long-term success or failure of these deals. Because technology has become so pervasive, IT touches virtually all aspects of a company's operations, and many of these functions are mission-critical. IT is the common denominator among all corporate departments, and insufficient technology support in the wake of a merger virtually guarantees that potential synergies within affected departments will fail to materialize.

While ensuring that IT delivers required value during merger integration, CIOs must balance three competing priorities in the process. First, they are tasked with simply "keeping the lights on," or continuing business-as-usual functions for employees, during a time of corporate stress and in the face of technological risks inherent in a large-scale change in systems. At the same time, they must also combine the IT departments of merging entities (including software, hardware, and staffing resources), often with the goal of reducing costs. Finally, CIOs must balance these two steps with the larger goals of providing IT support for the integration of other company functions—such as HR, finance, and operations, in which the potential synergies are often far greater—and establishing an end-state architecture to support the new company's future growth.

In this context, the challenge for CIOs is to understand how best to deploy IT resources at a time when those resources are likely to be working at full capacity. A strategic approach during planning can clarify the decision-making process. CIOs must be at the table and communicating openly with management during discussions of the ramifications of various M&A scenarios. Through this communication, they can ensure that their departments know about future changes to core business objectives and can prepare to support those objectives. And as the deal closes, they must assemble a road map for all aspects of IT integration. A framework for IT merger integration can help technology leaders oversee all steps of the process (*see "Case Study: Building the Perfect Merger"*).

Case Study: Building the Perfect Merger

When two large national homebuilders in the U.S. recently merged, they had specific strategic goals in mind. Both companies had undergone substantial cost-cutting measures on their own, due to challenging conditions in the residential real estate market. So any cost savings from synergies related to the merger (more than $300 million) would need to be recognized quickly. At the same time, the resulting company would have the dominant spot in the U.S. market, and it needed to be positioned to grow rapidly once the market rebounded. To that end, management wanted to implement some enhanced operational capabilities. In other words, the company needed to do more with less.

The cost reduction specifically pegged to integrating the two companies' IT departments was only about 6 percent of total savings. Yet IT support would be crucial in helping other departments throughout the new corporate structure to achieve their savings targets. For example, integrating field support applications alone would make up about 15 percent of total savings, more than twice the savings from cost reduction in the IT department itself.

To ensure that IT understood the operational requirements of the entire company both during and after the merger, the CIO assigned a point of contact for each business team early in the process. Through regular and extensive communication with those teams, the IT department was able to generate a comprehensive list of IT objectives for all business lines. Those objectives were then prioritized based on risk, potential savings, and available IT resources.

The most immediate IT priorities were to integrate the following:

• Financial reporting systems (due to the risk of missing key reporting deadlines)

• Field use systems

• Corporate architecture from the two corporate platforms, which required members of both of the IT departments and their complementary skill sets

Finally, once applications and architecture were successfully combined, the IT department itself could be integrated, which involved staff rationalizations. This process resulted in a delay in achieving some synergies in the IT department, but it captured far greater early synergies for the organization as a whole.

In the end, the company identified significant additional opportunities to rationalize resources, captured the best practices and talent from both organizations, and implemented the new operational capabilities it sought. Perhaps most important, it also exceeded its goal for overall cost reductions.

The elements of IT merger integration can be thought of in three distinct phases:

Step One: Gather Requirements and Assess Gaps in Capabilities
The first step in merger integration should happen during the due diligence phase, when IT must develop an initial understanding of all technological requirements created by the merger. This starts by evaluating requirements within the IT department itself. CIOs need to develop a comprehensive understanding of the IT resources on both sides of the deal to determine how the two entities can fit together, where any possible synergies can be found, and where integration risks might lie. This requires a census of IT infrastructure and a plan for rationalizing resources and eliminating redundancies in the department. Areas of analysis include the following:

- Hardware, software, and network systems

- Enterprise platforms (e.g., ERP and/ or CRM systems)

- Corporate programs for specific lines of business, products, services, and vendor platforms

Technology leaders must also assess the entire company through the IT lens, to determine how they can and must support the integration of business units and corporate functions—finance, HR, operations, administration—along with any rationalization of product lines and/ or services in those functions. This involves working alongside business teams to understand their technology needs during and after the merger.

As part of this understanding, CIOs must define how best to provide IT support for the company's long-term growth strategy, including hardware and software for new product and service initiatives, customer retention and acquisition, and entry or expansion into new markets.

