OCTOBRE MOORE

Support Function Strategy for Mergers & Acquisitions

A Practical Guide

Octobre Moore Management Consulting & Communications

Overview

This guide is a detailed and comprehensive how-to for mergers and acquisitions (M&As) of all kinds. It is dedicated to executives and managers who are involved in a merger. By providing clear guidelines and focusing on often overlooked aspects, this guide was created to help integration leaders successfully effecting the merger and creating value by capitalizing on synergies. Most importantly, it points out crucial but often overlooked points that have the power to make a deal a success or a costly failure.

This guide is divided in four chapters. In Chapter 1, the groundwork for mergers and acquisitions is set by providing an overview of important strategy management concepts such as change principles and strategic positioning. In the following chapter, an introduction to mergers and acquisitions is provided, explaining the reasons for mergers, existing barriers to success, and the process of integration. Chapter 3 takes a closer look at support function integration, with a special focus on the integration of the IT department. In Chapter 4, a full integration framework is presented, giving detailed instructions of how to proceed during a merger and how to avoid major pitfalls. This chapter provides you with the tricks and tools you need to ensure a successful merger.

Chapter 1

Setting the groundwork for mergers and acquisitions

In today's global marketplace, organizations are confronted with increasing amounts of pressures to perform at higher levels of efficiency than ever before. Due to the competitive nature of the current economy a plethora of high performing, well managed organizations have emerged that are prepared to do whatever it takes to increase their market share and gain a competitive advantage over the other players in the industry. However, competition among firms within the same industry is not the only source of pressure: Political, economic, social, technological, ecological, and legal (i.e., regulatory compliance) constraints are creating an increasingly complex competitive landscape in which company's need to live. Consequently, organizations need to be able to continuously adapt to new technologies, more complex regulations, and increased customer demands in order to remain competitive and preserve or increase their market share – in other words, they have to change constantly.

Managers who are in charge of formulating and implementing strategy for global corporations need to factor in these external pressures and align them with their company's internal capabilities. Moreover, these challenging factors require organizations to ensure that appropriate planning and strategic logic is applied to decisions that have the potential to generate large scale organizational change. This is the turning point where strategic management meets change management. While strategic management defines how to exploit existing resources in order to create the most possible value, change management will ensure that there is enough control over the change so that important elements such as organizational culture are not forgotten.

Organizational Change

In today's ever progressing corporate landscape, a company's survival depends on its flexibility, adaptability, and evolution, all of which are change-based in nature. Organizational change can take on many forms, as it can mean changing internal business processes, restructuring, developing new products or services, or even the implementation of new regulatory controls – all of which require significant commitment to change due to the financial implications of such activities. This is particularly true for regulatory requirements and associated controls (e.g., Sarbanes-Oxley Act) as they typically do not help the organization increase profitability but rather represent an obligatory cost of doing business. If successfully implemented, regulatory compliance has no impact on generating shareholder value – yet, if poorly implemented, it can have a devastating impact on the business, thereby potentially destroying tremendous amounts of value.

Organizational change is never an easy adventure to embark on. It is often accompanied with a question mark and its result or impact is rarely known prior to entering the resistance filled path towards the objective. However, while the outcome of a change effort cannot be predicted, there are approaches that can assist managers throughout their change efforts. In this context, a formal change management program can prove to be extremely effective.

Change Management Scaling

Leaders can use various methods to understand how their organization responds to change. For instance, by plotting the organization according to the size of the change (small vs. large) and the degree of change-resistance of the company (change-resistant vs. change-able; see Exhibit 1.1), managers can assess the risk related to the change according to their unique organizational change profile and understand how much change management and devoted resources are required in order to coordinate the efforts.

It is very important to plan the amount of change management to apply to an initiative. Too much will create excess capacity and suffer the associated costs. Too little change management and the efforts are likely to fail in one respect or another.

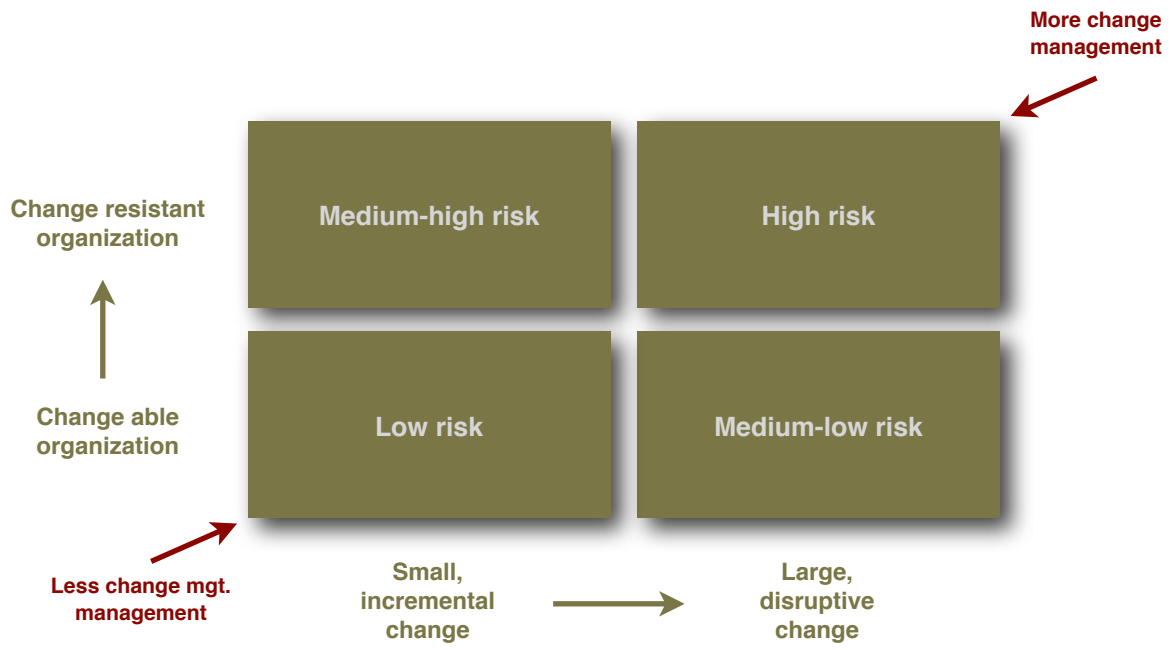

Exhibit 1.1: Change management scaling (adapted from Hiatt & Creasy, 2003)

A Few Change Principles

Senders and receivers. Typically, the senders are leaders who are conveying messages related to the change, such as business issues and reasons for the need to change. Receivers are the rest of the organization listening to the message. The latter pay particular attention to personal implications and risk.

Resistance and comfort. Consider every individual's personal history, current situation/events, work situation, and how much other change is taking place.

Incremental vs. radical change. Change can be either incremental in nature, as is typically the case with continuous improvement or Total Quality Management (TQM) efforts, or more radical, for instance, when business processes are reengineered or restructured.

Change is a process. Change is not typically implemented in a single moment but rather happens over the course of a particular time period. It needs to be divided in phases so that change leaders can effectively facilitate the transition from one state to another.[1]

Strategy Management

In this section, we present select strategy management concepts that facilitate the understanding of this guide, and which can be applied by managers working on an M&A integration project or other projects as needed. This high level overview is intended to provide managers with the basic strategy management concepts required in order to assess their company's situation and obtain a basic understanding of the forces that push companies to the choices they make to accomplish their objectives.

Generally speaking, true corporate strategy management is reserved for the corporate board members, the office of strategy management, consultants, and other business leaders. It is often seen as a mix of concepts, keywords, frameworks, and methodologies that executives employ in order to drive a company to achieve its objectives. Corporate strategy can be defined as follows.

> Approach to future that involves (1) examination of the current and anticipated factors associated with customers and competitors (external environment) and the firm itself (internal environment), (2) envisioning a new or effective role for the firm in a creative manner, and (3) aligning policies practices and resources to realize that vision.[2]

An important question in this context is whether strategy also exists for support functions. Increasingly, corporate support functions such as Information Technology (IT), Communications, Legal, or Human Resources (HR) are taking on the role of service providers to the business. This often implies operating as a near independent business, yet residing under the structure of the overall organization and providing services to the rest of the organization – a form of vertical integration.

With this in mind, it is increasingly – and more than ever before – important that corporate support functions providing services to their internal customer utilize strategic analysis methodologies. These tools enable them to understand their environment and perform the planning necessary in order to manage the internal and external factors that can impact the execution of the support function's strategy and service delivery.

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[1] For details, see Hiatt, J. M. & Creasy, T. J. (2003). *Change management: The people side of change.* Loveland: Prosci.

[2] Source: businessdictionary.com, retrieved May 20th, 2010, from: http://www.businessdictionary.com/definition/corporate-strategy.html

This is particularly true for the IT function due to the strong customer focus and service-oriented approach that is often adopted to managing the business relationship and even comes with clear contracts (i.e. Service Level Agreements, SLAs) to have an effective control over the performance of service delivery. At the same time, the business produces pressure on the IT department to continually increase capabilities while decreasing the overall cost of operations. Without a formal strategy in place, the IT department would have difficulty achieving its targets.

Competitive Advantage

According to management guru Michael Porter, companies can follow two general types of strategies to achieve competitive advantage: *low cost* and *differentiation* (product or service).[3]

Low Cost

The idea of the low cost strategy is to have the lowest possible cost structure, so that sufficient returns are obtained even at the lowest prices. Low cost is a widely applied strategy employed by companies to obtain a competitive advantage. The objective in this scenario is to beat the competitor in terms of price, which can only be a reflection of lower costs. Cost reductions are primarily accomplished through economies of scale, privileged access to technology, patents or other specific resources or capabilities. In this strategy, the chosen approach is to achieve the lowest possible cost in an undifferentiated product line, which typically means that the product is virtually standardized, thereby leading to an intensified rivalry.

Differentiation

On the contrary, with a differentiated strategy, higher cost structures are acceptable because the product is valued by the customer. Differentiation of products or services is a source of strategic competitive advantage when the company has been able to accomplish a certain amount of effective production economies and the focus is on differentiating the product or service features or functionalities that position the offering for the company to price higher. This strategy also leads to an intense rivalry, since the competition tends to imitate the first mover as soon as the new features are made public. Differentiated strategies only work if the value created by the differentiation exceeds the cost of delivering the new functionalities.

Strategic Positioning

From a strategic standpoint, there are essentially two distinct yet complimentary ways to look at the positioning of a company within an industry, notably from the “out-side in,” and from the “inside-out.”

In other words, a company can look at the external factors and strategically position itself within the industry based on that information (i.e., out-side in), or, contrarily, it can review its internal capabilities and plan to cultivate them in order to create value based on what is available (i.e., inside-out). The ultimate solution involves using a combination of both in order to have an accurate vision of the company’s position within the industry and a clear understanding of what resources are available to remain competitive in the long term.

Outside Looking In (Competitive Forces)

As mentioned above, there are many external factors that influence the effective formulation and implementation of strategy. In addition to the external factors that were already described, the framework elaborated by Michael Porter[4] serves to establish the attractiveness of an industry, based on the intensity of rivalry. The model takes an

[3] Porter, M. (1985). Competitive advantage creating and sustaining superior advantage. New York: Free Press.

[4] Porter, M. (1985). Competitive advantage creating and sustaining superior advantage. New York: Free Press.

outside-in approach to analyzing the five competitive forces that make up the competitive nature of the industry. Exhibit 1.2 gives an overview of the five forces.

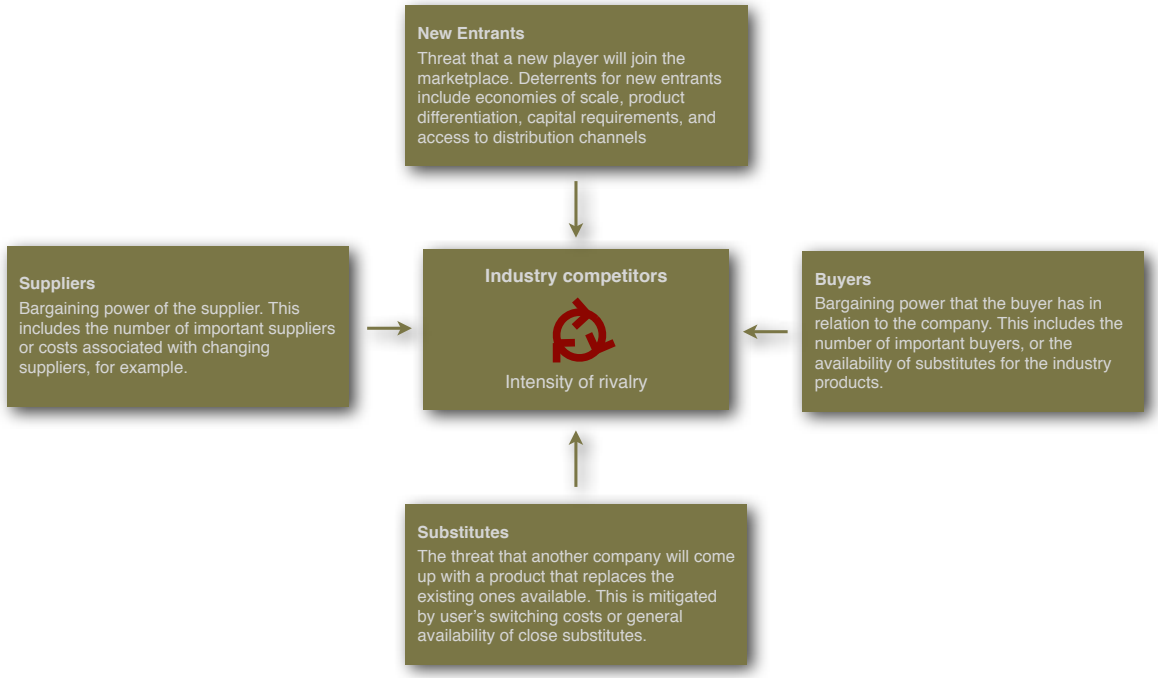

Exhibit 1.2: Porter's 5 competitive forces (adapted from Porter, 1985)

Porter's framework is widely known in the business world and helps managers to map and understand the different elements of an industry's structure and overall competitive landscape, enabling them to elaborate the most effective strategy.

