



POST-MERGER INTEGRATION OF IT »»

White paper

Challenging the CIO Before and After the Deal

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PREFACE

MERGERS AND ACQUISITIONS (M&A) ARE 'HOT' IN TODAY'S ECONOMY AND RADIATE AN ALLURE OF SUCCESS. HOWEVER, THIS APPEARANCE CONTRASTS WITH THE EFFORTS NEEDED TO MAKE THE MERGER RESULTS BECOME VISIBLE. MANAGERS ARE CONFRONTED WITH AMBITIOUS TARGETS SET BY THE DEAL MAKERS AND THE GOALS OFTEN HAVE TO BE ACHIEVED WITHIN UNREALISTIC TIMELINES.

Sometimes the road ahead is clear but most of the time it is not. A clear view on positions, new organizational structure and targets for business operations is difficult to achieve. Also, our research showed that only 25% of IT Managers fulfill the IT integration targets within budget and often exceed the planned timeframe.

It has become highly urgent to consider M&As and the challenges of Post merger integration in its fullness. Post merger integration needs to be regarded as a significant business transformation. The possibilities of managing the integration of IT in a rational and effective way are waiting to be explored.

Atos Consulting has set up a broad online-research in 2007 and interviewed a wide range of CIO's and IT Managers on lessons learned, characteristics of M&As and the critical success factors that can be deducted from it.

We hope it stimulates you and helps you in defining your approach for successful integration!

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RISKY BUSINESS

A VISION ON IT¹ INTEGRATION IS NEEDED TO REALIZE M&A GOALS

Due to globalization and increasing market competition, mergers and acquisitions (M&As) are a way for many companies to rapidly increase their market share, to create competitive advantage and to acquire new products or services.

Due to the huge investments involved in M&As, the pressure to succeed is enormous. Even though M&As are based on well intended growth plans and offer considerable opportunities for value creation, research shows that up to two-thirds of M&As fail to generate the expected value. Although creating results is highly risky and difficult to perform for any company, the amount of M&As remains stunningly high. The difference between a successful and an unsuccessful M&A is determined by understanding and managing the post-merger integration process².

The role of IT in most businesses at this moment in time is crucial. At the same time, IT is often underestimated in M&As. Various managers indicate a lack of information to make decisions on the level of IT integration. Furthermore, the CIO often plays a minor role in the pre-merger phase and is not involved in the strategic decision making process regarding the future state of the organization. While IT synergies have been (over)estimated in the pre-merger phase, the CIO is confronted with meeting these expectations afterwards. As a result of scarce CIO involvement, there is no insight regarding the feasibility of the desired level of IT integration.

Furthermore, there is no clear roadmap for the integration of IT organizations, IT architectures and IT governance and policies are to be integrated. This results in a big challenge to reach the IT integration within the planned timeframe while supporting the overall M&A goals. This leads to lengthy, costly and unsatisfactory IT post-merger integrations, resulting in a big challenge not only for the CIO, but also for the success of the merger as a whole.

To adequately prepare for M&As, it is essential to pay close attention to IT in the pre- and post-merger phases. Organizations must ask themselves the following questions:

- > What are the key success factors to determine the level of IT integration?
- > Which is the best approach for all three phases - pre-merger, the deal and the post-merger – in order to meet M&A's expectations?

The growing demand for fresh insights and best practices on how to deal with post-merger integration have led to the creation of this paper. It presents the results from the research conducted by Atos Consulting in the period between June and December of 2007 and discusses the key success factors of post-merger IT integration.

As a prelude to the definition of the hypotheses that were used as a basis for our research, the next chapter outlines the vision of Atos Consulting on this matter.

¹ In this whitepaper the term IT expresses the whole of organization, resources, applications and users related to Information Technology within a company.

² Haspeslagh, P.C. & D.B. Jemison (1991): Managing Acquisitions: Creating Value Through Corporate Renewal. The Free Press, New York, USA.

OUR VISION

FOCUS ON IT IN PRE-MERGER PHASE TO ENSURE SUCCESSFUL INTEGRATION

IT is no longer something that 'needs to be done'. The view on IT as being an inevitable cost, a utility-like service that needs no special attention, is far too narrow in these days where large business systems and networked IT-services are fundamental in our economy. Good information management and managing technology like a business are likely factors for successful business. IT should be considered as a key asset enabling business performance.

