Mergers and Acquisitions:

What Executives Should Know About IT

By Dennis D. McDonald, Ph.D.

IT planning is critical to successful corporate mergers. Executives who underestimate or disregard the costs and time associated with merging computer applications, infrastructure, or IT organizations will face unpleasant surprises. This article describes some of the most important pre-merger IT planning concepts that executives should know about so that technology-related problems don't delay merger-related business benefits.

Planning to Deliver

When planning for a merger, acquisition, or major corporate restructuring, business executives who concentrate exclusively on finances or head-count reduction may underestimate the critical role of IT. When this happens, it's up to IT to conduct the careful planning and prioritization so IT can quickly start delivering benefits.

business integration journal takeaways

BUSINESS

- Don't underestimate the critical role of IT when planning for a merger, acquisition, or major corporate restructuring.
- Don't concentrate exclusively on infrastructure cost reduction — tightly couple the company's post-merger business vision with IT vision.
- Don't estimate costs and benefits without input from IT. Technology glitches and delayed business benefits result from outdated or unrealistic rule-of-thumb multipliers rules for estimating post-merger IT-related costs.

TECHNOLOGY

- Do remain involved in guiding business management as it works through the disruptions and changes a merger is bound to create as non-IT managers may not understand the complexities or consequences of merging two IT operations.
- Do ensure the availability of staff to support both merger-related integration projects as well as "business as usual" projects.

Merger Planning Do's and Don'ts

- Don't measure IT's contribution to the merger solely in terms of infrastructure cost reduction.
- Do relate post-merger IT contributions to achievement of business goals.
- Do make sure IT's contribution to the business vision of post-merger operations is explicitly recognized.
- Do get IT involved in making cost estimates at the pre-merger stage.
- Don't underestimate the cost of making changes to fundamental infrastructure components (such as customer data or core business applications).
- Do document all IT changes necessary to bring about the desired business benefits.
- Do be realistic about the staff needed to support restructuring-related IT changes, especially if the staff members needed for new projects are the same ones you need to support daily business operations.

"The need for planning at every level and for every component of the project is tremendous," says John Clifford, manager of IT Support for Brooklyn-based KeySpan Energy, which recently acquired Eastern Enterprises, the parent of five New England gas utilities. "All of that planning has to roll up together long before you're ready to flip the switch."

The pre-merger planning process has three parts:

1. Assess the current state of IT for both companies.

Develop profiles of the IT organization, including:

- Staffing
- Operations
- Business applications and the processes they support
- Underlying technology infrastructures.

This process creates an inventory that supports comparison of the two companies' IT resources. The more structured and detailed this is, the better. Fran Mangano, KeySpan's IT manager, also recommends taking the time to develop a data dictionary or cross-reference guide to support the translation of the business and technical terminology between the two organizations.

2. Create a vision of post-merger business applications, IT infrastructure, and the IT organization.

The business needs to identify and close any gaps between how IT operates today and how it must operate to support the business's vision of the post-merger company.

"The strategy carried out in the Eastern Enterprises acquisition was to choose our IT solutions first and then align the operating areas' procedures and processes as much as possible," says Mangano. "One of the advantages was being able to pick up closely knit systems together rather than having to integrate, mix, and match them. Little customization was required in many cases. In a prior merger, utilizing a different strategy, we were not able to integrate and consolidate the systems as quickly and efficiently as we did this time."

Often, business processes change during the merger. This makes a moving target for IT's aim and represents another reason to tightly couple the company's post-merger business vision with the IT vision. IT needs to accommodate the changing nature of business. The merger's management team needs to create a reasonable, realistic integration schedule to work from.

"One of our challenges was that the scope of the project grew," says Clifford. "Initially, we underestimated its complexity. The customer system we were converting to was a one-company system, but we were dealing with five companies in two additional states with different regulatory policies, as well as the dynamics of geography. It meant that IT needed to be flexible and responsive to changing requirements."

3. Develop a post-merger IT integration plan.

This plan details how the post-merger IT vision is achieved. It should contain a baseline with supporting business cases, addressing costs, benefits, schedules, and required resources.

"Our conversion project, including data gathering, documentation, coding, and testing, was based with KeySpan in New York," says Clifford. "We needed people familiar with the New England system, operation, policies, and procedures. But Eastern Enterprises had been sized for acquisition, so they didn't have the necessary client resources for a project of this size. As a result, we had to take some educated guesses and make assumptions, which eventually meant some reworking of requirements and recoding."