A common pitfall in merger integration planning is to place too much emphasis on the IT department itself—specifically short-term cost savings from integrating IT resources—and not enough on the IT requirements or new business capabilities needed to bring the company's other functions together or to support future growth. This occurs when executives from IT and the main business are not in alignment during the strategic framework, analysis, and design stages.

A common pitfall in merger integration planning is to place too much emphasis on the IT department itself.

However, when IT and business units are working closely together, CIOs can assemble a comprehensive list of all initiatives and objectives related to IT support for the merger.

Step Two: Prioritize Initiatives
Given that IT resources are likely to be stretched thin during merger integration, technology leaders must take a systematic approach to ensure that these resources get deployed in the most effective way. When IT is looped into the process of inte-gration planning early on, it can work in conjunction with business teams to decide how best to prioritize projects.

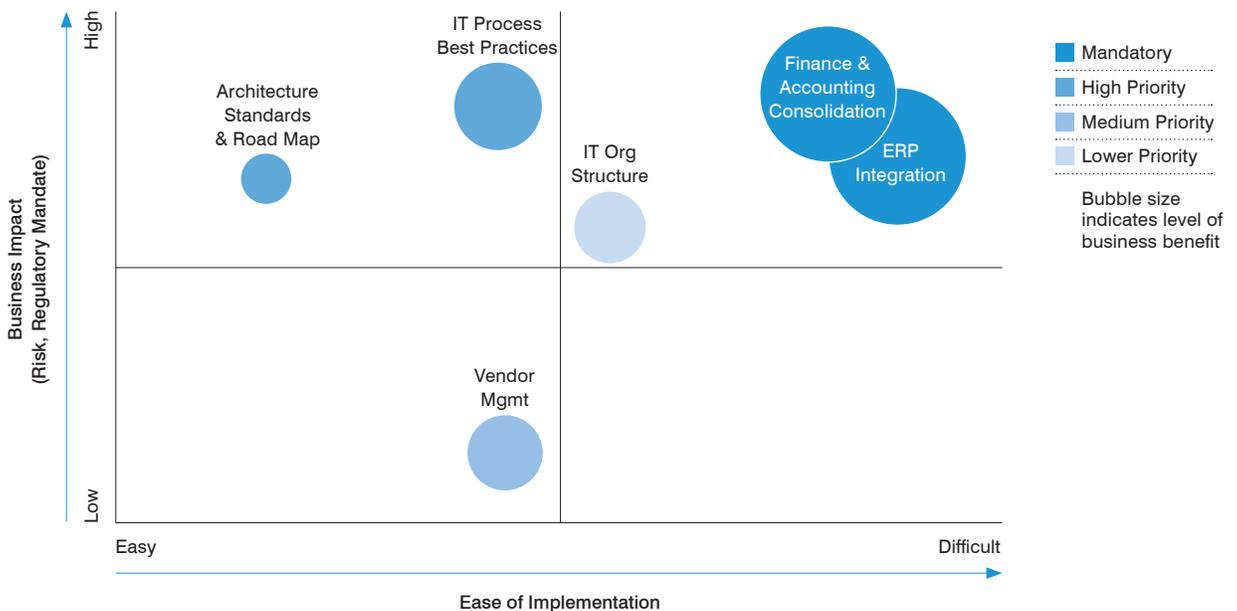These priorities should be considered across three dimensions (*see Exhibit 1*):

• Business impact, including regulatory compliance, risk management, and possible rationalization of services or product lines

• Ease of implementation, including technical complexity, resource demands (both personnel and hardware), and the degree to which certain projects are interdependent with others

• Expected business benefit, including potential cost savings and growth in revenue and/or market share

Exhibit 1
IT Initiatives Must Be Prioritized Across Three Dimensions

SAMPLE IT POST-MERGER INTEGRATION INITIATIVE PRIORITIZATION

Legend:
- Mandatory
- High Priority
- Medium Priority
- Lower Priority

Bubble size indicates level of business benefit

Bubbles: Architecture Standards & Road Map; IT Process Best Practices; IT Org Structure; Finance & Accounting Consolidation; ERP Integration; Vendor Mgmt

Y-axis: Business Impact (Risk, Regulatory Mandate) — Low to High
X-axis: Ease of Implementation — Easy to Difficult

Source: Booz & Company

Step Three: Develop an Integrated Implementation Road Map
Once CIOs have identified integration priorities for both the IT department and the new corporate structure, they can translate this list into a road map, including sub-projects, detailed timelines, and contingency plans. The map will likely uncover overlaps across the prioritized initiatives and key gaps in the IT capabilities needed to carry them out. A robust map should include a plan to address those imbalances. Furthermore, it should include key conditions and success factors for each step.