Inside Looking Out (Resource-Based Strategy)

As companies' activities are generally limited by the resources they possess or have access to, programs and projects have to take these limitations into account. In other words, managers have to be aware that their organization is only able to perform to the level that can be achieved with the available capabilities or resources, at least if the performance is to be sustainable.

In line with this train of thought is the "Resource Based Competitive Advantage" model proposed by Robert Grant in 1991. Essentially, the model describes how firms can seek to obtain a competitive advantage by formulating a strategy that is based on the competencies and resources they possess. When the company wants to move in a strategic direction that is incompatible with the available resources, decisions must be made in order to develop or acquire the necessary resources to fulfill the mission.

Exhibit 1.3 shows Grant's approach to strategy analysis. It is worthwhile to give it a closer look, as a similar approach can be used when engaging in a large-scale organizational change. Being based on factors that are under the control of the organization, this approach - if implemented correctly – can lead to value creation in a more sustainable way.

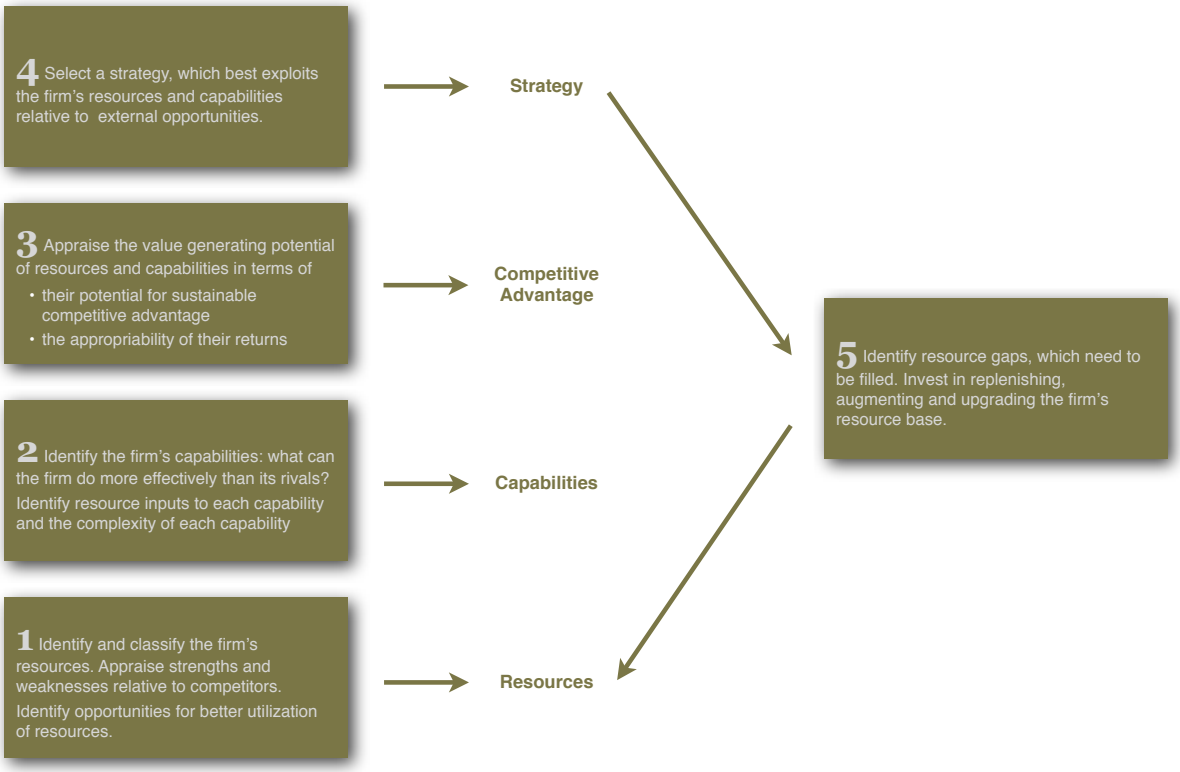

Exhibit 1.3: A Resource-Based Approach to Strategy Analysis (adapted from Grant, 1991)

Customer Value Proposition

When attempting to elaborate a strategy, it is extremely important for managers to understand their company's value proposition. If the organization is unclear about its customers' expectations and the "agreed" value customers should receive regarding its products, services, or processes (hereafter referred to as services), then it is nearly impossible to effectively deliver those services, since there is not even an informal "benchmark value."

It is essential for a company to define its value proposition in order to clearly understand the entire process of customer transaction, which builds the basis for defining the necessary efforts to continually improve the services. In order to understand and deliver the customer value proposition, firms need to align service offerings with the specific needs of the customer. This implies placing a strong focus on the understanding of service delivery channels, products, market segments, and the clear benefits that each segment possesses. In addition, managers need to understand how customers measure services provided, or, on the contrary, how those services are guaranteed and what it takes from an internal resource provision perspective to provide them.

Questions that you should ask when defining the value proposition for a customer segment:

- Why should they buy your services?
- What are the most valuable aspects of your services?
- Why are your services better than the ones of the competition?
- Why are your services the most trustworthy and reliable?

Answering the above questions both illustrates the content behind what defines the customer value proposition and enables managers to ask themselves if this has been done before or not. If not, this is one of the most crucial elements to understanding how to position service offerings in alignment with specific stakeholders across the business. A provider's relationship with its customers does not only depend on the delivered value but, and especially so, on how real the proposition is made for the stakeholders. If the customer focuses mainly on cost, then it does hardly matter whether the provider has great products and solutions. The provider has to make sure that her value propositions are indeed as meaningful as she believes.[5]

The more support functions want to be recognized by their organization as valuable service providers, the more functional leaders will need to demonstrate the value that their service actually brings to the company. Of course, depending on which stakeholder is consuming the services, this message might need to be adapted in order to better serve the internal customer's specific needs. As one executive put it: "If you call yourself a "Strategic Business Partner" one more time, I'm going to throw you out of your own building. You are NOT a strategic partner to my business just because your marketing department gave you slides that say you are. You are a vendor, selling us technology, and until you tell me exactly what business value you bring to my business, that's all you'll be to us."[5]

Table 1.1 outlines a few of the core stakeholders in the organization along with their motivations and drivers. Understanding them should help business leaders accurately direct their value messages.

Table 1.1: Motivation and drivers of various stakeholder groups

Stakeholder Group	Motivation	Drivers
Executive management (CEO, CFO, CIO)	Increase shareholder value, grow revenues and market share	Value creation: "MORE"
Business managers (function heads, line managers)	Increase customer satisfaction, enhance process performance	Service quality: "BETTER"
IT organization (operations staff, process owners)	Reduce operational costs	Cost reduction: "CHEAPER"

Support Function Strategy

Given that support functions do not compete in a global marketplace in the same manner as companies do on the whole, this section outlines how the above concepts apply to a typical support function (certain information is specific to an IT department that provides IT business services to the rest of the organization, henceforth referred to as the business). Table 2.2 shows a recapitulation of strategy concepts mapped to the IT department strategy.

[5] Kriebel, N. & Matzke, P. (2006). Building meaningful business value propositions. Forrester Research, August 8, 2006.

Table 2.2: Strategy concepts for IT departments

Strategy Concept	Pertinence to IT as a support Function
Competitive Advantage (Low Cost vs. Differentiation)	The IT department is always under pressure to fulfill both differentiation (more functionality) and cost effectiveness - an extremely difficult and rare position to be in. The IT department is known to have the duty to increase the service offering (differentiation) while reducing costs through synergies and continuous improvement (low cost).
Competitive Forces (Porter) (Outside looking in)	Subject to pressures from the business, the IT department needs to manage both a relationship with the business and its vendors. This makes up the high level external environmental perspective. It does not include compliance-related pressures, as they would typically be cascaded down from the business. Additionally, IT may find that being in competition with external IT organizations is commonplace.
Resource-Based Strategy (Grant) (Inside looking out)	The IT department needs to clearly understand its existing resources and capabilities in order to provide effective services to the business with continuous constraints on budget. IT should use this information to plan strategic activities and programs.
Customer Value Proposition (Services provided)	With many customers, often spanning across the globe, IT organizations need to continuously evaluate and understand how they provide value to the customer. This includes proper segmentation of what the internal customer demographic resembles, and determining how best to position the IT service offering in order to maximize on value delivery, and according to what was promised in the proposition.

Taking into account all of the above strategic concepts will enable CIOs and other IT leaders to position their strategy with more accuracy and thereby deliver the right level of service based on both internal and external environmental factors. This is done in direct relation with the resource and capacity planning perspectives.

Additionally, the competitive advantage adopted by the organization should to be matched with the customer value proposition in order to line up the service offerings with the expectation of the business. For instance, it might be the case that too many resources are deployed to a specific activity and while IT believes that it brings high value to the business, the business might in fact not perceive the same value level.

Strategic Positioning and Customer Value

In Exhibit 4.1, the positioning of each of the above strategy management concepts is shown, defining how they apply within the scope of a support function. The exhibit depicts the support function landscape, including the feeds and flows that have to be elaborated in order to define and implement an effective service delivery strategy. While this model is not specifically designed for IT, it applies very well to IT organizations that are engaged in IT business services management.

Strategic positioning

Vendors or suppliers and the internal customer (i.e., the business) are the external factors in the strategic landscape of the support function (see Exhibit 4.1). They have a potential communication channel, drive the external competitive forces and ensure that the resource-based strategy will work with people, processes, and technology so that the appropriate services are delivered to the customer (i.e., customer value proposition).

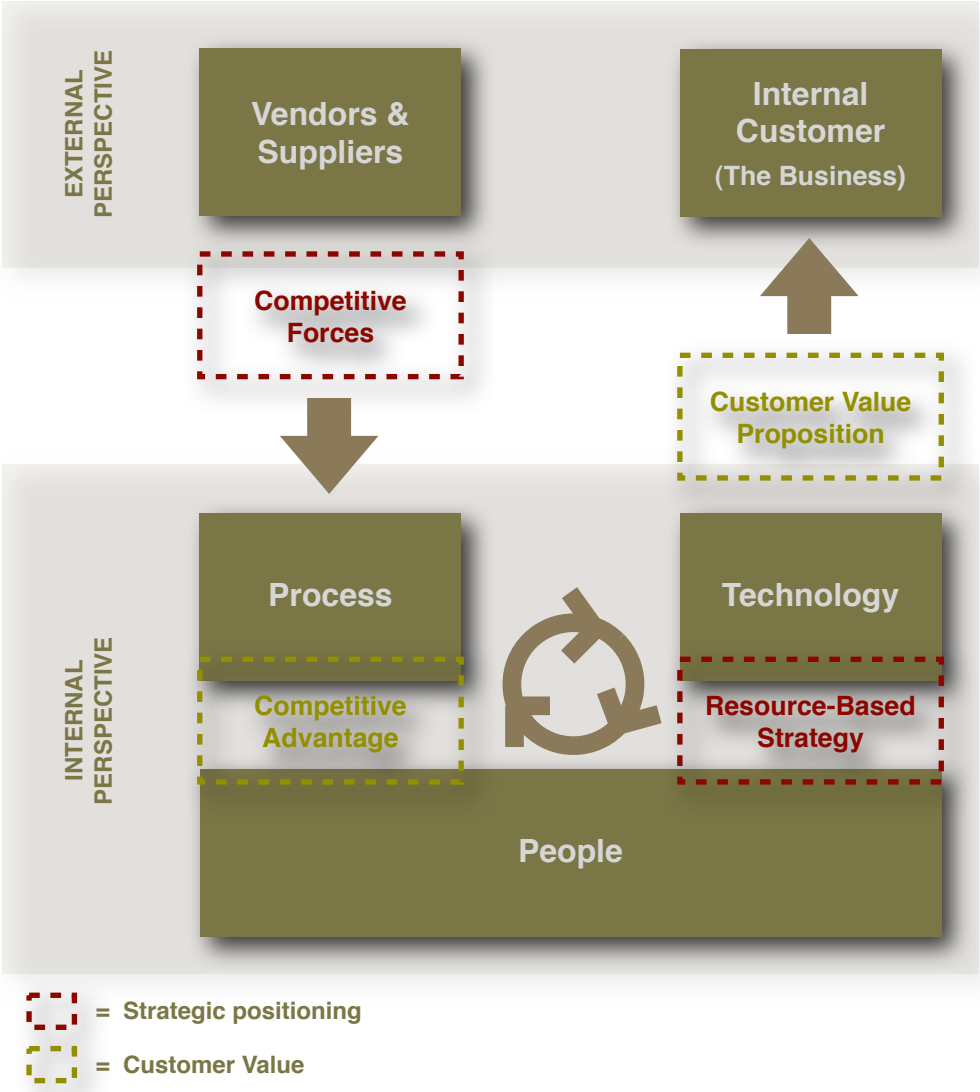

Exhibit 1.4: Support function strategic landscape

Customer value

By defining the customer value generating aspects of their strategy, support functions can position themselves to deliver services at the value that is reflected based on their competitive advantage strategy. If the strategy is low cost and the support function is able to save money, then the customer should see this reduction to be reflected by a near linear decrease in price. If the strategy is to differentiate, then the customer needs to be willing to pay for the added value of the differentiation.

Chapter 2

Introduction to Mergers & Acquisitions

What is an M&A?

A merger and/or acquisition is the act of making a deal between two organizations in order to combine forces and to create value. When an organization wants to grow more than is organically possible, M&As are an often considered solution by business leaders. Driven by globalization and the need to generate increased revenues, companies are constantly on the lookout for merging with other organizations that have certain characteristics, which allow the acquiring company to reach its overall objective.