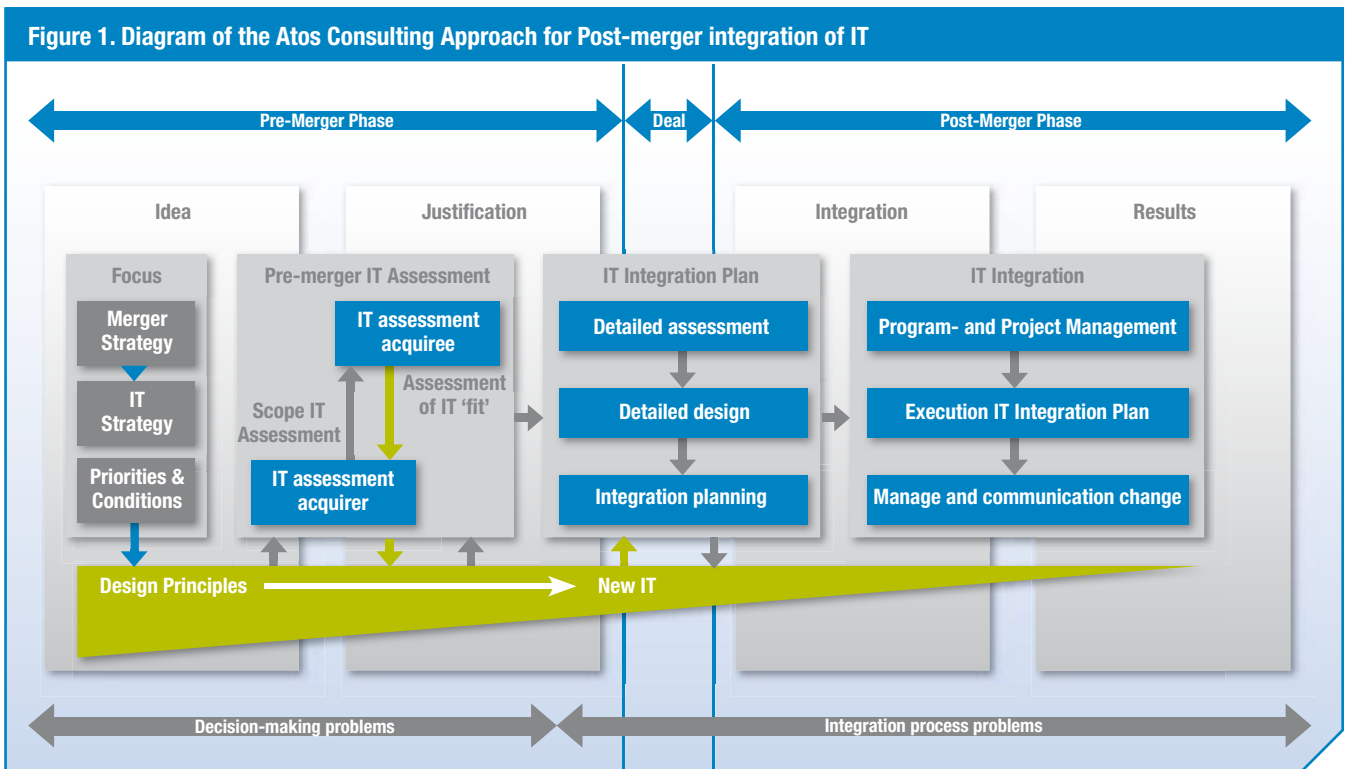
The high pressure, the competition within the organization and the lack of clarity on who is determining the rules of the game are all common challenges within the pre-merger phase. This makes it difficult to keep the focus on IT, e.g. planning the impact of the merger on IT. However, due to the importance of IT and the risk of investment loss, integration troubles and overestimated benefit when ignoring IT, it is crucial to focus timely and adequately on setting up a post-merger integration plan. Preparation is the key to success.

To rapidly and effectively start the integration process and realize quick wins, organizations need to determine the optimal, feasible level of IT integration. Criteria and design principles for the new IT have to be set: what part of IT will we merge and what will stand alone? Will we centralize or stay country-organized? How does IT look like in the future state of the company? Business strategy must explicitly lead to IT design criteria. The IT strategy following the M&A strategy is the basis for creating an integration plan that ensures IT can be an enabler of organizational integration. Early involvement of the CIO and IT Managers is needed to guarantee the right focus is set regarding the IT aspects of the integration. In this way, risks and issues are raised timely in order to avoid overestimations (e.g. on IT synergies).

In the pre-closing phase (the timeframe between the announcement of the merger and the actual closing of the deal), the CIO will need to take the lead in delivering an integration plan. Only by taking ownership, designing and planning the to-be situation, it will be possible to create momentum to focus on business-IT alignment. Significant integration steps need to be defined within the first 100 critical days after the deal. By showing the delivered quick wins, the CIO will gain credit and commitment for other necessary integration steps. This will help to motivate stakeholders, to create commitment from (other) employees and to achieve the necessary momentum.

