The Role of IT in Supporting Mergers and Acquisitions

Involving IT teams early and often during mergers and acquisitions can help enterprises realize more value from the operational and market synergies that bring businesses together.

Executive Summary

By understanding the business drivers behind mergers and acquisitions (M&A) and being included in the initial stages of the process, IT leaders can contribute significantly to the success of these endeavors. Yet there is one important caveat: IT teams can only influence the outcome of mergers and acquisitions if the merging businesses’ technology infrastructure is planned, integrated and run to support M&A efforts during and following the deal.

In this white paper, we shed light on the barriers IT teams often encounter following the close of an M&A Deal. We also detail how IT organizations can position themselves as strategic partners that can add significant value throughout the M&A lifecycle.

We believe that by creating a template, or model, that can be easily understood by the business side of the enterprise, IT organizations can make a clearer case for how the IT infrastructure can contribute to the value of mergers and acquisitions at virtually every stage. It is worth noting that the definition of value from an IT perspective often differs from that of the business – an issue that can lead to semantic and execution challenges throughout the M&A integration process. Business executives need to view the IT infrastructure within the same context as they view other strategic, value-generating aspects of the enterprise. Otherwise, they can unintentionally undermine the rationale for and expected business returns from the merger or acquisition.
Post-Merger Integration: All Aboard

Many IT leaders face these types of challenges when navigating the M&A integration process, especially when their company isn’t a seasoned acquirer. IT teams are often excluded from the early stages of a deal, but brought in afterward to reconcile the myriad aspects of two complex IT organizations quickly and economically. Most of today's enterprises depend heavily on the information systems that coordinate transactions, manage operations, support sales and service, and provide services around the emerging world of digital. Yet avoiding disruption while creating more value is often an afterthought in the M&A strategy of many enterprises.

Apart from preserving value through more effective integration, many experienced acquirers create additional value and reduce risk by involving IT much earlier in the process — often at the very beginning.

M&A Value Creation: A Business Perspective

Traditionally, companies use revenue or shareholder value as an indicator of M&A success. However, value created from an acquisition is not limited to the shorter-term view of increasing revenue or immediate cost-cutting. Long-term value can come in many forms. A recent survey cited a number of additional factors that companies take into account to drive M&A strategies and create additional value. (See top of next page.)
The top three issues focus on:

- Expanding the customer base in existing markets.
- Pursuing cost synergies or scale efficiencies.
- Entering new markets.

Irrespective of the source, value from an acquisition depends on successful integration, which for most companies requires “end-to-end” IT engagement.

M&A Value Creation: An IT Perspective

There is no doubt that increasing business value is the incentive behind most mergers and acquisitions. At the same time, defining the role IT plays in M&A activities can be critical, given that it is a complex undertaking with multiple dimensions.

The key element is enabling IT to support differentiating business functions, since augmenting core processes should be an underlying objective of any acquisition. Our view is that key elements of IT value creation should include:

- **Improving IT capabilities to support the reasons behind the merger.** Production synergies can be enhanced through tighter coordination of production capacity; support for a new integrated R&D function; better vertical integration, and accessibility to acquired suppliers/clients.

- **Improving the IT operating model.** Organizations need to create an improved version of the “business of IT” in the newly integrated enterprise.

- **Assuring end-user satisfaction with the integrated systems (information quality and usability).** Businesses should avoid disrupting employees or inconveniencing customers, and work to ensure corporate-wide access to accurate, useful and timely information.

- **Effective and efficient IT integration management.** Making the best use of time, costs and personnel during the integration process, and developing effective management policies around project management, change management, IT sourcing, etc., is crucial.

- **Efficient IT staff integration.** IT organizations must strive to avoid losing key IT personnel and their expertise, especially in scenarios where superior technology and best practices reside within the target (acquired) company.

The Contributions IT Can Make to Mergers & Acquisitions

While IT is of course not the sole driver of M&A integration success, its importance in business integration has long been recognized. For example, McKinsey once noted that “IT can be a powerful factor behind M&A success, assuring synergies are realized and ultimately increasing the deal-making capacity of acquirers.”

Traditionally, value creation in mergers was measured in business terms by addressing specific cost savings related to the consolidation of assets (e.g., manufacturing plants or branch locations), or to increased purchasing power that significantly reduced costs through vendor consolidation. However, the latest studies show that even bigger savings can be realized by correctly tracking IT synergies.