> "Mergers and Acquisitions (M&A) are considered as the tool for management to execute their strategy. An M&A is not strategy in itself; however, it is the channel through which strategy is implemented… Executives use many reasons for looking into expanding through acquisition. Some follow a strategic logic, but many appear to be more like leadership gut-feeling or self interest."
> (J. C. Jarillo, personal communication, 10.06.2006).

Creation of Value

Value creation is at the heart of M&As. However, an M&A will only create value if large-scale synergies are captured by combining the two organizations. Therefore, it is important to carefully understand how the target firm's resources will integrate with the ones of

acquiring company. Many issues will be captured during the due diligence process. However, only after a deal is done and integration begins the real information comes to surface – information that was withheld or not investigated prior to making the deal. This information gap can leave managers at a stand still, resulting in a loss of potential post-merger value creation opportunities, unless there is a comprehensive integration plan in place. Lack of integration is one of the primary causes for unsuccessful M&As. Consider the following facts:[6]

- In acquired companies, 47 percent of executives leave within the first year, and 75% leave within the first three years
- Synergies projected for M&A deals are not achieved in 70% of cases
- In the first four to eight months that follow a deal, productivity may be reduced by up to 50%
- CEOs and CFOs routinely cite "people" problems and cultural issues as the top factors in failed integrations

The merging of two entities is typically done in an amicable manner and with significant due diligence in order to ensure that the most synergies can be spotted and acted on to increase the potential value of the fusion. In the case of a hostile takeover, however, the acquiring company buys out the remaining shares on the market and thereby takes control of the target organization. Obviously, in this situation, integration presents its own set of challenges, in particular regarding people and culture integration.

Please note that the focus of the present guide is on a typical acquisition and integration of a target company with staff volume ranging between 200 and 2500 people. No distinction is made between the geographical locations of the companies involved in the M&A deal.

Strategic Reasons for M&As

An M&A deal is made in order to generate new value. Not so long ago – in the 1980s –, an M&A was first and foremost a simple financial transaction with little interaction or integration taking place between the two companies after the deal was made. In addition, the target company was often of a different industry or line of business. Evidently, this approach presented its own set of complexities, involving a higher margin for error and risks. Today, M&As have taken on a much more strategic and operational nature. Primary reasons for deals are the following:

- Purchase a customer base, or organization's competencies/talent
- Improve distribution channels
- Grow to new geographical markets
- Gain control over competitor's products/services

To ensure that executives make the right choice of which company to target for acquisition, it has to be extremely obvious that value will be generated out of the deal. As a consequence, there is a not an abundance of potential targets in the marketplace. Oftentimes, the economic projections of the merger are not achieved and executives need to capture revenue-generating synergies while at the same time driving costs out of the business, and this faster than ever before.

Achieving economies of scale, that is reducing costs by creating synergies, is often a driver in the reasoning for targeting companies for an M&A. If an organization can achieve economies of scale, grow/reinforce their portfolio of products/services, reduce costs through streamlining and generate value for their shareholders, then

[6] Galpin, T. J. & Herndon, M. (2000). The complete guide to mergers and acquisitions. San Francisco: Jossey-Bass/Wiley.

an M&A can be an extremely effective tool for expanding the reach of a company. Generating shareholder value should be the number one objective of any M&A deal. Some supporting strategic objectives that organizations use to accomplish this include:

Grow in size. One of the fastest ways to quickly grow and generate additional revenues is through an M&A.

Company span and reach. This can be in a geographical sense as well as regarding diversification (new products/services) and vertical integration. Vertical integration as a strategy would imply acquiring a company that operates within the same value chain as the acquirer. By taking control of that activity the acquired company operates internally instead of as a vendor to the acquiring organization.

Reduce current capacity. A controversial reason for an M&A is to reduce the current capacity. Often under the guise of economies of scale, this objective focuses on leaving certain markets or eliminating certain processes or activities. This is often the case when a new technology provides automation of the work structure.

Growth and increase in size are among the natural outcomes of an M&A. This said, growth does not always mean that value is generated. In fact, many times M&As fail due to the fact that the combining of the two organizations destroyed value rather than created it. An often cited example for this fact is that an increase in size goes hand in hand with an increase in complexity. When the added complexity is not effectively managed, the value that could have been gained is absorbed in the process of reducing this increased complexity.

Table 2.1: Common strategic logic reasons for failed M&As

Strategic Logic	Description	Impact
Size	If both companies have already achieved the maximum level of efficiency. For example, there are no more economies of scale, which makes a reduction in cost impossible.	Similar to having excess synergy or excess capacity.
Search of new span	When a company expands geographically or in terms of its products/services, the new activity renders the company less competitive than if it concentrated its resources on solely the original market. It is important to consider the costs associated with expanding to new territories or product lines for example.	Synergies include complimenting each others product or service line, as in the case of a similar distribution channel.
Price	Even if the idea was excellent, if the acquiring company pays too much for the target, the value generated might not even enable a break-even in the short to medium term. The known asymmetry of information in a deal often places the acquiring company at a disadvantage. Once the deal is complete, the real information surfaces and often presents a series of unplanned expenses.	Synergies need to make up for the price tag associated to creating the envisioned value.

Barriers to Success

Growth through acquisition is not an easy change to control, as there are often surprises along the journey to full integration of the two companies. Due to the increase in complexity it is imperative that the deal that joins the two companies creates value with the expected synergies. In order to understand how to mitigate the potential

risks associated to synergy failure, Tables 2.1 and 2.2 outline various reasons why M&As fail. Failures are grouped according to two principal reasons, *lack of strategic logic* and *cultural myopia*.

Lack of Strategic Logic

As said above, M&As can fail for many different reasons, typically generated from a lack of strategic logic in the deal.[7] Therefore, it is crucial to carefully evaluate a company for value-generating synergies that are geared at increasing revenues through higher process performance or decreasing the costs associated to delivering products or services to the customer. Table 2.1 shows some common strategic logic reasons for failed M&As.

Destructive Cultural Myopia

Apart from a faulty strategic logic, there are other key reasons why mergers fail. Depending on how value is measured (e.g., shareholder value or customer satisfaction etc.), most research places the failure rate between 50-80%.[8] However, the failure of the merger is seldom actually related to the financial elements. On paper, the accountants can show how the deal makes sense. However, what is often overlooked is the human side of the deal. When two companies merge, different personalities, communication patterns, and leadership styles meet one another, leading to friction and power struggles. Every organization has its own style and culture. A culture clash can greatly drive up merger cost and therefore needs to be well managed. For organizations that have different national cultures, this can prove to be even more challenging. Table 2.2 outlines the elements of cultural myopia that can negatively impact merger success.

Table 2.2: Elements of cultural myopia

Cultural Myopia	Description	Impact
Leadership & Power Struggles	Due to the competitive nature of the work place and the fear of the unknown, managers will likely begin seeking for ways of how to potentially consolidate power.	Impact on the clarity of roles, responsibilities, and process boundaries.
Differing Personalities	Working closely side by side, with the above-mentioned power struggle, it is never long before managers of the less-dominant culture decrease in productivity. This is generally due to the resistance of the members of the target company to integrate with the acquiring company.	Reduced visibility of the target's resources' true value. Workforce-wide input is needed from the start.
Communication & Coordination	When an M&A change happens, employees often find themselves a little confused, in particular at the target company where most processes are replaced by the one's of the acquiring company. The focus needs to be on ensuring that key communication channels are available and that general administrative activities do not replace job-related productivity.	Slow identification of synergies. Duplicate work, lack of cooperation and knowledge sharing.

[7] Jarillo, J. C. (2004). *La logique stratégique: Comment raisonner juste en stratégie d'entreprise*. Paris: Dunod.

[8] Knowledge@Wharton (2005). Why Do So Many Mergers Fail? Retrieved May 21st, 2010, from: http://knowledge.wharton.upenn.edu/article.cfm?articleid=1137&specialid=30

Due Diligence

An interesting fact about M&As is that while approximately 70% of M&As fail to meet their economic objectives, their popularity is on the rise. The reason for this is that in the competitive and rivalry-filled global marketplace, a merger of two organizations' forces is often one of the only approaches that can achieve the desired objectives of growth and market share gain. Exhibit 5 demonstrates the popularity of M&As over a ten-year period.

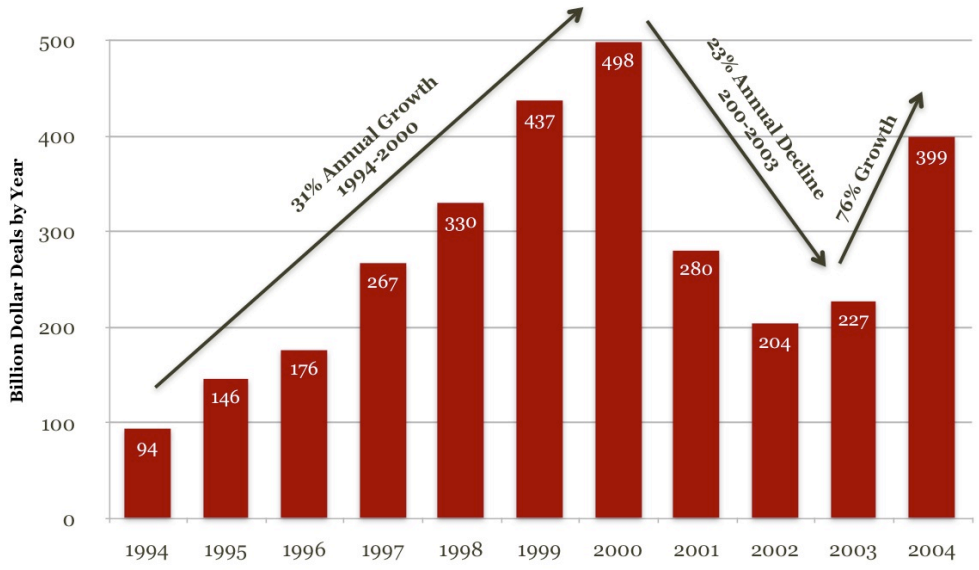

Exhibit 2.1: Volume of M&A activity (Source: Thomson Financial Securities Data)

Due to the popularity of M&As as a source of growth, companies need to ensure that the deal they intend to make is as appropriate as possible with respect to price and specific objectives in order to create the desired value through synergies. This is achieved by performing a thorough analysis prior to making a deal, the so-called *due diligence*, that starts many months prior to making the actual transaction. Depending on the nature of the deal, the due diligence process can even start over a year before the merger. In some cases there is little due diligence because of time pressure. However, this is never recommended. Due diligence is the single most important activity to ensure that the merger meets its overall objectives.

During the due diligence process, the acquiring company reviews many aspects of the target company's financial data, product pipeline, and other key activities throughout the organization's functions. The idea behind due diligence is to ensure that the acquisition of the target is instrumental in fulfilling the acquiring company's needs. This does not only include financial and performance-related aspects; other elements such as reviewing processes, culture, technology, and people make up a complete due diligence investigation. It is only by considering the full spectrum of the target's makeup that a deal can maximize on value creation. While not all identified issues are necessarily deal-breakers, some certainly are. They will typically be fed into the integration program, along with associated contingency plan and risk mitigation action items.

This said, it is rare that the acquiring company can obtain all the information that is needed to make a fully informed decision of whether or not to complete the transaction. Information is often withheld by the target company prior to making the deal. As already mentioned, this lack of information is often what leads M&A deals to fail, as executives are not able to foresee the potential problems with the target company. However, with a

detailed due diligence plan, managers can attempt to uncover as much accurate information as possible. Overall, due diligence needs to address the following:

- Identify risks and potential liabilities before it is too late
- Quantify items affecting the sales price
- Ensure there are no surprises later on
- Source data that can be used in the negotiation process
- Facilitate and streamline the integration process

Post-Merger Integration

Integration is the channel through which managers will effectively capture and manage synergies. Based on the type of deal and the specific objectives, executives need to understand the type of integration they are looking to achieve, thereby enabling the appropriate resources to be allocated to the program.

In light of the importance of mitigating risk in M&A deals and creating value through synergies, it is surprising how little importance is placed on establishing an appropriate integration program. Integration programs can vary in scope and complexity, depending on the nature of the M&A deal at hand. However, managers should not forget that with any change that involves bringing two organizations to work together as closely as possible, proper integration management cannot be overseen. This is one of the most critical aspects of any deal; while it is not always difficult to get two entities together, keeping them together can prove to present more complex and costly challenges. M&A integration requires having a full understanding of both companies' strategic landscape described above in this guide. Oftentimes, information is not cascaded in the way it should when a company is acquired. Table 2.3 outlines different integration types, which will in turn define the level of integration efforts they utilize.

Table 2.3: Common strategic logic reasons for failed M&As

M&A Integration Type	
Full Integration	All areas and processes company-wide (or function-wide) have to be merged and consolidated. All management decisions for the acquired business (or function) will be integrated into the parent company's processes with appropriate best practice knowledge transfer and revisions.
Moderate Integration	Certain key functions or processes will be merged and consolidated. Strategic planning and monitoring of the function will be centralized as an element of the parent company's processes, but day-to-day operations will remain autonomous.
Minimal Integration	Selected corporate and staff functions will be merged and consolidated, primarily to achieve staffing synergies and cost-efficiencies. All strategic and day-to-day operating decisions will remain autonomous and decentralized, with agreed-upon requirements for reporting to the parent company.

Structured Integration

A survey conducted by Watson Wyatt Worldwide[9] that was administered to executives and integration managers cited several outcomes of a structured integration. Some of the benefits that were identified are the following:

- Faster integration
- Lower costs
- Achievement and surpassing of projected synergies
- Protection of productivity
- Maintenance of customer focus
- Faster, more effective response to employee's questions and concerns

The highlights from the above points indicate that integration programs can lead to synergy savings, primarily due to the speed of integration.