By developing a clear vision on what specifically needs to be focused on, which priorities need to be set and what is useful to keep out of scope, the CIO or IT Manager can prepare the organization for a successful integration project. In order to gain necessary insight, IT needs to be part of the pre-merger assessment³. The assessment of the current IT gives insight into potential synergies, the feasibility of realizing the IT integration goals and the timely recognition of key issues. This assessment must preferably be performed by a third party in order to guarantee an objective judgment. After an assessment of the current situation of the acquirer's IT, the timing and feasibility of the integration needs to be investigated. This way for example, the risk of losing key employees or the presence of legacy systems can be identified in a timely fashion.

The scope of the assessment must be aligned with the merger strategy, the resulting IT strategy, the business priorities and the design principles for the new IT. For example, if front office integration is one of the key priorities for the new organization, the IT assessment must focus on front office IT in order to determine the impact of integrating this part. In order to make rational decisions throughout the integration process, the right focus is needed in the different stages. This means that various assessments (more detailed over time) may be necessary. Summarizing, the basis for success is laid by the right focus in the pre-merger phase. Our approach is depicted in Figure 1. It shows the timeline of a M&A and all necessary activities for the integration; from the 'idea' to the 'results' phase. The main idea is that by determining the design criteria and by organizing principles for the future IT early in the process, IT integration becomes an iterative process. Alignment with business needs is hereby achieved, enabling organizational integration and creating value from the deal.

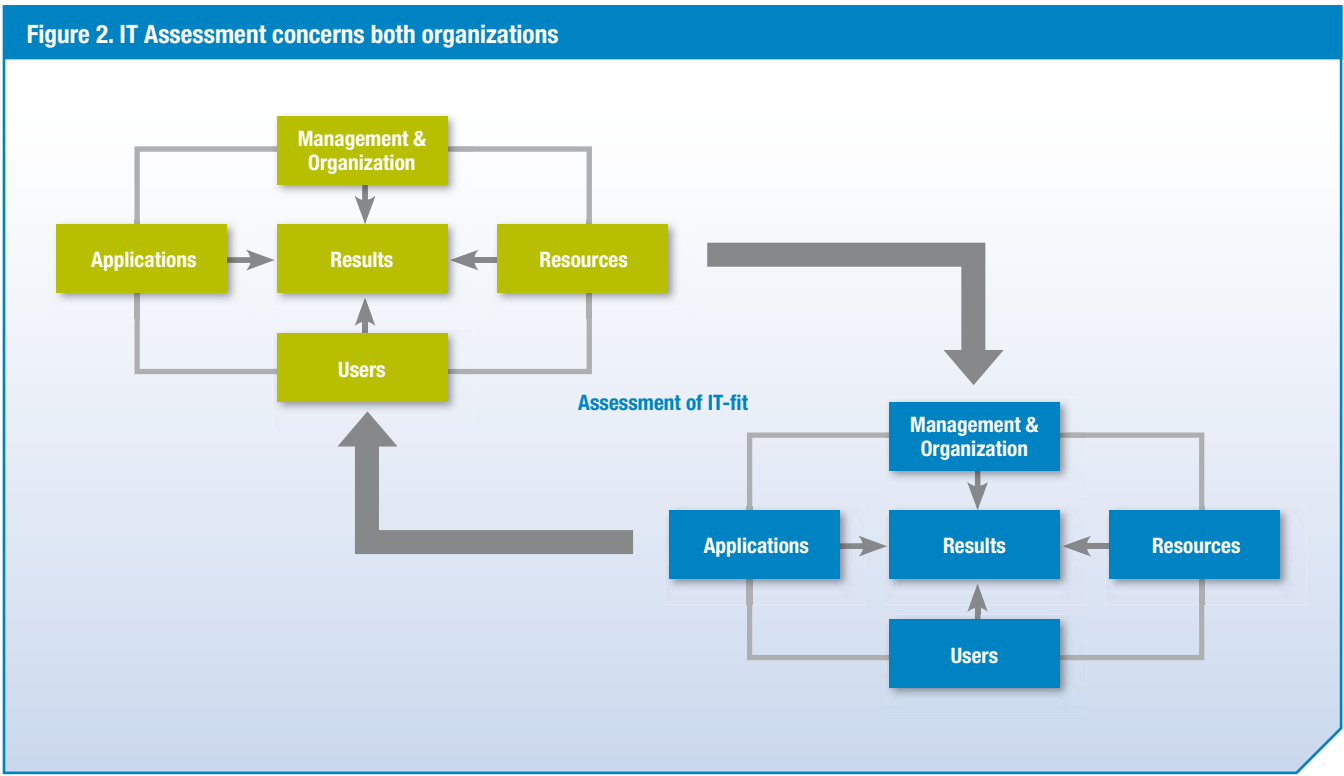


(source: Atos Consulting 2007)

³The term assessment is used to specify the focus on judging the current status of IT and organization versus the long term merger goals and is therefore distinguished from the expression 'due diligence'.