You want to deliver measurable benefits as soon as possible.

"Single-site the project whenever possible," recommends Mangano. "Face-to-face communication is always more efficient than phone calls and e-mail."

Mangano also suggests creating an incentive package for the project team that is "losing" its system. "Many of these people know that, at the end of the conversion, they will be out of a job. You need some kind of plan to encourage them to work as hard and as fast as possible."

Divide the overall plan into multiple projects with measurable, deliverable milestones, none of which should take longer than six months to accomplish. You want to deliver measurable benefits as soon as possible. Some integration projects will impact individuals across the board in one or both organizations, while others might impact only one particular area of the business.

"For some departments, we rolled out the entire new system at once," says Mangano. "In other cases, we consolidated using multiple implementations in an iterative approach."

Differences in data architecture or technical architecture may require

Never underestimate how much data storage you will need.

bridging or conversion efforts to create the integrated IT environment. If there are fundamental underlying differences in data structures between the two companies' customer information databases, for example, IT must understand how those differences will impact the timing and cost of the merger. Last-minute rewrites of a system or database module because of unexpected data incompatibilities should be avoided!

Don't Leave IT Holding the Bag

Non-IT managers may not understand the complexities of merging two IT operations. When two large customer databases are merged, for example, more than just an increase in storage space will be required. Changes in technology and business processes may also be required in how merged data is updated, processed, transmitted, and analyzed for reporting. For example, some of the data in the two systems may have profoundly different data structures and data architectures. This requires creating detailed conversion processing and redesign of application or system software to handle the converted data.

A great deal rides on the business cases that surround a merger, such as management's expectations for timing of capital write-offs, resulting pricing changes, and ultimately, impacts on stock prices. Lacking input from IT, management might estimate costs and benefits using outdated or unrealistic rule-of-thumb multipliers or rules for estimating post-merger, IT-related costs. Unforeseen technology glitches then delay the business benefits and IT is left holding the bag when the board of directors asks why the merger is behind schedule.

"Never underestimate how much horsepower you need to do the project," says Mangano, "and never underestimate how much data storage you will need. We ended up tripling our original estimates, mostly to support the multiple versions of converted data during the testing phases."

Pre-merger planning, done right, has several significant benefits:

- It prevents surprises and makes sure IT delivers the promised benefits on time and on budget.
- It forces the organization to answer tough questions about how the merged business will operate.
- It serves as a road map to show how IT will support the merged business. Business planners need to know cost and schedule implications of the changes IT is making.
- It forces alignment of IT with the business.

The traditional view is that companies plan and IT reacts. True, IT often takes the business vision and then develops a plan to support it. However, many businesses are so dependent on IT that the concept of having a business vision or strategy separate from an IT strategy makes no sense. In these cases, the CIO should already be operating at the same level as the other top executives. IT cannot sit back and wait for the business plan!

Decentralized but Intertwined

Because IT is so intertwined with how businesses operate, IT must be involved in guiding business management as they work through the disruptions and changes a merger is bound to create.

"The biggest need is open communication," says Clifford. "The customer area clients and IT have always had a good relationship at KeySpan. This gave us the comfort level to meet frequently and keep everyone on the same page. IT was understanding of the business requirements and the clients were cognizant of the functional complexities IT was dealing with."

Clifford stresses the need to establish that comfort level in companies that haven't yet developed it.

Adding to the IT merger challenge is that many companies have evolved decentralized networks and Web-based systems in addition to business-critical mainframe systems. As a result, IT and individual business units may share responsibility and decision-making about how IT resources are used and managed. This decentralization can impact the merger effort by making it more difficult to generate a unified view of business performance and customer relationships following the merger.

Another consideration is IT outsourcing. Outsourcing can impact development of a merged database or application strategy due to restrictions associated with existing supplier contracts. The merging companies may find that an intermediate strategy involving data warehousing or data marts can deliver some of the business intelligence benefits of centralized data management without immediate or profound changes in the merged companies' data resources.

Staying on Top

Availability of appropriate staffing is critical to a successful merger-related IT restructuring. Whatever actions IT takes in a merger, life and business must go on. On both sides, there will be customers, systems and users to support, repairs to be made, and projects to manage. IT's planning and budget must ensure availability of staff to support both merger-related integration projects and business-as-usual projects. BIJ

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