Effectively coordinated task forces and teams can place the desired importance on synergy identification, thereby increasing its positive impact. In addition, there is a focus on productivity, which is directly related to the speed at which issues are identified and acted on by management. With proper control mechanisms in place, integration issues can be prioritized and resources deployed as appropriate.

A very important point of post-merger integration is the the human element of the change. Typically, there will be questions and concerns from employees. The issues can range from questions about their benefits to concerns about their jobs. Therefore, in order to maintain a productive environment, communication strategies need to be elaborated with these factors in mind. A comprehensive communication program is part of any well developed M&A integration strategy. In the remainder of this guide, we focus on the integration of support functions, and, in particular, the IT department.

[9] Watson Wyatt Worldwide (1998). *Assessing and managing human capital: A key to maximizing the M&A deal value.* Bethesda, Md.: Watson Wyatt Worldwide.

Chapter 3

Support Function Integration

So far, the focus has been on the overall M&A universe viewed from a corporate level, and some attention has been devoted to the support function strategy required in order to ensure the most effective M&A integration. With this the groundwork has been set for a successful integration in an M&A. We now focus on applying the above theoretical concepts to a practical approach for integrating the IT function of an acquired company.

Alignment with the Business

The IT function needs to be in close alignment with business strategy and objectives. This is the reason why at the beginning of this guide we presented an overview of the corporate drivers behind M&As on a high level. IT executives need to consider these elements in order to understand the full scope and impact of the merging of two organizations, and thereby adapt their functional strategy and/or customer value proposition.

As a support function with varying levels of service commitment, established through Service Level Agreements (SLAs) and measures on the balanced scorecard that are linked to this performance, IT needs to ensure that decisions with regards to process and technology are taken in a methodological manner, thereby keeping in mind customer value proposition and support function/service delivery strategy.

CIOs should be involved in the corporate due diligence process and find a seat at the corporate due diligence table. Typically, the due diligence team typically involves senior business, financial, and legal staff (and possibly

consultants) who evaluate the attractiveness of target companies. This includes identifying the potential synergies, cost savings, and associated revenue impact in order to plan the integration and is directly linked to the budget that is allocated for integration activities. Since IT is in a position of savings through consolidation and a source for other cost savings, the CIO needs to give input in terms of what is possible and what is not. While CIO input is not necessarily a "show stopper," it is vital because there might be IT aspects that can deter a deal from happening. The CIO needs to gain support from the business upper management early on (and this goes as far as the CEO). Her involvement in the due diligence process allows for quickly identifying and creating initial IT synergies and opportunities.

As a support function, the IT department is often subjected to the acquisition choice that is made at the business level and needs to deal with integration issues on its own. This is the case even when CIOs have input in the due diligence process. The feedback given on the target company's IT situation will often influence but not deter a deal from happening. Therefore, CIOs need to be able to manage the integration of whichever company is chosen by the executives in charge of making the deal. This is where proper integration planning is essential to success.

Key Challenges for IT

On a corporate level, post deal implementation challenges span across the organization. However, for IT, the efforts last well beyond the rest of the organization, as systems processes and people are integrated into one organization. Processes and technology are the key factors that have to be integrated in order to create a single organization when seen from a purely operational standpoint. A third factor is people integration, and it can never be said enough how important this factor is for a successful M&A. All three aspects are covered within the integration model that we propose in this guide.

Due to the heavy involvement and importance of information systems and technology in the modern business world, M&A success greatly depends on IT. When companies want to increase their scale, expand products or services, or drive cost reduction efficiencies, systems will be required to support these activities, and the data extracted from such systems is the driver for strategic action and planning. In an M&A deal, one challenge lies precisely within this domain, as there are often systems that provide similar functionalities or services to their respective business or customer. So one important questions is how to proceed when there are duplicate systems between the two organizations involved in the deal? If the companies are to be fully integrated, which is the most common approach, then one of the systems will need to be decommissioned, and this act alone can destroy tremendous value if it is done carelessly, or even simply at the wrong time.

As an example, consider two companies that will likely have their own Enterprise Resource Planning (ERP) systems. As most managers know, ERP systems are typically very expensive to implement and customizations often drive costs of implementation upward even further. ERP systems can represent a key hurdle to overcome when merging two organizations. What if the acquired company has recently invested in an ERP system and there have been customizations to various modules that are half complete? In this case, adopting the acquiring company's ERP and decommissioning the own system would lead to a tremendous destruction of value. One method for measuring the impact of this value destruction is to review how far in the future the decommissioned ERP would be fully depreciated, that is, the Net Present Value (NPV) of the enterprise systems.

Technology

It is often found that merging two companies systems can be a difficult, time consuming, and critical task. Evidently, this often proves to be very costly, depending on how large the differences are between the two companies' infrastructures. However, for the most part, every organization has a somewhat unique infrastructure

as well as a specific approach to governing this infrastructure. From a technology integration standpoint this is bad news. Moreover, most of the time one of the companies in the merger is the dominant organization that often discards the other company's processes and systems without a proper evaluation. It is difficult to effectively manage application rationalization and the elaboration of the associated business processes. As said above, tremendous cost redundancies might exist, making it necessary to decide which applications to keep and which ones to decommission.

However, technology consolidation can also prove to be a source of cost savings and quick wins in the integration process. This includes aspects such as data center consolidation, vendor contract re-negotiation and/or streamlining. It is important to understand in what aspects each firm has made significant investments and to seek to preserve that value as much as possible. These decisions are then followed by choices with regards to data migration, application to application interface development, and modifications of existing applications to support the new business processes.

Processes

Creating consistency between processes is pivotal in making it seem like two organizations operate as one. If both organizations perform their tasks in the same manner, they will look like one organization regardless of the systems they have logged into to accomplish those tasks. For this reason, processes should be the key to finding synergies, they can also prove to be the selling point for determining which systems to keep.

Processes need to be standardized and implemented consistently across the new organization, since this is fundamental of consistency and the associated value that is generated. In an M&A, it will be difficult to achieve synergies if both firms' processes are simply merged together without decommissioning. The ideal approach is to evaluate which processes are the most mature in each of the two organizations and to use this information for choosing which process to adopt.

It is important to understand the differences between the two organizations' approaches to measurement. Process measurement is at the heart of continuous improvement and change. Measures enable choices to be made in terms of resource allocation or system enhancement (i.e. automation), for example. While the process of the acquired company may not be selected to keep, their measurement structure for that process might be worth adopting. For this reason, it is important to investigate processes beyond just the activities that make up the process, but also which metrics and control mechanisms are in place.

People

As it was already evoked within this guide, people are often found to be the cause of poor or failed integration. "Culture eats strategy for breakfast," a famous quote attributed to the late Peter Drucker, beautifully illustrates this. In other words, in an M&A a significant focus has to be placed on the people and cultural elements of the integration project.

For people integration the process is similar to the one taken for technology and process. The two firms should be matched up against each other for complimentary or redundant skills and/or knowledge. The idea behind this procedure is to find talent that the acquiring company is missing and evaluate the allocation of the new resources to such activities. On the other hand, if there is a redundancy or an overlap of roles, plans need to be made to adjust the overlap.

When an M&A is announced, people's first reaction is to fear for their jobs. Leadership messages need to address this issue as to not let people's imagination impact their productivity. For example, if the target is to drive 15% cost efficiencies, this should be communicated clearly so that people know what to expect from the

change. This factor is very important factor address to avoid losing key staff during the change. Staff retention is a critical element that is addressed through retention planning and we will addressed this further in the following chapters.

In addition to issues related to staff restructuring and retention, organizational culture is a further critical factor for successful integration. Each company has its own organizational values and ways of working regarding procedures, policies, and practices for running the IT function. This includes elements such as how projects are tracked, how meetings are run, overall communication, and collaboration. These factors need to be closely examined in an M&A deal and the support function should place the same importance on these aspects than is placed at the corporate level.

For IT, service quality and consistency are primarily driven by the human element. Therefore, a strong focus should be on finding synergies at the "people level" as soon as possible and to quickly make key decisions with regards to staffing. For this reason, the IT department needs to liaise closely with HR in order to develop the necessary hiring, retention, and development plans.

Overcoming Integration Hurdles

Both barriers to M&A success that were described earlier in this guide, notably lack of strategic logic and cultural myopia, are addressed within this integration methodology and applied on the IT support function level. In the following, we present a few questions managers involved in an acquisition should ask themselves. All of the points are addressed within the scope of the audit report described in Chapter 4.

Table 3.1: Strategic logic elements and their pertinence to an IT integration strategy

Strategic Logic	IT Perspective ("Their" = Acquired Company)
Size	Can all new employees be integrated?
	What is their philosophy regarding outsourcing?
	Will combining the two forces create excess capacity?
	What is the level of Enterprise Systems implementation?
New Span	Are there unique services that they offer to the business?
	What is their IT Service Management processes maturity?
	Is a new geographical region included in the deal? New skills?
	What is their customer value proposition?
Price	Are systems acquired in the deal overpriced?
	Are their core IT processes more or less mature?
	Do they have specific IT skills or experiences?
	What measurable value does their profile bring to operations?

Strategic Logic vs. Cultural Myopia for IT

Although typically seen as the elements that concern leadership at the corporate level, the strategic logic barriers to M&A success can be specifically adapted to a support function, in this case IT. The strategic logic elements can be effectively linked to the support function, as they present elements that need to be associated to the support function strategy. Table 3.1 outlines the strategic logic elements and their pertinence to an IT integration strategy.

Table 3.2: Cultural myopia questions for leaders

Cultural Myopia	IT Perspective ("Their" = Acquired Company)
Leadership & power struggles	Who are their king and queen bees? What is their management/reporting structure? What is their level of autonomy in decision-making?
Differing personalities	Are there similar roles in each of the organizations? Are there overlapping skills and experience? Are there new languages/cultures to consider?
Communication & coordination	How are their meetings run? How frequently? How formally? How easily is information diffused through the organization? What is the perception of their approach to knowledge transfer?

IT M&A Risk Management

Risk management is one of the hot topics in today's compliance-ridden business world. Risk has become the driver of many decisions and is at the heart of many business processes. In the case of a large-scale change such as an M&A, risk is increasingly pertinent. For IT, it is imperative to take actions in order to mitigate risks in the early stages of an M&A in order to not lose opportunity or destroy value. According to Forrester Research, M&A deals entail in particular financial and technical risks as well as risks related to human resources.[10]

Financial

Fraud/theft

Virtually every company is subject to loss through fraud and theft when employees take advantage of the confusion to steal IT equipment, submit phony invoices, or even leave with intellectual property such as policies and procedures, customer lists, and confidential information. Therefore, it is important to ensure that special security policies and audit procedures are instituted at both companies as soon as the merger is announced.

Long term contracts/leases

Contractual arrangements can be substantial in terms of risk. The target will often come with outsourcing agreements, leasing agreements, and software/support contracts. It is important to review renewal dates, notice periods, size of expenditures, termination penalties, out clauses, vendor viability and flexibility, rate increases related to increased volume, automatic upgrade clauses, and change of control clauses.

Expenditures for projects in process

Often when a merger is announced, projects take delays as managers become extremely risk averse and unwilling to make decisions. During the change, key personnel might leave the company or get reassigned, thereby impacting projects. Delays of major project initiatives can present significant financial risk if it impacts the timing of cost savings. In addition, when the target company has recently invested in an ERP system that is replaced by the one of the acquiring company's, significant value is destroyed because the target's system was not fully depreciated.

[10] Giera, J. (2004). *Mitigation of IT risks in early stages of mergers.* Forrester Research, December 24, 2004.

Technical

Third party suppliers

All suppliers need to be reviewed as part of the due diligence process. This includes the viability, scalability, flexibility, financial position, market share, and service qualifications of major suppliers of hardware, software, or services.

Disaster recovery

All disaster recovery (DR) procedures, audit findings, and suppliers need to be reviewed. Contracts with DR service providers need to be scrutinized for clauses that might present problems from merging the two organizations. This includes change control, volume-based agreements, location of recovery facilities, limits on size of the recoverable entity, etc.

Security

With the confusion of the new structure and environment, in a M&A there is often a lot of pressure for accesses to be granted quickly. Network professionals are under pressure to open up network access as soon as the deal takes place. To avoid inappropriate access provision network accesses need to be under tight control.

Mean-time between failure for critical systems

Reviewing critical business systems is a very important part of the due diligence process. Managers can review the number of maintenance requests, incident volume, unplanned downtime, availability, and performance.

Capacity

When two companies come together, there is a size increase that needs to be managed. This size increase includes customers to support, merging systems and data, call volumes to the service desk, and internet bandwidth. Meanwhile, the customer needs to continue to get the same service as before in order to not negatively impact her perception.

Hardware/software maintenance

Outside maintenance contracts should be reviewed for all critical systems. It is important to know that major systems are under maintenance and that if not action needs to be taken to ensure that there is no significant risk. It is important to not cancel maintenance contracts too soon in order to ensure the post merger integration of systems is covered, as there will be heavy use of such systems when history files are searched for conversion.

Change Control

It is important that during such an organizational change systems remain under tight change control, as there is a risk that the stability of the IT infrastructure suffers. If there is downtime of a major system during the merger and products are not able to get to market in time, this will have negative financial, customer, or investor impact.

Human Resources

Loss of key personnel

Since the stars at home should already be known, critical resources from the acquired company need to be quickly identified and a retention plan needs be deployed effectively. Studies from Harvard Business School have indicated that employees will decide within 60-90 days of a merger whether or not they will ultimately stay in the organization.