Shortly after the deal, the designs will have to be translated into a feasible planning. Due to the secrecy and limited access to information in the pre-merger phase, an additional and focused IT assessment may be necessary in order to define detailed steps and priorities before the integration's execution.

The green arrow-like triangle indicates the rough sketch and vision of the future IT state in the beginning of the M&A process, gradually focusing towards the actual, detailed implementation in the 'results' phase. High level design principles will have to be made operational into a detailed description of the new IT, covering all areas of IT: organization and management, application portfolio, people and resources (technology & IT professionals).



RESEARCH HYPOTHESES AND RESULTS

DISCOVERING THE CRITICAL SUCCESS FACTORS FOR POST-MERGER INTEGRATION

Atos Consulting performed an extensive research to gather the latest theoretical insights, field experiences and best practices. The research was aimed at answering the following key questions:

- > What are critical success factors for post-merger integration of IT?
- > What factors influence the level and type of the integration?

The hypotheses are based on the assumption that IT still receives far too little attention within the merger process. Post-merger IT integration is considered as an operational issue, lacking appropriate information on IT integration criteria and key-issues involving IT. As a consequence, a rational, well founded decision making process is almost impossible to achieve. Insight into the critical success factors of post-merger IT integration as well as insight into the role of the CIO throughout this process will give a way out and a path forward in helping decision makers reach the merger's goals.

**“THE ADVANTAGES OF HAVING ONE
SYSTEM SHOULD NEVER SACRIFICE
THE ABILITY TO ACHIEVE BUSINESS
GOALS.”**

Research Set-Up

Based on an online questionnaire, 15 interviews and a round table conference, we challenged more than 200 CIO's and IT Managers to respond to the following hypotheses⁴:

1. Major business systems determine IT integration
2. Despite a goal of 'absorption', 90% of post-merger integrations 'get stuck' in 'symbiosis' (building interfaces)
3. Speed beats content in a successful integration
4. The main critical success factors for post-merger integration are:
 - > Pre-merger CIO involvement
 - > Clarity (Organization, Infrastructure, People, Processes)
 - > Decisiveness
 - > Speed (e.g. being able to realize quick wins)
5. The CIO is the leading integration architect

Initial Remarks

In practice, we have seen that priorities in the due diligence phase are mostly focused on strategic and financial aspects of the deal. More and more organizations recognize the importance of IT as well and 67% perform an IT assessment as part of the pre-merger process. Determining the IT strategy and vision on future IT are less common items in the pre-merger process.

⁴ In the text, a number of quotes are mentioned. These quotes solely reflect the interviewees' opinions and are to be interpreted as such.