A detailed implementation plan requires overcoming several challenges. First, IT departments must balance multiple types of projects and initiatives from the three primary objectives discussed earlier: continuing business-as-usual operations to maintain stability during integration; rationalizing IT applications, infrastructure, and staffing resources of the combined entity; and supporting business projects that require adjustments to IT platforms.

Second, these departments must identify and address sequencing issues. Several initiatives may have related interdependencies that mandate a specific order of execution. The implementation road map should be updated to include these scheduling requirements (*see Exhibit 2*).

Exhibit 2
An Implementation Road Map Establishes a Schedule for Priority Initiatives

SAMPLE IT POST-MERGER IMPLEMENTATION ROAD MAP

	Initiatives	Status	Year 1				Year 2			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
IT/Business Merger Support	Product Rationalization									
	Market Expansion									
IT Merger Integration	Finance Consolidation									
	ERP Integration									
	Process Design									
Business as Usual	Business as Usual/Production Support		Ongoing							

Source: Booz & Company

Strong Governance Is the Foundation Supporting These Steps
A strong governance structure ensures that IT and business lines are aligned throughout the integration process. The ultimate goal of governance is to provide a clear direction ensuring on-time and within-budget completion of the integration activities, while realizing all potential cost savings and synergies. This structure includes oversight and controls through entities such as a cross-enterprise decision forum, a merger integration office, and a combined IT and business steering committee.

A key reason that strong governance is so crucial for merger integration is timing. Merger integration efforts typically occur over a sustained period of time, during which circumstances can evolve and many elements of the original plan can change. A solid governance structure that encompasses IT and business will help ensure that these changes get addressed in a consistent manner across the combined firm, rather than in silos.

Several best practices can improve the likelihood of a successful governance structure—specifically these:

• The IT implementation leadership team must be identified early in the merger process, to reduce uncertainty in the organization and set clear lines of responsibility. Chief among these responsibilities are defining potential initiatives and marshaling the IT resources needed to support them.

• Cultural issues are usually significant in determining the success of mergers and thus need to be addressed head-on. Differences manifest themselves not only between the corporate cultures on either side of a deal but also between IT and business functions in the same organization. The ability to understand and manage behaviors, while acknowledging complementary strengths and skill sets, is critical to merger integration.

• Consistent criteria are needed to decide how resources—including money, talent, and business processes—are to be allocated among competing priorities.

• Mergers are inherently stressful for an organization, but clear and frequent communication can help alleviate this problem. In particular, senior management should establish and enforce principles that set the tone for integration, including articulating the overall vision behind the deal. At the same time, a transparent process for making decisions, along with straightforward communication of those decisions through all levels of the organization, will help ensure that employees understand the rationale behind difficult choices and act quickly in support of them. Often, this requires candidly discussing the trade-offs and potential risks to business operations, service levels, and other aspects of the company, alongside a frank discussion of how those trade-offs are necessary for the organization's long-term success.

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CONCLUSION

With IT playing an increasingly pervasive role in today's organizations, successful merger integration requires close alignment of IT and the business side of a company before, during, and after the merger. Such an approach dictates that IT communicate early and often with the business during all aspects of the M&A process. Frequent, frank communication between the two will generate a holistic view of the new company and a thorough understanding of its capabilities.

With a clear picture of the targeted strategies and potential new initiatives afforded by the deal, IT can work with business lines to establish priorities early in the integration process. These priorities, including near-term cost savings goals in the IT department along with larger synergies in other functions of the overall company, become incorporated into a road map for the integration process. That map must include resource allocation, any gaps in IT capabilities (along with a plan for how those gaps are to be addressed), and a schedule of benchmarks for completion. It's crucial that CIOs do not fixate solely on IT consolidation efforts but rather consider them as one of several responsibilities, including continuing business-as-usual IT functions and ensuring that their organization has the structure and resources needed to support the business opportunities of the combined company.

This is a significant undertaking, requiring a strong governance structure between IT and the business. As a result, merger success often hinges on the early and comprehensive involvement of IT in planning and executing a merger integration.

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