The Golden Rules for IT Integration

This section is a recapitulation of the key principles that have been evoked throughout this guide up to this point. The following points are the basis for any organization involved in an M&A that is required to manage the integration of the IT function. They should be considered as the "Golden Rules for IT Integration:"

Pre-Planning

- Understand the support function strategic position within the organization
- Elaborate strategy from both an in-side out (resources), and out-side in (competitive forces) standpoint
- Understand the customer value proposition from a support function perspective

Integration-Planning

- Apply change management principles and incorporate risk management
- Utilize rigorous planning and project management
- Perform due diligence, and be meticulous
- Align IT M&A objectives with the business and specific integration type
- Factor in the human element: plan for retention (liaise closely with HR)
- Plan to capture value adding synergies early in the integration process
- Processes and Systems are the key to resembling one organization

In the following chapter, the above themes will be revisited in a more specific context and described in further detail. The described challenges are part of a comprehensive integration process that begins well before the deal is made. By following this approach CIOs and IT leaders will be able to more effectively handle the large-scale organizational change that is brought on by a company merger.

Chapter 4

Chapter 4. Integration Framework

In this chapter, we propose a full integration model and provide you with the tricks and tools necessary to successfully manage M&As. The model is designed to help executives mitigate the potential negative impact of poor integration and to create value through effective synergies. Although it specifically focuses on integrating the IT function, it can be easily applied to other support functions and serve as a guide for M&As in general.

As mentioned in the previous chapters, the integration process begins far before the day the deal closes. The starting point of integration is the due diligence process. An accurate understanding of how to integrate a target is critical and must be achieved well before actually making the deal to acquire the company. This is necessary to avoid an overly long and costly integration process. In addition, this understanding is important for mitigating risks and establishing a contingency plan for issues well before they arise. It also enables resources to be more accurately allocated to resolve integration issues when they arise – and there is no doubt that they will.

Full IT Integration Model

The entire integration process starts up to 9 months before the transaction day (i.e., when the deal closes) and ends when full integration of both companies is achieved. The integration model is divided in two core parts, sectioned off at the transaction day, that is, the day the deal is done and the two organizations merge. The first part of the model is hence called *pre-deal groundwork* (i.e.,before the transaction day) and the second *post-deal life-cycle*. Some of the processes in the pre-deal section of the model flow into the post-deal life-cycle. For

example, delivery management is an on-going process that ends at the 15 day milestone after the deal. However, IT change management is is a continuous process that lasts for the entire length of the integration project. The full IT Integration model is shown in Exhibit 4.1.

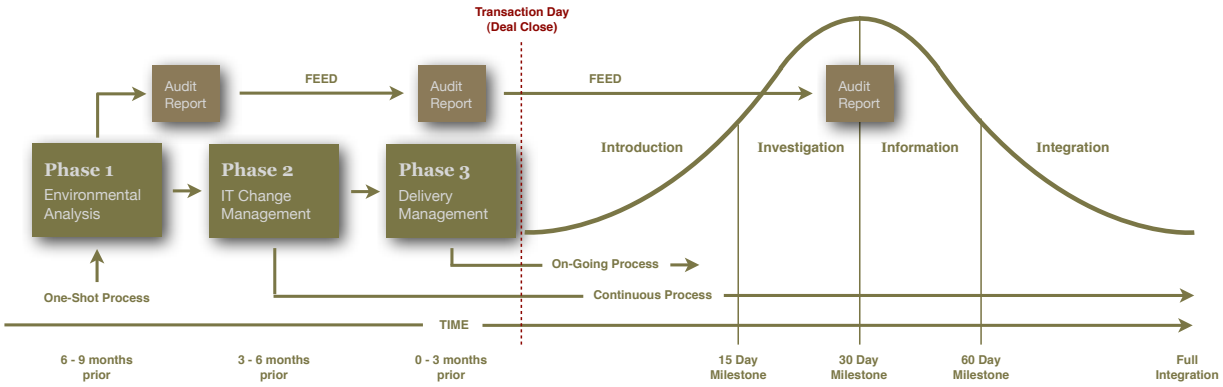

Exhibit 4.1: Full IT Integration model

During the post-deal integration life-cycle, three milestones serve as checkpoints to ensure that the integration processes are in place to capture synergies. These milestones are at 15 days, 30 days, and 60 days after the transaction day. The final phase (i.e., *Integration*) can go far into the future, depending on the efficiency of the integration and the desired level of integration.

IT Communication Model

An essential but often overlooked element of any M&A deal is communication. To ensure that the right messages are diffused at the right time throughout the entire integration process, one part of the IT Integration model is a solid communication process, consisting of three phases: *Marketing* (i.e., sell the project and create excitement), *Information* (i.e., provide transparency of decisions), and *Feedback* (i.e., learn from each other and work together to drive forward). Table 4.1 shows the three phases along with their drivers and an example.

Table 4.1: The three communication phases of the IT Integration model

Phase	Driver	Example
Marketing	Awareness building	What is happening
Information	Project status, rollout	Where we are going and what this means for you
Feedback	Follow-up	How we will make it successful

These three phases happen at different stages of the integration. The first phase is the marketing phase, which takes place entirely before the transaction day. This phase is followed by the information phase, which starts

shortly before the transaction day and ends shortly after it (i.e., three to zero months before and up to 15 days after; see Exhibit 4.2). The final phase, Feedback, lasts until the end of the integration.

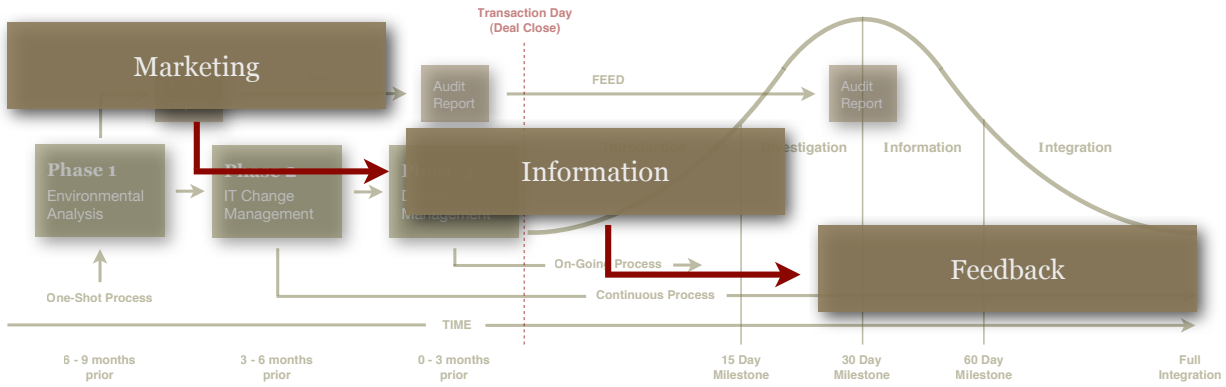

Exhibit 4.2: The three communication phases and their timelines within the IT Integration model

It is important to remember that in a large scale change many people are impacted and that they are anxious to hear how they will be affected by the merger. Even when there is no apparent impact, people will use their imaginations to fill the void. Change leaders and communication senders need to make sure to keep communication constant and transparent in order to avoid that bad messages propagate throughout the organization. To achieve this, it is important to remember certain key notions about communication. A first principle is to communicate frequently to make sure that everyone is on the same page. In addition, Galpin and Herndon suggest considering the following communication principles:[11]

- Effective communication should be made a priority
- All messages should be linked to the strategic objectives of the integration effort
- All communications should be honest
- The emphasis should be on proactive rather than reactive
- All messages should be consistent and repeated through various channels
- The organization need to establish mechanisms for two way feedback

The Johari Window

An adaptation of the classic *Johari Window* by Joseph Luft[12] shown in Exhibit 4.3 demonstrates how organizational communication can be optimized to suit the change.[11] Depending on whether information is known or unknown by oneself or others.

[11] Galpin, T. J. & Herndon, M. (2000). The complete guide to mergers and acquisitions. San Francisco: Jossey-Bass/Wiley.

[12] Luft, J. (1984). Group processes: An introduction to group dynamics, 3rd edition.

Exhibit 4.3: The organizational Johari Window (adapted from Galpin & Herndon, 2000)

Region 1: Arena. Information known to both oneself and to others. When people share information and understand each other, their interpersonal relationships tend to be better. The larger the arena and the more shared information there is, the more effective, productive, and mutually beneficial an interpersonal relationship is likely to be.

Region 2: Blind Spot. Information that is known to others but not oneself. This can cause damage to interpersonal relationships because it makes true understanding almost impossible.

Region 3: Façade. Information known to oneself but not to others. This hinders communication and therefore effectiveness. Often information in this region is withheld in the interest of gaining or keeping power.

Region 4: Unknown. Information known neither to oneself nor to others. This area contains the greatest potential for creativity if one is willing to work with others to discover information.

Communication Strategy Matrix

Each of the three communication phases of the IT Integration model (i.e., Marketing, Information, and Feedback) have specific communication requirements, which will be covered in more detail below. The matrix shown in Table 4.1 is a guide that leaders can use to build an M&A integration communication plan.

Pre-Deal Groundwork

As mentioned above, the pre-deal groundwork begins with due diligence. IT will need to align its due diligence activities with those of the business as closely as possible, which is ensured by CIO involvement. The pre-deal groundwork is made up of three distinct phases, notably *Environmental Analysis*, *IT Change Management*, and *Delivery Management*.

Table 4.1: Communication strategy matrix

Internal Communications Stakeholder: Middle Managers & Employees			
Message Scope			
Phase	**Objectives (Why)**	**Key Message (What)**	**Channel (How)**
	Buy-in	New roles	Newsletter
Marketing	Understanding	New methods	E-mail / guide
	New skills		Intranet
	Information	Opportunity	Vision brochure meetings
Information	Awareness	Motivation	Speeches
	Alignment	Personal impact	Face-to-face
	Information	Open dialogue	Personal meetings
Feedback	Reinforcement	Ask questions	Personal e-mail
	Transparency	Success sharing	Speech
External Communications Stakeholder: The Business (Customer)			
	Awareness	IT is prepared	E-Mail
Marketing	Buy-in	Service stability	Intranet
	New capabilities		
	Information	Actions taken	E-Mail
Information	Awareness	Complexity	Intranet
	Transparency	Hurdles	Casual discussion
		Dissatisfaction	Vision brochure
	Assessment	Service delivery	Face to face
Feedback	Discovery		Personal e-mail
	Alignment		Personal discussion

It is required that the processes from each of these phases become operational needs before the deal is made. The later IT management begins preparing for the integration, the less time will be available to put all of the groundwork processes in place. As a consequence, this plan will need to be adapted to the situation at hand. Executives can choose to put more or less emphasis on each of the phases; however, we highly recommended to implement the entire scope of this model. This will ensure that all essential aspects of the integration are covered.

In parallel, it is recommended that executives look for particularities of their organization beyond what is proposed within this guide. Many organizations have influential factors that might not be included in this guide, as they are very specific to the company in question. This guide covers only the most essential elements and needs to be adapted to the specific M&A characteristics and, of course, the available resources. Exhibit 4.4 shows the scope and activities of the pre-deal groundwork in a 3-phase planning model.

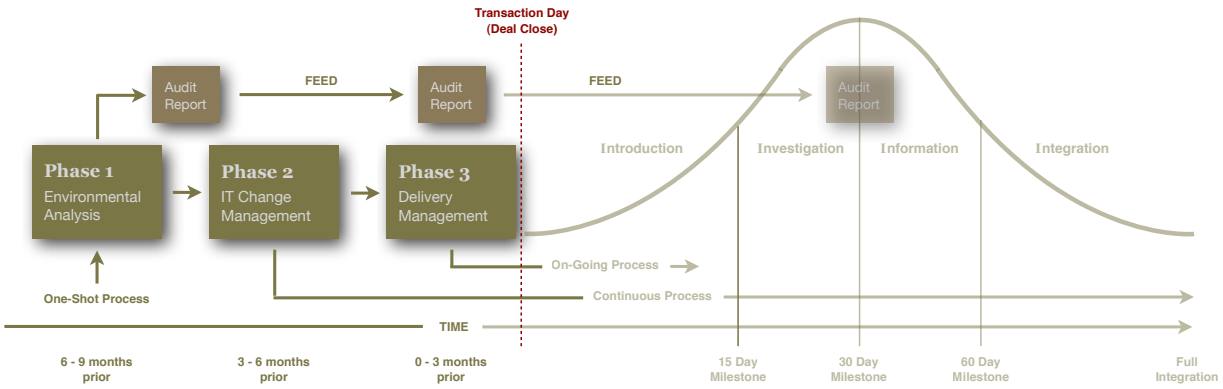

Exhibit 4.4: Three-phase planning model for pre-deal groundwork

Phase 1: Environmental Analysis

Internal vs. External Due Diligence

Before reviewing another company's status of processes, systems, and people, it is important to understand the maturity levels of these entities on the home front first. Due diligence for IT effectively begins with assessing the acquiring company's environmental situation, which – once completely documented – can then be matched to that of the target company to enable managers to make the most accurate value-creating decisions. It is important for acquiring IT organizations to get their house in order before taking on the new complexity created by combining the two companies' resources.

Assessing the internal organization is not only an insightful practice from a managerial standpoint. In the M&A integration project, the assessment and rating of internal IT activities is used to benchmark both organizations for all processes, systems, activities, and cultural elements. Comparing both organizations side-by-side enables managers to make the best decisions and speed up the integration process, while capturing as much synergy and value as possible. Note that previously run audits can serve as a feed to this review, depending on how accurate or timely they are. However, the present guide provides an original framework for IT mangers to follow.

The Audit Report (Live)

The audit report is very similar to the due diligence report, however, in this case it covers both internal and external organizations' due diligence. It is used to uncover IT deficiencies, assess the current IT environment, and build the case for decisions or improvements. The audit report has two types of feeds, notably pre-deal and post-deal.

Pre-Deal Feeds

The proposed integration model relies on this live audit report throughout the integration process and is initially generated in Phase 1: Environmental Analysis. This is a one-shot process, meaning that the internal information collection and analysis process is only performed once for the acquiring organization. It can be revisited later for small updates; however, it should be possible to get the internal analysis very accurate from the start, as to not loose time later on in the project and to focus on the company to be acquired. Since the focus of the analysis is

on the environmental elements, all IT activities, processes, cultural, and human aspects are covered within the audit report.