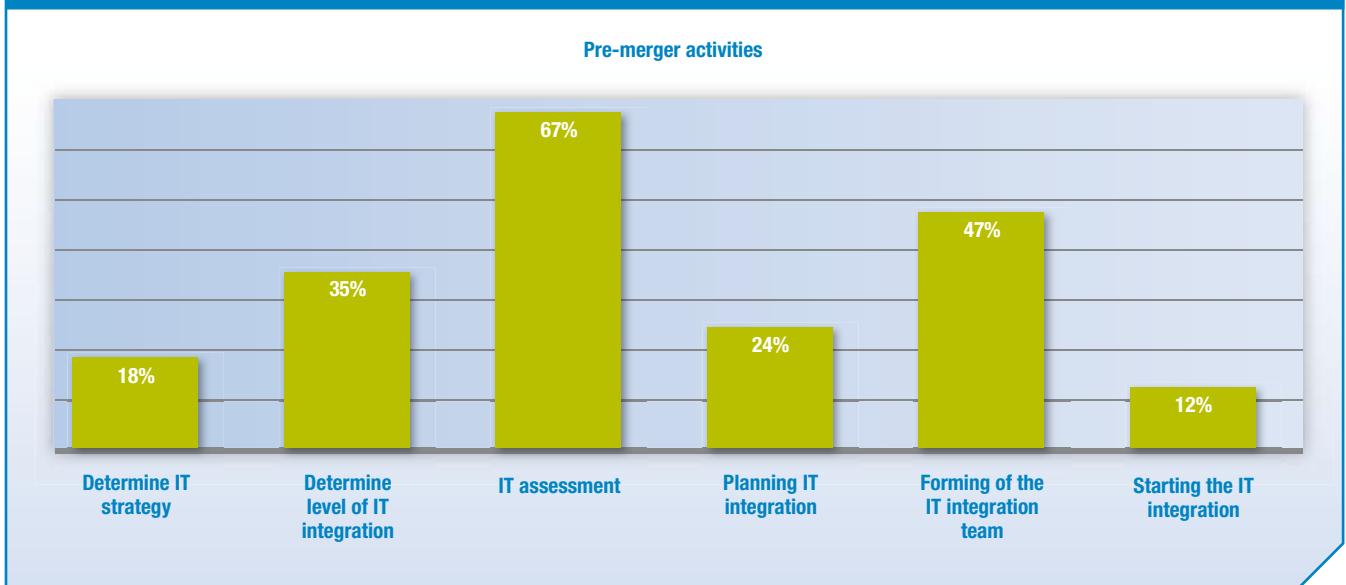
Secrecy in Pre-Merger Process

The pre-merger process usually takes place in a short time frame and is surrounded by a lot of secrecy. This often results in a situation in which the depth of the pre-merger assessment is limited and the planning of the post-merger integration only takes place after the deal is sealed.

First 100 Days are Critical

The first 100 days after the deal are crucial to gain momentum and motivate stakeholders in achieving the goals that are envisioned with the merger. To be able to realize quick-wins in this period and gain the momentum that is vital for M&A success, the IT assessment and integration planning need to be done as early as possible. An ideal time to start assessing and planning the IT integration is the time between the announcement and completion of the deal. The veil of secrecy is lifted in this time frame, allowing access to information needed for identification of possible quick-wins and integration planning.

Figure 3. Activities in the pre-merger phase



“EVENTUALLY THE BUSINESS AND BUSINESS PROCESSES DICTATE THE LEVEL OF IT INTEGRATION.”

Formulating the vision on the future IT means determining the desired level of integration of the two separate IT's. Herein, the existence of legacy systems, (sourcing) contracts and large business systems as well as the role and function of IT in the merged organization, are all major drivers for decision making.

Major Business Systems Determine IT Integration

Our research shows that the business strategy, the underlying goals of the merger and the existence of major business systems such as ERP software like SAP, Oracle and Microsoft, largely determine the level and type of IT integration. They can be used to formulate the design principles for the future IT. Boundaries for design principles are thus largely determined by business objectives (top 3 factors in table 1). Due to technological advances in IT hardware and software, the geographical location of the merging organizations influences the level of IT integration only slightly.