IT is widely recognized as an enabler of business process optimization and business transformation — impacting and supporting a variety of highly visible functions that drive business value. In some cases, IT alone is responsible for creating overall value.

Following are several areas where IT plays a major role, either as part of IT enablement or as a standalone function:

- Supporting the business case for achieving cost savings by combining the IT cost structures.
- Reducing overlap of IT in the merged companies by rationalizing application portfolios and IT organizations.
- Optimizing infrastructure landscapes and determining operating models for the new entity.
- Enabling synergies by integrating major business functions, improving communications, enhancing processes and providing uninterrupted customer service.
- Providing operational visibility during the integration process via communications and knowledge-sharing portals.

Recent research shows that roughly 50% of merger value is related to IT synergies. Yet a lot of the time, IT is not considered during acquisition planning and pre-close, but is expected to reconcile systems quickly and successfully once the deal is done. The IT organization should have a seat at the due diligence table to spot potential
obstacles to integration, and assess opportunities for IT transformation beyond integration. This not only speeds the integration process but can provide an opportunity to create more value faster. For example, early involvement of IT teams can help align key deal areas such as customer acquisition in existing markets (through the early integration of customer management systems to identify existing customers) and enabling marketing to potential new customers.

To fulfill these roles, IT leaders need to:

• **Pursue a dual IT agenda.** IT organizations should not only plan to integrate and operationalize processes and systems, but also look for ways to take on a more strategic role in the business, such as defining a future state IT operating model, portfolio and process rationalization, and organizational design. These endeavors can bring higher returns than simply focusing on combining two companies’ systems or eliminating duplicate positions.

• **Be a full partner during due diligence.** IT leadership should actively participate in the pre-close phase. The technology team is in a unique position to spot potential obstacles to integration across people, processes and/or technology. The team can also identify liabilities, such as the lack of a scalable architecture, security risks, skills gaps, capacity constraints, license issues and other IT-related financial, operational and technical risks. And often most important, IT should be able to identify if and how leveraging the target technology platforms can add value to innovation efforts.

• **Hit the ground running before day one.** Integration planning should begin well before a deal closes so the merged organization can be operational on day one. The IT integration team should develop a clear strategy for determining what systems to keep, what data to migrate; and what processes to follow, as well as initial organizational structures and key performance measurements. CIOs also can use this period as an opportunity to create value through portfolio rationalization — from projects to applications, assets, data centers and specific capabilities.

It is very difficult to forecast the savings and measure the efficiencies resulting from merged R&D or fulfillment processes without a deep understanding of the requirements needed to integrate these two potentially disparate IT landscapes that support very different areas of the business.

**What Factors Help Create Value?**

To help maximize business value, IT teams should focus on the following:

• **Pre-close participation.** Involvement by the CIO as a strategic partner in identifying acquisition opportunities can help to identify areas where IT can add the most value, as well as those that carry potential risks. There is no way to forecast the savings from merged R&D or fulfillment processes, for example, without a deep understanding of what is required to integrate the two potentially disparate information technology landscapes supporting these very different areas of the business.

• **Risk management.** Traditionally, most integrations have focused on avoiding failure — a strategy that often stymies transformational change, and the opportunity to heighten performance, enrich value, and compete in new and more profitable ways. Risk management during due diligence helps to highlight potential delays and risks that get in the way of achieving integration targets. Successful business/IT collaborations view M&A success from an investor’s perspective — taking into account both industry and market dynamics and, importantly, having answers to questions around which asset categories to invest in, change management, and prioritizing long-term growth, among other considerations.

• **Velocity.** The sooner your organization completes an M&A integration, the sooner the benefits can accrue. Increasing the speed of this task also reduces uncertainty among employees and customers. Yet speed alone invites errors — and errors run up costs. Careful planning and the support of an experienced
Quick Take  Making M&A Integration Formulaic

Following is one example of how a leading virtualization software company's business and IT teams work in tandem to achieve faster, smoother M&A integrations. To help assimilate acquired companies rapidly, consistently and with minimal disruption, this company forms cross-functional teams, defines guiding principles and develops standard processes. Its M&A Center of Excellence (CoE) is a central group with representation from multiple business functions, as well as IT, and is the core of integration execution.