The audit report is a live document in that it serves as a feed to further integration activities later in the integration project. In other words, down the integration timeline, the same assessment is performed on the target company during "external" due diligence of the target company, notably in the third phase, Delivery Management, and then again after the deal.

Table 4.2: Audit report structure (by category)

IT Strategic Logic	Cultural Myopia
Technology	**Organizational**
Infrastructure & architecture	IT governance structure
Software & hardware	Strategic direction
ERP systems (status, age, modules)	Reporting & management team (CIO-CFO)
Critical business applications (categorization and rationalization scalability)	Organizational structure (i.e. telecom, hosting services, application services
Data structure & business intelligence	
Security & disaster recovery	
Processes	**Profile & Culture**
Service management, ITIL, SOA	Physical environment
Core process profiles (maturity, performance management, ownership)	Coordination, meeting #s, formal processes
Quality system & documentation	Communication strategy (internal/external)
Standards management	Leadership profile/involvement
Audit process (internal/external)	Management autonomy
QA, risk & compliance management	Cultural demographics
Project management	Change management processes
Vendor management	Certifications & awards (ISO, KPMG)
Reporting & measurement, KPIs, CobiT	Rewards & incentives
Business process management	Climate surveys
Financial	**Skills & Knowledge**
License and support contracts	Change management: skills to manage the change
Project profile	Knowledge transfer practices
Contracts and leases	Human capital: specific skills/experience
Expenditures in projects	Inventory of skills: IT skills process
	JOB descriptions & employee backup
	Innovation processes

Post-Deal Feed

While these first two uses of the audit report are pre-deal activities, the third use is in the third section of the post deal life-cycle (i.e., Information). In the information phase, everything that was collected on the target company pre-deal (in Phase 3) is complimented by the information that is revealed post-deal. As defined earlier in this guide, there is always an information gap, as often in M&As targets do not want to show their weaknesses during due diligence. Therefore, once the deal is done and the target's (now acquired) true colors shine, the due diligence assessment is likely to require modifications or enhancements. In the case of the audit report, this new information collection is a formal and planned activity.

Composition of the Audit Report

The audit report is constructed according to the two categories of M&A failure described above in this guide, notably strategic logic and cultural myopia. It then cascades through more detail in each category. The categorical composition of the audit report is shown in Table 4.2

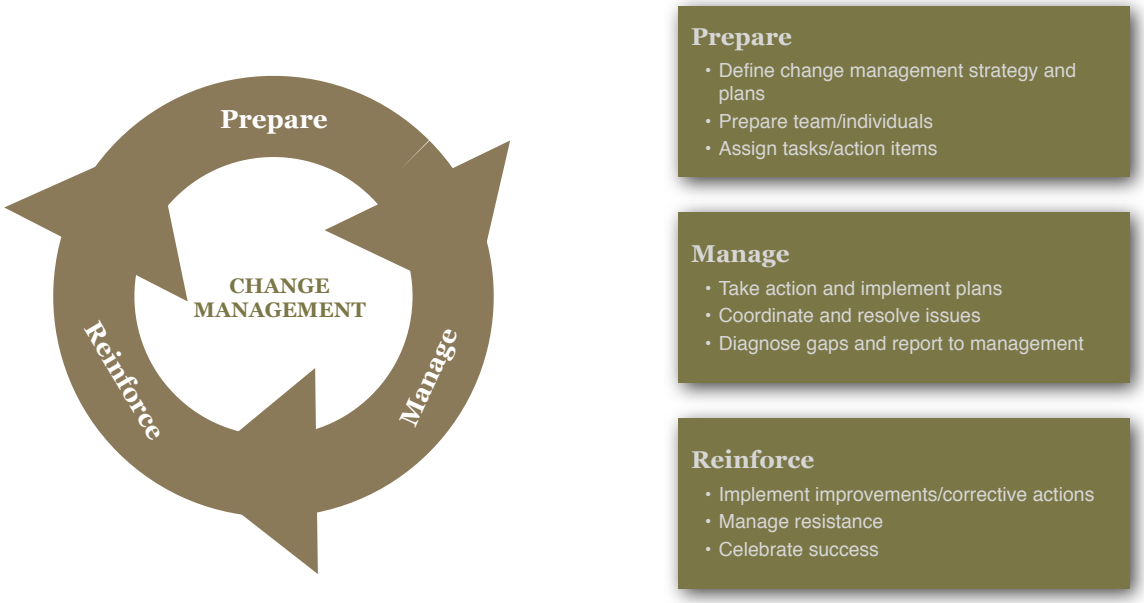

Exhibit 4.5: Change management iterative process (adapted from Hiatt & Creasy, 2003)[13]

Phase 1: Change Preparation

Change Management Strategy and Plans

Assess the entire scope of the changes. Aside from the changes anticipated by the integration activities, this is possibly an opportunity to deploy other changes that management has been unable to implement previously. Large scale organizational changes that are typical for many M&A deals present the perfect opportunity for acquiring organizations to implement activities that management has wanted to implement but found it difficult due to cultural barriers or other reasons. Often it takes a large scale change in order to implement other desired changes.

[13] Hiatt, J. M. & Creasy, T. J. (2003). Change management: The people side of change. Loveland: Prosci.

Formulate Change Roadmaps and Measurements

Map out the ultimate objective in terms of change. In the present case, the objective should be to achieve full integration of the two organizations and capture as much value as possible through synergies. From this high level perspective, specific objectives and targets need to be implemented. Management and change leaders should review the actual performance of the changes at specific checkpoints along the way.

Create change/integration teams

To ensure that the change can be coordinated in the most effective manner possible, it is advised to create change management-based teams such as *integration teams* that are coordinated by a *change leader*. These teams are responsible for identifying synergies in the merger as well as coordinating with leadership in both organizations in order to produce periodic reporting to upper management. To ensure that key people will not leave the organization during integration, it is important to involve all of the top performers in the organization in the change effort.

Develop Score Cards and Assign Actions

It is important to ensure that all opportunities are tracked and prioritized, and it is increasingly critical to measure change performance. This includes tracking the overall effort, resources required to implement the change, span of time to complete, etc. For each change, it is important to assess the impact of not carrying it out, the tangible benefits, and the ease of implementation. The results from tracking change performance should be directly fed into the assignment of further actions to the team members as appropriate.

Phase 2: Change Management

Implement Plans

Use the change management strategy and plans to implement the desired changes or make the improvements. These activities can include process changes, synergy capture, changes in work structure, system changes/ improvement, and whatever other changes have been identified for implementation. On-going training is a large component in the implementation of the changes and should not be overlooked. It is best if one team member is responsible for training staff on changes that are implemented by the team.

Coordinate and Resolve Issues

Issues are inevitably going to arise during change efforts. The variable is how well these issues are managed. It is important to prioritize issues, as these should not distract from the more important and planned changes. Executives need to remember to focus more on making quick decisions for resolving issues rather than trying to find the perfect solution. Change leaders need to be quick to actively assess and resolve or delegate issues. Various techniques, such as the “5 Why’s” or Pareto diagrams can help understanding and finding the root cause of difficult to solve problems.

Diagnose Gaps

Gaps in various aspects of the operation will emerge with large change efforts. This is normal and should be expected. Change leaders need to assist change team members at finding where implementations fall short, and do not achieve the desired objectives or synergies. In order to track where implementations fall short, change teams should reference the change performance scorecards and log gaps in a separate document. A report should be forwarded to management periodically in order to determine where to focus resources and take action.

Phase 3: Change Reinforcement

Prioritize and Implement Corrective Actions or Improvement

Once approval by management for acting on identified gaps, change teams need to implement the necessary corrective actions or improvements. The prioritization should be reflected by the changes that will generate the most value through synergies. It is useful to gather on-going "lessons learned" as the integration project and issues are resolved. These should focus on such aspects as the outcome of change efforts, measurements, issues successfully managed, specific people involved, and the current situation.

Manage Resistance

Outside of poor planning, resistance is one of the most important factors in change implementation failures. There are two forms of resistance, active and passive. Active resistance (i.e., when employees openly indicate a lack of support for the change) is rare for the most part. It is the easier to cope with since it is visible and can be managed. Passive resistance, in contrast, is more difficult to detect. People might actually express support for the change and the resistance surfaces only when implementation is approaching.

In their 2004 article on breakthrough IT change management, Bennet Lientz and Kathryn Rea identified 20 factors causing resistance to change.[14] Keeping the below notions in mind will help change teams diagnose and resolve the source of resistance.

- Fear of change is contagious
- Management emphasizes cost savings over productivity and employee satisfaction
- Employees may be insufficiently trained in their current job
- Previous attempts at change in their business unit failed
- Change in another department resulted in job cut-backs
- In carrying out the change, the change team does not value the knowledge and experience of employees
- Fear of demotion or loss of position
- A history of problems with management leads to a lack of trust and faith
- Employees receive different signals and messages from management and various members of the change team
- Employees participate and volunteer information at the start of the change effort, but they see that other people take credit for their work
- Employees are not told what is expected of them
- Resistance worked in the past, it might work again
- The change is not addressing major needs
- People are being pulled away from their work, but are still held accountable for the same performance
- The change leaders do not address issues raised by the employees
- There are major work pressures, right at the same time when change is being attempted
- The change team does not make clear in detail how the new procedures are to work

[14] Lientz, B. P. & Rea, K. P. (2004). Breakthrough IT change management: How to get enduring change results. Burlington: Elsevier Butterworth-Heinemann.

Celebrate Success

When teams are working towards objectives, there are clear points along the way where accomplishments help to move to the next level. These milestones should be identified and stakeholders should be given recognition. This will help to show that the changes are in fact achievements that employees, change teams, and leaders should be proud of. In addition, major synergies that are captured deserve to be celebrated.

Challenges in IT Change Management

New Systems Implementation

Ensure that the major scope of system implementation is to change the business process and not necessarily the system. Often when new requirements are elicited, the first instinct is to change the system. It is important to first consider how the requirements can be fulfilled by changing the business process rather than the system. When collecting requirements, it is important to define the new process through transactions as well as to identify problems with the current process and system. Requirements and benefits can then be defined.

It is important in change situations to standardize as much as possible. Managers should aim to eliminate exceptions early in the systems project. This will help ensure that policies and procedures cover the most of the new approach to performing work once the change is implemented.

In the early work to define requirements, shadow systems should be identified, which can be run in parallel of the change or possibly be decommissioned. In a merger, redundant systems or processes are likely to exist. Change leaders should be aware of these and aim to create value by taking action to eliminate excess, parallel, or dormant capacity. Since the new systems' work will take a substantial amount of time to carry out, it is important to identify quick hits and pave the way to the new system.

Risks in Systems and Technology Implementation

Lientz and Rea outline the following risks inherent in systems and technology implementation:[15]

End user involvement. When implementing new systems for the business it is important that select employees participate in the definition of the new systems or processes. If the business wants new systems or processes, its employees need to be willing to participate in their realization. Therefore, IT should plan to continuously involve the business in defining requirements.

Requirements definition and management. Any IT organization is familiar with scope creep. It is important to have the business sign off on requirements during systems implementation, so that further work can be translated into longer delivery timelines.

Getting the business rules. Business rules are detailed instructions for how specific pieces of work or transactions have to be processed. It is important to define all of the business rules that make up the process behind the system. When dealing with old systems without documentation, the business rules are generally known by the staff that supports the system. It important to liaise with this population in order to understand the full scope of business rules before making changes to systems during the change.

Process documentation and training materials. Ensure that documentation and training materials are developed alongside system or process changes. This documentation will alleviate much of the weight of new changes, as employees can refer to it if they have questions. Through an iterative process of documentation

[15] Lientz, B. P. & Rea, K. P. (2004). Breakthrough IT change management: How to get enduring change results. Burlington: Elsevier Butterworth-Heinemann.

refinement, the documents become progressively more detailed and the risk of inaccurate documentation is reduced.

System interfaces and integration. This is an area of major concern in M&A integrations. Most systems do not operate independently and therefore require interfaces between each other to be closely reviewed. Therefore, integration plans should be adjusted according to integration priorities.

Data conversion. Converting data from the old system to the new has been a problem for many years, typically because there is missing data, the data elements of the new system are more comprehensive than that of the old one, or the data from the old system is questionable in terms of accuracy and validity. Therefore, it is important to understand the entire scope of data deficiencies in order to be able to plan conversions in the most effective manner possible.

User acceptance of change. It is important to get as many users as possible involved in the system or process implementation to acknowledge problems in the current system and processes. For instance, they can be involved in the implementation of quick hits to achieve user acceptance of the new system.

Benefits attainment. To achieve benefits that can be acted upon, fuzziness should be reduced by translating them into tangible entities. If the new system is easier to use and documentation is faster or easier to develop, then these are tangible benefits that create measurable value.

Process measurement. Many IT organizations implement new processes and systems followed by a post-implementation review. This is not enough because changes are subject to deterioration. Therefore, it is important to ensure that on-going process measurement mechanisms are in place as well as on-going coaching and support.

Knowledge preservation. With the marriage of two organizations much unusual chaos is created. New employees are trying to learn new processes, systems are not yet completely integrated, customers have service expectations, and the motivation of employees is affected by their uncertainty regarding how the merger impacts them. This environment makes some people uncomfortable and some may even decide to leave the organization. In this situation, knowledge management is critical, as there is a risk of employees leaving the organization with key knowledge. This includes specific support operations, people involved in projects, and mid-level managers. Therefore, it is important for change leaders and executives to identify areas with the highest risk of staff loss as well as the processes/systems that they own. Once all risks have been identified, strong mechanisms need to be put in place to ensure that knowledge is preserved as the workforce shifts. Various techniques can be employed to support this activity, such as work shadowing and process documentation exercises. All operational processes as well as specific system knowledge need to be thoroughly documented.