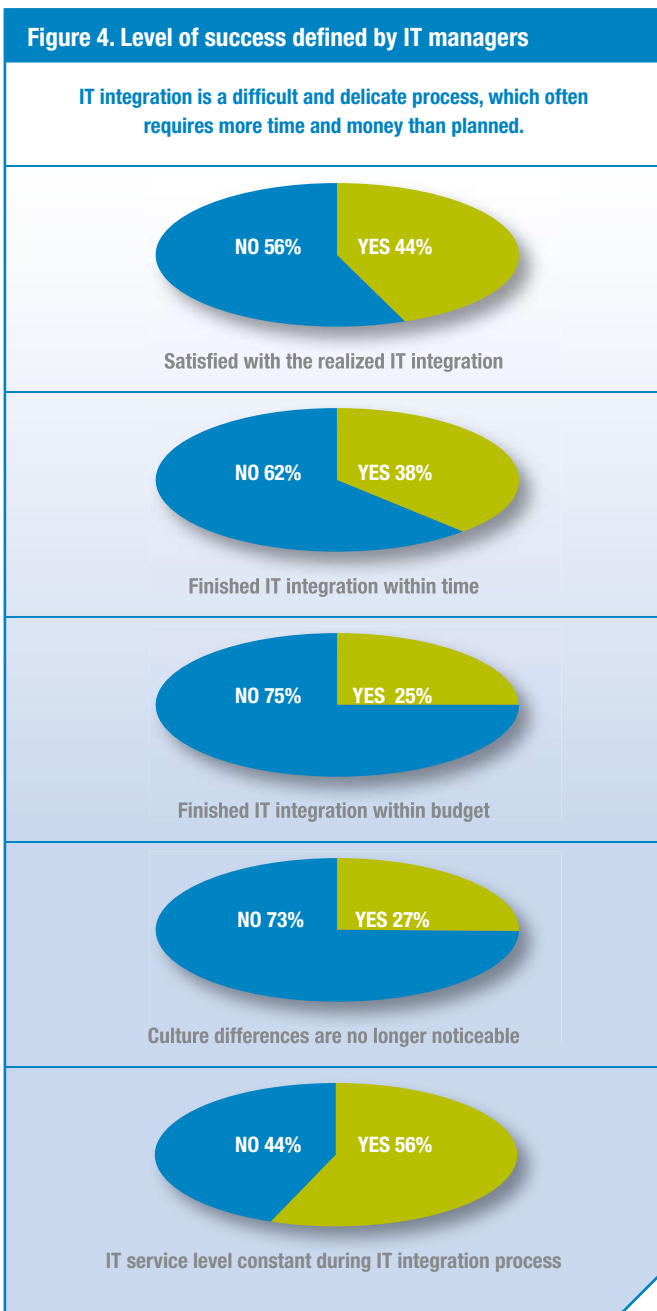


Table 1. Major business systems as SAP and Oracle determine the level of integration significantly

Top 10 Factors Determining Level of IT Integration

- 1 Business (strategy)
- 2 Merger goals
- 3 Major business systems
- 4 IT strategy
- 5 Type of products & services
- 6 Timing
- 7 Budget
- 8 Pre-merger IT assessment
- 9 Third party advice (e.g. consultancy)
- 10 Geographical location

“WITHOUT IT INTEGRATION, ORGANIZATIONAL INTEGRATION IS IMPOSSIBLE.”

“ AN IDEAL LEVEL OF IT INTEGRATION IS HINDERED BY THE APPLICATIONS, EACH HAVING ITS OWN HISTORY. THIS IS WHY WE CHOOSE TO WORK WITH INTERFACES FIRST. IT ENABLES US TO IDENTIFY BEST PRACTICES AND LEARN FROM EACH OTHER.”

Organizations Generally Realize the Level of Integration They Aim for

Design principles can be used to determine the level of integration. Table 2 illustrates five general types of integration.

The research found no proof supporting this idea. Organizations ultimately realize the level of integration they aim for. It is important to note that this often results in a situation where the planned budget and timeframe are exceeded.

We challenged our respondents by stating the following: “despite the fact many organizations aim to realize full integration (“absorption”), most of them end up getting stuck in sub-optimal situations of partial integration and interfaces”.

Table 2. Archetypes of integration

No integration	Partial integration	Full integration		
Preservation	Symbiosis/interfaces	Best-of-breed/Standardization	Absorption/Take-over	Replacement/Renewal

“ ABSORPTION IS AN AMERICAN TACTIC. IN EUROPE WE TEND TO BE MORE RESPECTFUL WITH THE ORGANIZATIONS WE ACQUIRE, SEEING IT AS AN OPPORTUNITY TO LEARN FROM EACH OTHER.”

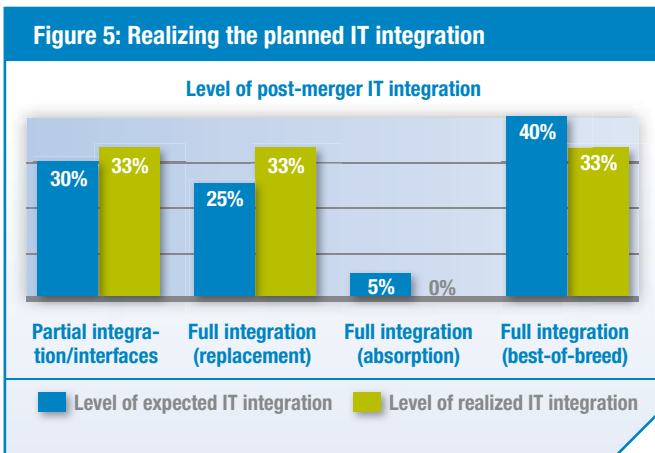


Figure 5 shows that organizations choose different levels of integration to fit their own specific situation and priorities. Some choose to absorb the newly acquired IT into the already existing one. Others choose a more ‘democratic’ approach and proceed with the ‘best of both worlds’. And in some cases, the merger is seen as an opportunity to replace legacy systems with new ones.

Realizing the expected level of integration does not seem to be a major challenge. Realizing it within the planned budget and timeframe seems to be more difficult. Only 25% of the respondents finished integration within the planned budget and no more than 38% stayed within the expected time frame! It proves to be difficult to forge an integrated organization within given timelines. By establishing one way of working throughout the new organization, operational excellence can be achieved in an early stage. Fast-paced IT integration and the realization of quick-wins generate momentum, affecting other areas and helping the employees’ motivation.