Once the target passes the deal-screening phase, the due diligence team and the integration management office (IMO) gather relevant documentation and information to ensure proper due diligence. If the target meets all requirements, the deal is signed and the baton is passed to the IMO and the M&A CoE to plan and execute integration.

The IMO engages with the M&A CoE business and IT teams, informing them of the acquisition and initiating integration planning. Tailoring the playbooks for each acquisition, the business team documents integration requirements and shares its findings with CoE leads (including those from sales, global support and IT).

After analyzing the requirements, the CoE leads identify areas of impact and the scope of integration, then relay these insights to the business and IT teams. All hand-offs between various teams are streamlined by standardizing and documenting the process in the playbooks. Based on the scope of integration, the business and IT teams map the business requirements and functional requirements respectively.

Once the functional requirements are captured, the CoE handling IT requirements will use the appropriate resources from the respective development teams to complete the coding and testing of integrated systems. Budgets and resources are identified by the IMO and CoE well in advance to avoid timeline slippages. The business teams conduct user acceptance testing once the systems are ready. The cut-over plan is then prepared by the CoE IT team and the systems go live for use by both companies. The CoE and IMO monitor the entire cycle of events for any risks or delays in decisions.

This approach has proven successful—eliminating the integration backlog in a very short timeframe.
team that understands typical integration activities, dependencies, risks and challenges can help accelerate the integration process. Whether this team is in-house or virtual doesn’t matter, as long as the roles and responsibilities of key stakeholders are clarified early on.

- **Repeatable processes.** Tailored, repeatable processes and M&A playbooks can help unlock the value and speed the pace of the M&A process. M&A playbooks should be shared and embedded across the organization. Companies should develop proven methodologies and templates, and use them to integrate acquired entities and fast-track integration planning and execution. While these tools can be applied directly to most acquisitions, companies can tailor them, depending on business needs. The key is to develop an approach that fosters consistency, predictability and reusability.

**Looking Forward: Top-of-Mind Issues**
The courage to move beyond risk avoidance is the starting point for accelerating value in a merger or acquisition. When focused on accelerating value creation, business and IT leaders should challenge themselves and their teams to:

- Have a clear understanding of how IT can support the future state vision post-integration.
- Hand-pick leaders of integration teams/integration management office.
- Develop the ability to identify, measure and execute the planning of both combinational and transformational synergies.
- Resolve issues around culture, people and power to win the hearts and minds of all constituents impacted by the merger/acquisition.
- Develop a structured, repeatable integration process that is flexible enough for future acquisitions.

**Final Thoughts**
As technology continues to evolve and is increasingly aligned with strategic imperatives, it will become even more critical for IT to not only have a seat at the table during the M&A process, but to be recognized as a full partner with the business in unlocking maximum value from an M&A deal.

For decades, IT leaders have struggled to identify, manage and successfully deliver business value following an acquisition. But this is not IT’s responsibility alone; rather, key business stakeholders should be equally responsible for ensuring that business advantage is delivered through IT integration. IT by itself is never the sole reason to conduct a merger; however, poor IT integration can certainly undermine a deal’s expected value.

No business leader involved in a merger or acquisition can afford to forfeit 50%-plus of its envisioned value by failing to address the IT synergies needed to fulfill the promise of such an undertaking. As such, business operations must partner with the IT organization early and often to create a platform for engaging key IT team members throughout all stages of the M&A lifecycle.

Historically, IT had to fight an uphill battle to meet tight deadlines and allocate already thin resources to support M&A integration. To improve the odds of M&A success, organizations must ensure that both IT and operations are accountable for risks and rewards. The first step is for senior management to gauge how business and functional leaders enable IT to support and generate value from M&A deals.

**Afterword**
We are preparing to conduct a survey of key IT leaders across the globe to learn more about their point of view on success factors from an IT perspective during the M&A integration process. The results of this survey will help to shed light on the difficulties we see today and define a framework for helping IT leaders create additional value during future deals.

The findings are expected to identify the challenges IT leaders face during integrations and will help define the multidimensional nature and definition of IT integration success. For more details, please contact inquiries@cognizant.com.
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Footnotes

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