Phase 3: Delivery Management

While the first two phases (i.e., Environmental Analysis and IT Change Management) were focused on preparing the processes and tools to manage integration, the Delivery Management phase starts prior to the deal and leads into the post-deal phase where the preparatory work begins to pay off. In this final phase before the transaction, the tools and processes that were built in the previous phases are now employed.

This is an important phase because for the first time integration and synergy identification processes are applied. Since this activity is new for many of the participants, it is important that senior management plays an active role in advising and coaching the change leaders during the team deployment and coordination. In this phase, a continuous improvement approach should be pursued by addressing issues and improving the stability

of the integration processes as much as possible before the deal takes place. Once the deal is made, the chaos is usually such that there is little time to refine the processes, as the focus is now on taking action. In Exhibit 4.6, the Delivery Management phase is shown along with the transition between pre- and post-deal phase (i.e., integration life-cycle).

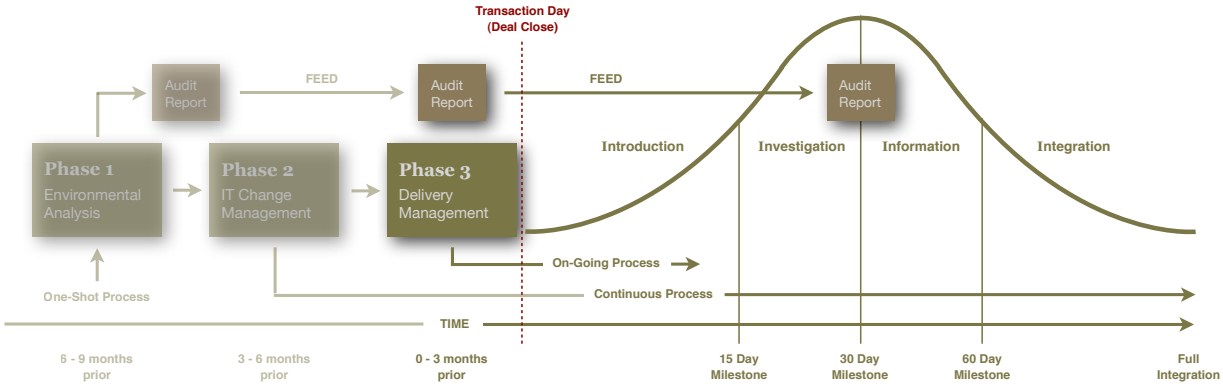

Exhibit 4.6: Transition between pre- and post-deal phase

Formal vs. Ad-Hoc Perspective

The Delivery Management process is comprised of two distinct perspectives: formal and ad-hoc.

Formal perspective

Integration and change leaders/teams are responsible for running the external due diligence audit on the target company, which will appear in the audit report. This is a one-shot process that completes the audit report by aligning the target company's audit results against the audit performed internally. This report then feeds the Investigation/Integration phases of the integration life-cycle. As said above, the audit report is used to evaluate the target company, including

- Gather and assess target's application, systems, staff, and process information
- Assess organizational structure, culture, and human capital
- Review existing work structure and projects
- Evaluate and determine vendor relationships
- Assess support and maintenance contracts

Management reviews the analysis and makes decisions accordingly. The formal aspect is not in place simply to evaluate the company, since in this phase the deal is most certainly going to take place, but this phase also serves as a planning module for the integration process. In other words, the integration teams and leaders should begin identifying quick wins in terms of synergies and planning for the post deal integration.

Ad-hoc perspective

The ad-hoc aspect of delivery management is an on-going process that is performed throughout the deal and into the beginning phase of the integration. It consists of performing on-going assessment of the integration

process. All process owners and unit heads within the IT function run it individually. These individuals have the responsibility of managing their day-to-day activities and feed the process in terms of integration and synergy capture in four steps:

1. **Assess.** Perform ad-hoc review of the integration process including target's system, data, staff, organization and processes. Review the overall situation with a focus on the process or activity managed by the process owner/unit head.
2. **Coordinate.** Coordinate staff and resources. Process owners and unit heads should delegate tasks to staff members who are responsible for tracking and resolving issues as they arise.
3. **Report.** Draft reports and communicate them to integration stakeholder groups, notably IT Management, integration teams, and other process owners.
4. **Publish.** Findings from the reports and solutions should be published in the *quality system* for all to use as a reference of best practices and lessons learned.

In Exhibit 4.7, both aspects are plotted and the process is defined in terms of roles and activities.

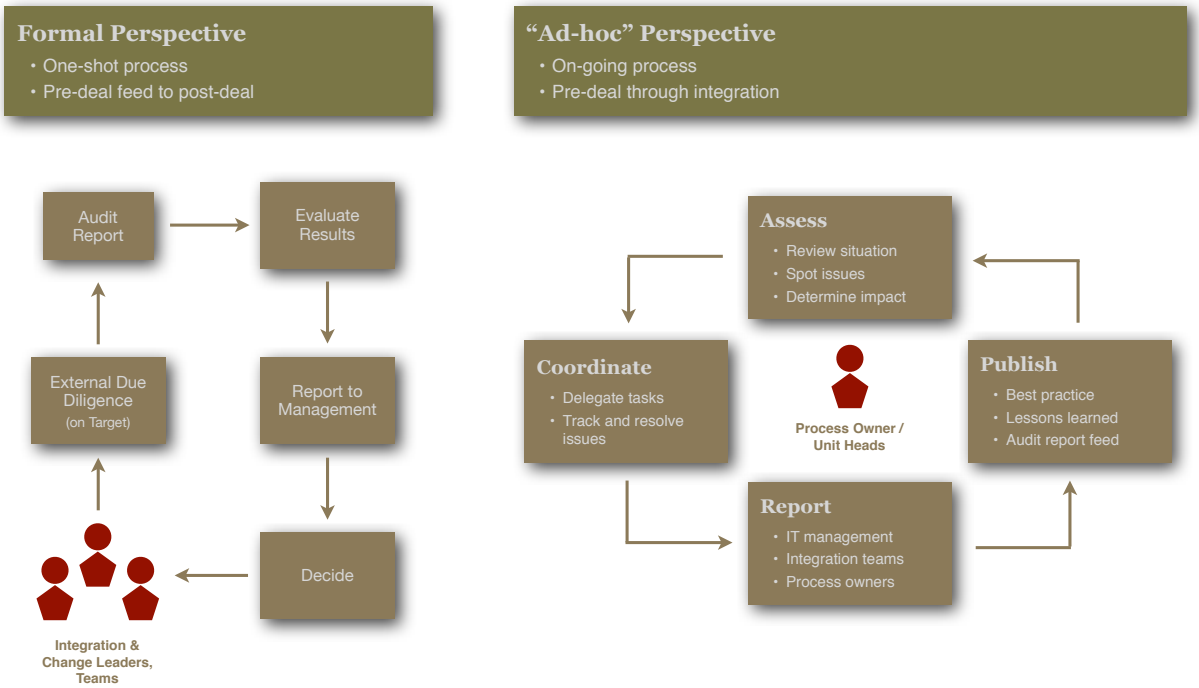

Exhibit 4.7: Delivery management process

Coordinating HR in the Process

This guide has already evoked the concept of human capital and employee retention a couple of times. However, particularly in this phase leadership needs to ensure that plans are in place to preserve resources during the change. When the change begins to take place some of the key personnel will start looking for opportunities elsewhere if there are no specific plans and the associated rewards in place to retain these key players in the organization.

IT needs to engage in strong coordination with HR in order to implement retention plans. This is important to avoid losing employees with the knowledge and experience of systems and operations of both companies. One of the best methods for showing that key employees are valued is by making them a part of the action. These individuals are to be placed in integration teams and given responsibility in the integration process.

Retaining Key Staff

In her article in Harvard Management Update, "Retaining Top Performers During Change," Judith Ross proposes six steps that can help leaders guide key team members through the change process and increase their confidence in the company's future, as well as their role within it:[16]

1. **Provide clear information.** When a major change effort is in process, everyone reads between the lines. In particular top performers begin to look for hidden messages. "What many are looking for is not what is going to be good about the change, but what is going to be bad" says Kate Sweetman, president of the consultancy Leadership Development.
2. **Make stars part of the planning.** Top performers often crave control that surrounds the development and implementation of new methodologies, and an M&A presents the opportunity to get these employees involved with the change. The more they are involved in the development and implementation, the better they are going to be.
3. **Present a unified front.** Since top performers are on the lookout for things that can go wrong, it only takes a small notion of disunity to spot a potential problem. For example, they might conclude that the change will be under-resourced and hence likely to be unsuccessful – giving them good reason to seek employment elsewhere. "The leadership team needs to sell the future…If they can't, or are distracted, key performers will smell that a mile away. If they see leaders fighting, they will conclude that the change is doomed in the worst case and will be messy at best" says Betty Bailey, the Leadership Consulting Practice leader at Lee Hecht Harrison, a career management services company in New Jersey.
4. **Approach resistors.** Depending on the circumstances, star performers may be more likely to resist change, since they often have the most to lose. "Star performers know they are stars within the status quo…if there is a new system, a merged company, or a new organizational leader, they will worry whether they will look good and be masterful with that change." It is recommended to approach resistors rather than pushing them aside. Resistors may actually see something that leadership does not.
5. **Pay attention to personal concerns.** Top performers will not only want to know what the change will do for the organization, but also what it will do for them. They will ask questions such as "Will the job continue providing the things they most value, such as a steady career track?" A merger may mean that career paths need to be rerouted. This issue should be thought through and communicated carefully. "You want to show the organization is paying attention to career paths and has a structure in place to handle these purposefully."[16]
6. **Pretest the details of change.** Once star performers understand and embrace the change, they will develop a sense of how it will shape their future with the company. Following this, they will turn their attention to how it will affect their day-to-day work, seeking tacit assurance that the change won't transform work they enjoy into a daily grind. They also want to know that the quality of their work will continue to be recognized and respected. This includes giving top performers a chance to test new systems or processes before implementing them. "…Because the system couldn't track complex sales,

[16] Ross, J. (2002). Retaining top performers during change. Harvard Management Update, 11(2), 2-6.

it didn't work for the company, and the organization's biggest producers didn't get on board. The company should have given the top performers a prototype to test out first."[17]

Post-Deal Life Cycle

The post-deal life-cycle is when the integration formally begins and the processes that were put in place in the pre-deal preparation phases begin to bear fruit. Synergies are captured very early on in the life-cycle and accelerate as the life-cycle progresses over Investigation and Information phases to full Integration.

In the first 15 days after the deal there is a little time to breath and begin to integrate the new employees. This phase is referred to as *Introduction*, simply because that is exactly what it is intended for: to introduce the employees to each other through various methods that are described below. This short phase is fully dedicated to the people issues that can arise in the merger.

Once the introductions are complete, the investigation phase begins. This phase is when the acquired company is investigated in further detail in order to obtain the information that did not surface during the due diligence process – creating a direct feed to the audit report. Additionally, the investigation phase is when change and integration teams are aggressively seeking synergies through the established quick win strategy. Quick win opportunities primarily include decommissioning redundant systems and processes, as defined in the audit report.

The information phase is used to assimilate the new findings and carefully analyze the results of the audit report, taking into account the new information that was obtained in the investigation phase. This is when more important and complex decisions need to be made in terms of processes, systems, and people as some need to be retained while others not.

The last phase is the Integration phase, which can take varying lengths of time to achieve the desired level of integration. In case of a full integration, this phase can last for a year or even more. However, it is likely that if the correct level of change management and preparation takes place early on, this last phase should not last more than three to six months. In Exhibit 4.8 the four phases of the post-deal integration life-cycle are shown. The four phases are described in detail in the following sections, each of them being associated to a critical success factor as well as an action plan check list.

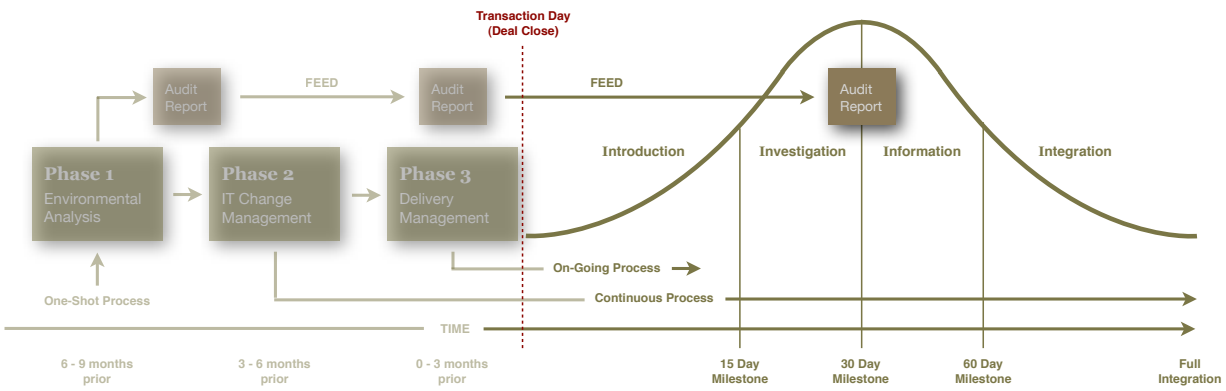

Exhibit 4.8: Post-deal integration life cycle

[17] Ross, J. (2002). Retaining top performers during change. Harvard Management Update, 11(2), 2-6.

Phase 4: Introduction

Critical Success Factor (CSF): Begin the integration with the people

It is important that the integration begins with the people involved in the change. This is a chance for people to get to know each other and begin having both formal and information discussions. In this phase, people are forming opinions about each other and more specifically about the merger. It will immediately become apparent that some people do not get along, something that is likely to happen when there are conflicting personalities or overlapping roles and responsibilities. Table 4.3 outlines Phase 4 and in Table 4.4 an action plan checklist for this phase is presented.