Our research confirms the importance of speed and clearly shows that many organizations prefer speed over content in realizing their integration objectives.

Table 3. Speed determines success more significantly than content

Speed vs. Content	Yes
The speed of the process determines the success of the IT integration	67%
The content of the integration planning determines the success of the IT integration	20%

Dedicated IT Integration Team Critical to Post-Merger Integration Success

Our research identified the following critical success factors for post-merger integration: pre-merger CIO involvement, as well as clarity, decisiveness and speed of integration. We combined new insights from our research with literature, external studies and our experience to list the top 10 critical success factors as shown in table 4.

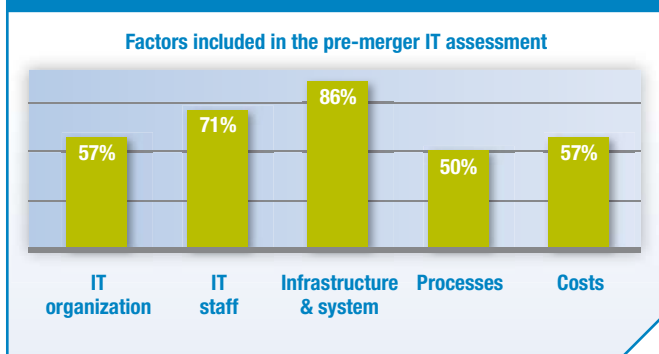
Table 4. Top 10 Critical success factors for post-merger IT integration

Top 10 Critical Success Factors
1 Dedicated IT integration team
2 Pre-merger IT assessment
3 Detailed integration planning (design principles) when closing the deal
4 Professional project & program management (budget, timing, priorities & control)
5 Clear evaluation criteria (budget, timing, ...)
6 Specific attention for IT integration within the merger process
7 Involvement of IT staff in the (pre-)merger process
8 Clear vision of desired level of post-merger IT integration early in the process
9 Clarity (communication during process towards employees and customers, retaining key-personnel & avoiding cultural conflicts)
10 Business involvement in IT integration process

The basis to achieve successful integration is the use of a dedicated IT integration team (1). Putting cross-functional and cross-organizational teams in place helps companies to quickly understand each others’ business, to translate it into their own and to create an appropriate environment for the new situation.

A pre-merger IT assessment (2) is a vital element for successful IT integration and is recognized as such by our respondents. Most respondents (67%) state they already performed a pre-merger IT assessment.

Figure 6. Scope of pre-merger IT assessment



A pre-merger IT assessment helps to design a detailed integration plan (3) together with design principles which result from the merger and IT strategy.

As post-merger integration involves major business transformation, it cannot be managed without professional program- and project management (4). Adequate progress reporting of managerial information (budget, timing, etc) allows effective steering. This means clear and realistic evaluation criteria have to be defined at the onset of integration (5). This will not only give managers the opportunity to control the integration process and identify risks in a timely fashion but it will also compel the program and project managers to set realistic targets. This will make it possible to communicate clearly to the organization.

IT plays a major role in most respondents' organizations. To integrate successfully within the defined timeframes, specific attention towards IT (6) is needed. If underestimated, IT can slowdown organized integration and become a bottleneck for value creation throughout the merger process. Pre-merger involvement of the IT staff (e.g. CIO) is therefore one of the critical success factors.

“THE IDEAL CIO HAS A BUSINESS BACKGROUND AND USES IT AS A MECHANISM OR A CATALYST TO BRING PEOPLE TOGETHER DURING THE INTEGRATION PROCESS.”

The pre-merger IT assessment, together with design principles, gives insight into the possible level and type of IT integration. It is important to have an early outline of the integration plan to be able to work out a detailed plan. This is why having a clear vision of the desired level of post-merger IT integration early in the process (8) is also a critical success factor. This also signifies clarity in an early stage. Post-merger integration is a major business transformation. In most cases it involves organizational change for both companies involved. Attention for the management of change and commitment from employees is therefore crucial to the success of the operation. Providing clarity (9) on job continuity and organizational change is therefore also considered as a critical success factor.

The business needs to be involved in all stages of IT integration (10) but particularly in the beginning, when decisions are made on the implementation of the new IT strategy (architecture, people, processes). This provides early business and IT alignment as well as commitment for the IT integration plans. These plans will need to reflect the priorities for the business (e.g. front office integration).