Table 4.3: Outline of Phase 4

Phase 4: Introduction	Characteristics
Time frame:	Lots of meetings and introductory sessions
Deal day to 15 day milestone	Ad-hoc knowledge transfer and reporting
	Quick-wins to capture value (e.g., decommission redundant systems)
	Ensure lots of informational communication
	Spot obvious culture synergies and issues
	Push delivery management (ad-hoc perspective)

Table 4.4: Action plan checklist for Phase 4: Introduction

Action Plan Checklist
• Introduce people from the two companies to each other
• Run best-practice sharing sessions with people from both companies
• Run lunch and learns
• Perform process presentations
• Refine quick win strategy
• Find fast synergies and capture value – perform “synergy hunting”
• Decommission obvious redundant systems
• Ensure delivery management takes place, feed the audit report with ad-hoc aspect
• Ensure fast transfer of knowledge between employees
• Adjust retention plan
• Sit with employees and identify problems and issues
• Elaborate a new cultural approach
• Have meet and greets and theme-based lunches
• Encourage management to have casual discussions with operational staff
• Ensure there is lots of communication
• Validate and adapt strategic plans
• Prepare the groundwork for process and system integration

There is also a clear strategic aspect to the introduction phase, since information on people's interactions is collected through informal methods. This enables leaders to gain insight into the various personality types exist in the organization and which employees bring the most value to the company. This then allows management to adjust the retention plans as needed and to enable knowledge transfer.

This is also the time to spot individuals who are resistant to the change and address the issues accordingly. At this stage, the speed and volume of the identified and implemented synergies will dictate the pace for future synergies and can be a good indicator for the level of change management that must be applied. While short and informal, this phase should not be underestimated. It provides clear indicators regarding the health of the integration and serves as an important tool for collecting information in an informal way.

Phase 5: Investigation

Critical Success Factor (CSF): Fill the Information Gaps

The investigation phase is critical for the success of the integration. The audit report that was completed at the pre-deal phase is revisited at this phase and fed with new information that did not surface before the deal was done. It is recommended that integration leaders review every question of the audit report and fine-tune the answers with more accurate or new information. This will ensure that when comparing the different resources, processes, systems, and activities, management can make the most accurate decisions based on strategic objectives. Table 4.5 outlines Phase 5 and in Table 4.6 an action plan checklist for this phase is presented.

Table 4.5: Outline of Phase 5

Phase 5: Investigation	Characteristics
Time frame:	2nd Round of "external" due diligence
15 day to 30 day milestone	Discovery of new information on target
	Knowledge absorption
	Initial strategic planning and assumptions
	System and process decisions/planning
	Feed to Phase 6 – information

Since at this phase it is too late to go back and retract the deal, IT Management needs to ensure that the best integration choices are made in order to create value from the merger. This requires in-depth knowledge of how the acquired company's processes, systems, and human capital match up to the acquiring company. If this phase is not thoroughly performed, it is possible that a decision to discard a particular process or system destroys value instead of creating it – thus making it more difficult to achieve the desired financial objectives.

Decisions can only be made based on information and this phase is geared at ensuring the near perfect quality of the collected information. Integration teams have to work aggressively at identifying not only synergies, but new information that can influence leadership decisions for the organization.

Table 4.6: Action plan checklist for Phase 5: Investigation

Action Plan Checklist
• Re-run the audit report process in detail on target
• Adapt old information and elicit new information
• Feed the audit report and communicate differences with management
• Continue to find fast synergies and capture value – more focused "synergy hunting"
• Run meetings to discuss the information gaps in due diligence
• Communicate on successes that were achieved, report on synergy capture
• Establish improvement action plans
• Continue to validate and adapt strategic plans
• Run brainstorming sessions for complex issues with leaders from each company
• Adapt retention plans, begin to make staffing decision assumptions
• Begin to make process and system decisions
• Define key milestones for the final two phases
• Develop detailed training plans for both IT and the business
• Encourage feedback and ideas from employees
• Deploy a consistent message and begin implementing new cultural values
• Review scorecards for performance issues
• ID core soft skills (innovation, motivation)

This phase is when assumptions need to be formulated, and initial decisions about resources to be taken. This includes staffing decisions, systems and processes planning as well services to the business. It is important to review each of the companies' resources in detail and in an extremely objective manner during the audit process. This is not a time to be biased and proud, but rather to try and capture value adding elements from the acquired company, thereby implementing the best practices from which organization performs best in the specific domain.

Phase 6: Information

Critical Success Factor (CSF): Analyze data and take action quickly

The information phase is when all of the data collected throughout the integration process is assimilated and analyzed in detail in order to draw conclusions and take critical decisions. Feeds to information phase include:

Audit report. Each section has to be reviewed carefully in order to take decisions regarding systems, processes, and resource planning. The audit report goes through three formal input phases:

- *Internal audit*: Self due diligence (Phase 1: Environmental Analysis)
- *External audit*: Due diligence on target (Phase 3: Delivery Management)
- *External audit*: 2nd round due diligence on acquisition (Phase 5: Investigation)

Integration team reports. Integration scorecards/management reports that have been compiled during the integration should be reviewed and improvements and decisions that lead to medium and long-term action plans should be made. Synergy capture should be measured and corrective actions implemented.

Table 4.7: Outline of Phase 6

Phase 6: Information	Characteristics
Time frame:	Fed from Investigation Phase
30 day to 60 day milestone	Scorecards and audit report analysis
	Heavy reporting and action plans
	Begin final decisions for resource planning
	Medium-term process and systems integration planning
	On-going dialogue and feedback collection
	Communicate successes and failures
	Make quick decisions and take action

Table 4.8: Action plan checklist for Phase 6: Information

Action Plan Checklist
• Perform detailed analysis and reporting of the audit report
• Centralize data and stage deliverables
• Perform detailed gap analysis and establish action plan strategy
• Leadership to ensure on-going one-on-one communication
• Feed the new culture and “motto”
• Make key decisions (organizations, staffing, resources)
• Finalize vendor, process, and systems strategy
• Communicate strategic direction and vision
• Deploy system and process strategy
• Create two way dialogue with employees
• Share accomplishments with the business and IT
• Communicate about new IT services with the customer
• Review integration teams successes and failures
• Perform lessons learned on the integration life-cycle
• Continue to integrate and motivate new staff members
• Make organizational changes if necessary
• Begin to deploy training plans to IT and the business

Delivery management. The pre-deal formal perspective already fed the audit report, however, the ad-hoc perspective should be used to reinforce the information obtained in the audit report. Process owners and unit

heads should ensure that their experiences both good and bad are captured and fed into the audit report as appropriate.

Change management reports. Change management reports/scorecards should be carefully reviewed and fed into action plans. Resistance patterns should be reviewed and fed into retention and development plans. In addition, the change management reports can be used to plan for cultural integration and human capital/skills management plans.

Following the same schema as above, Table 4.7 outlines Phase 6 and in Table 4.8 an action plan checklist for Phase 6 is presented.

Phase 7: Integration

Critical Success Factor (CSF): Promote the new culture and perform extensive planning

The integration phase is the most important of the seven phases. In this phase, action plans are being implemented and the hard work in the pre-deal and post-deal phases starts paying off. Processes and systems decisions are implemented and the remaining redundant ones discarded. Table 4.9 outlines Phase 7 and in Table 4.10 an action plan checklist for this phase is presented.

Table 4.9: Outline of Phase 7

Phase 7: Integration	Characteristics
Time frame:	Lasts as long as it takes to achieve integration objectives
60 day milestone to full integration	Push cross-unit team work and collaboration
	Cultural cultivation and deployment
	Long-term improvement strategy
	Systems and process roadmaps
	On-going synergy planning
	Implement key decisions

Integration timelines

This is when the changes really begin to take place and therefore it is important to continue having on-going strong change management process execution. Integration teams and synergy hunting take on a more long-term approach, since most of the quick hits should be identified and many implemented at this point. This phase can vary in terms of length for two reasons:

- Full integration can last a long time depending on the number of resources available to work on the integration projects
- System complexity can vary and decisions can be extremely difficult and delicate
- The effectiveness of the integration teams and planning was not as high as expected
- Major issues arose, which delayed the implementation of action plans
- Improper due diligence led to large, irrecoverable information gaps
- Large scale culture clash with the acquired organization, leading to lower productivity

- Improper involvement of all process owners, and unit heads
- Insufficient communication and knowledge transfer
- Not enough importance placed on training

Table 4.10: Action plan checklist for Phase 7: Integration

Action Plan Checklist
• On-going cultivation of the company culture, reinforcement messages
• Deploy and elaborate improvement strategy
• Fine tuning and performance management
• Perform last round interviews, make final staffing decisions
• Adapt infrastructures
• Deployment of final technology and business processes - aim for fully integrated systems and processes
• Ensure on-going customer/service focus
• Develop detailed technology roadmaps
• Make final vendor and support decisions
• Define and initiate large scale synergy projects
• Create cross-unit teams to work on innovation and integration projects
• Revisit integration team synergies and integration scorecards
• Execute major milestones in the integration process
• Define long-term strategy in alignment with the business
• Plan for more integrations, revisit all reports and refine strategy
• Benchmark training requirements and plan for medium- and long-term
• Deploy improvement plans

Culture cultivation

The integration phase is important because now culture planning needs to take place. Once there is a good sense of the synergies and issues between the two organizations, management can begin deploying the desired cultural vision and ensure the proper planning for on-going culture development. If the desire is to become a highly transparent and communicative organization where information flows freely, then this is the time to begin selling this type of approach.

Whatever the cultural ambitions of the CIO and direct reports are – in alignment with the business, of course – it is important to fully understand the culture development objectives and to manage cultural issues, as otherwise the workforce will create their own cultural values. Obviously, eventual problems will lead to a less effective staff, as silos are generated and a general culture of passive-aggressiveness sets in. Therefore, leaders should plan for cultural integration and development.

Change implementation

As mentioned above, the integration phase is a chance to implement long awaited projects/programs. Sometimes, the day-to-day work and organizational culture make it difficult to implement processes, activities, or even changes that management has wanted to implement, but never had the right opportunity. A large-scale change such as an M&A integration is a prime opportunity to implement those long desired changes. These should be fed into the new cultural approach and clear benefits should be demonstrated. Performing this effectively can be one the major sources of synergy capture.

Training requirements

One of the core critical aspects of the integration phase is training. During integration, people have to learn new processes and systems, which will inevitably result in lower productivity when no proper training is provided. This said, training should be planned and delivered to both internal IT and to the business as a whole. Many users will need to learn new systems in order to perform their day-to-day work. Intensive training programs should be implemented for all new processes and systems to both IT and the business. For the business, training should focus on specific service changes.

2 Executive Checkpoint

Recommendations for Success

As the past few chapters have demonstrated, M&A integration is not the most trivial activity in the evolution of a company. While integration is not very complex, the idea is to be as proactive and efficient as possible. This requires proper planning. Therefore, with the right places to look and a few basic management tools (and reporting), it is possible to ensure that most synergies and value creating opportunities are captured early in the integration. As this integration framework demonstrated, the integration process begins as early as possible before the deal takes place. The two first steps consist of

1. Creating an integration plan
2. Preparing a communication plan

Once the beginning phases of these two plans have been defined, they are to be completed by following the recapitulative steps, core concepts, and elements of the integration strategy, all of which were defined in this guide. In order to ensure a smooth IT function integration of an acquired company, it is important to remember the following:

Pre-deal groundwork

- Perform an environmental analysis/internal review of existing organization (people, process, technology)
- Use the audit report categories defined in the guide to elaborate a company-specific and complete picture of internal capabilities for all resources
- Elaborate a formal change management process and strategy

- Develop roadmaps for change with appropriate measurements
- Create change and integration teams with necessary scorecards
- Define IT integration risks and develop a contingency/risk mitigation plan
- Coordinate with Human Resources, define a retention plan
- Prepare to begin capturing synergies as of Day 1

Post-deal life-cycle

- Begin to quickly capture synergies and make value adding decisions
- Focus more on fast decisions rather than spending the time to find the perfect solution
- Create opportunities to challenge people and spot talent
- Swiftly unearth new information on the acquired company through specific questions
- Quickly and carefully decommission redundant systems, plan replacements
- Ensure heavy information flow and effective communication
- Make big decisions regarding process, systems, and people
- Place heavy pressure on integration and change teams
- Build and continuously refine medium and long term strategic plans
- Celebrate successes

While many of the actions seem obvious and logical, the details presented in this guide will help to ensure that executives involved in M&A IT integration projects take into account the various details that will help minimize the risk of losing value in the process.

A solid plan will ensure that the most possible success and value creation is achieved during the integration process. Inevitably, there will be surprises that slow down decision-making or delay action. Therefore, all managers involved in the project need to be ready for unexpected issues. However, when the core risk factors and plans have been defined, new issues are easier to cope with.

Recommendations for Success

To make the most out of your M&A, keep in mind these ten recommendations:[16]

1. Conduct due-diligence analyses in the financial and human-capital-related areas.
2. Determine the required or desired degree of integration.
3. Speed up decisions instead of focusing on precision.
4. Get support and commitment from senior managers.
5. Clearly define an approach to integration.
6. Select a highly respected and capable integration leader.
7. Select dedicated, capable people for the integration core team and task forces.
8. Use best practices.
9. Set measurable goals and objectives.
10. Provide continuous communication and feedback.

It cannot be stressed enough that making faster decisions and making more mistakes is preferable over less and more time-consuming accurate decisions. There are so many decisions to make in order to ensure value-generating integration that if too much time is spent trying to find the best solution, other easier decisions will be overlooked. It is important to remember that sometimes that easiest decisions have the most value generating impact, so it is imperative to choose which details deserve lengthy detailed attention.

[18] Adapted from Galpin, T. J. & Herndon, M. (2000). The complete guide to mergers and acquisitions. San Francisco: Jossey-Bass/Wiley.

Further Readings

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