CIO as the Leading Integration Architect

One of the most remarkable conclusions of the research is that IT not only is 'part of business' but that the CIO can actually be transformation architect. In some of the organizations, our research showed that the CIO can take the lead by integrating organizations via IT. The full grown CIO can then be considered the jack-of-all-trades, speaking the languages of business and IT fluently, while having the overview of the merging processes and organizations. The CIO is seen as a top-manager that optimizes the role of IT and the use of information in the organization. He or she is able to see IT related advantages in different business processes. Furthermore, he or she is able to translate business and merger goals into IT strategy, formulating not only rules and guidelines but also defining the foundation on which these organizational changes can be achieved. From this perspective, the CIO is in the ideal position of using IT as a 'harmonization tool' to facilitate the integration. The CIO can also use IT as 'leverage' to realize quick wins within different functional areas, thereby preventing a dead-lock situation in which cultural differences slow down the process.

CONCLUSIONS AND RECOMMENDATIONS

IT IS AN ESSENTIAL PART OF THE DEAL

Mergers and acquisitions are often accompanied by high ambitions. Organizations aim to create value through M&A's by exploiting the opportunities that arise from the merger like economies of scale (synergies), economies of scope (market share) and access to new capabilities (innovation, R&D, etc.). However, many mergers fail to achieve the expected results by underestimating the importance of the post-merger integration phase. In this phase, strategic intentions and expectations have to be translated into results. IT is a major integration issue and can be a bottleneck on the road to M&A success but it is often involved too late and considered as an 'operational to-do' and involved too late in the process.

Our research has showed that many organizations are becoming aware of the fact that IT needs to be involved early in the merger process. Unfortunately, the focus is often short-term and a lack of clarity keeps decision-making from being successful.

The right focus and attention for IT in the pre-merger phase is crucial to guarantee success in the post-merger phase. Gaining momentum and being able to realize quick wins are also important success factors that have been confirmed by our research.

Even if there is not one particular formula for success – as mergers and acquisitions differ broadly – a successful IT integration has three main characteristics:

- > Focus; recognizing IT as cutting edge in the pre-merger phase
- > Speed; gaining and keeping momentum throughout the process
- > Leadership; clear and strong role of the CIO

Start Early!

A pre-merger assessment is essential to successfully prepare the IT integration. In some cases, organizations recognize this need but do not necessarily link the IT assessment to board room decision-making. Within the pre-merger phase, organizations need to redefine the IT strategy based on the merger strategy. This starts with a clear vision on what the criteria and design principles are for the future state of IT. In the pre-closing phase, organizations should start planning for the IT integration process. By doing this, organizations are able to gain the necessary momentum within the first 100 critical days.

“IT IS IMPOSSIBLE TO REALIZE IT INTEGRATION WITHOUT BUSINESS SUPPORT.”

Generate Momentum

Starting quickly and keeping up the speed for delivering results is very important in the early days of a post-merger. This ensures early commitment for the next phases. Top-management commitment within the post-merger integration process is necessary to communicate the vision for the new IT. Organization-wide commitment is necessary to obtain the resources needed to achieve the goals set out in the integration plans. The team carrying out the IT integration should be cross-organizational as well as cross-functional and should be available full-time.

“IT IS ESSENTIAL TO PLAN IT INTEGRATION CAREFULLY. YOU CANNOT AFFORD ANY DOWNTIME. SYSTEMS SHOULD BE OPERATIONAL 24 HOURS A DAY, 7 DAYS A WEEK.”

Empower the CIO

In our research, we encountered CIOs that were enablers of change, leveraging IT as the ‘common language’ to bring together different business units in terms of processes and applications. To successfully fulfill this integration role, the CIO needs to be business minded. He needs a personality and skill set to understand the broad variety of business information changes. After all, he will need to handle the transformation dynamics of the complex integration process. In this line of thought, IT is more than a business asset or enabler: IT can even be the catalysing agent transforming the business during the post-merger integration phase. Besides content leadership (IT connects and oversees all functional business areas), the CIO can take this as an opportunity to become a transformation leader⁵.

The challenge for the Chief Integration Officer is set!

⁵ Sitkin & Pablo (2004) mention a report by Bain & Company in 2002, in which a cause-effect relationship between certain aspects of leadership and M&A success are described. This report emphasized the importance of (cited from Sitkin, S.B. & A.L. Pablo, The neglected importance of leadership in mergers & acquisitions, Stanford University Press, 2004): Decisiveness, Serving as a symbol and creating momentum (“crusading for the new entity”), Fostering a sense of focus, Motivating organizational members, Providing key cultural and operational guidance (“captaining change through integration”), Consideration, Structure and others.

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