Keys to the Kingdom:

How an Integrated IT Capability Can Increase Your Odds of M&A Success

accenture

High performance. Delivered.

Results of an Exclusive Accenture Research Initiative

• Consulting • Technology • Outsourcing

Everyone's looking for an edge in the merger & acquisition market. Now, evidence demonstrates that effective IT integration has a clear and positive impact on the financial success of the deal.

Executive Summary

Mergers & Acquisitions: More Important than Ever

In spite of a softer economy and a changing business landscape, mergers & acquisitions (M&As) remain a vital part of many companies' overall strategies to attain and maintain competitive advantage. Whether your company is still digesting earlier acquisitions, looking to buy assets at reduced prices, or positioning yourself for the next economic upturn, your M&A strategy and its many supporting activities need renewed focus and attention.

Greater focus today must be placed on M&A execution, because the margin for error has become narrower. Even in better economic times, M&A execution has been a challenge. Statistics have shown that anywhere from 40 to 60 percent of M&As either fail outright or else fall well short of the value they're expected to bring. Improving the financial return for M&As, even incrementally, translates into a huge amount of potential value.

In the face of the M&A challenge, executives in every industry are asking two important, related questions with regard to their M&A strategies:

- What can I do, at both the pre-deal and post-deal stages, that will make me more likely to realize the full business value of my merger?
- Is there some area of M&A strategy and execution that most companies overlook that can give me an edge over the competition?

The experience of our professionals over the past decade in this area has shown that integration and stabilization of the Information Technology (IT) capability is a critical activity during a merger or acquisition.

Integrating IT after a merger, and making sure it delivers its full power quickly, is a challenge for many reasons. Consider, after all, the business, organizational and human challenges of M&As. You're taking people and organization structures not designed to work together and attempting to unify them. In the interest of achieving value quickly, decisions must often be made without the benefit of having complete information, and without some of the risk controls one would normally wish to have. Some short-term investments may be required but difficult to justify, if cost savings are a primary goal of the merger. And all the while, people are being let go, offices are closing, and names are being changed. It's small wonder that so many mergers fail.

Yet many companies do succeed. Our experience with hundreds of companies around the world over many years of assisting with M&As has solidified in our minds a handful of key principles for successful IT integration. These principles center around maintaining operational capabilities and a focus on the business, realizing cost savings, taking a top-down approach to pacing the integration effort, and establishing a strong program management office.

Effective IT Integration and Stabilization Verified as a Source of Financial Success

Through an exclusive Accenture IT Integration Research Study, we have now validated this experience from the field. Through interviews and analysis of approximately 60 post M&A integration projects in North America and Europe, we have identified what we hold to be the "keys to the kingdom" — a set of practical and achievable imperatives that can lead to faster and more effective integration of the IT capability.

Although many studies look at M&As based on financial measures, this study has validated an identifiable correlation between IT integration success and overall merger success. Respondents who reported more effective IT integration in three key areas — IT planning & management, IT operations, and application delivery — were more likely to describe the overall merger integration as a success. More important, as measured by our financial rating scales, which included Return on Sales (ROS), Return on Assets (ROA), and Return on Net Worth (RONW), more effective IT integration led to realizing more value from the merger on the whole.

Eight Practical Imperatives to

Ensure IT Integration and Overall Integration Success

From our research, we have identified eight imperatives that will give companies more opportunity to realize the full value of an M&A. Several of these imperatives are applicable not only to post-merger integration, but to other large-scale change programs, especially those looking to alter both the IT architecture and the business architecture of the organization.

1 Drive the IT integration program based on a vision of future IT capability.

Of those deals that were more successful financially, 71 percent said that they were driven by a vision of the future IT capability toward which they were moving (compared to 35 percent who did not score as high in terms of financial success). The vision of future IT capability enabled achievement of IT stability more quickly which, in turn, led to greater financial value of the merger.

2 Involve IT early in business discussions about the deal.

Companies that involved IT in the pre-deal deliberations for the M&A scored higher on our financial rating scales, and were more likely to describe the overall merger integration as a success. When IT leadership is involved earlier in the business planning, they can help develop a technology approach that supports the new business.

3 Perform an IT due diligence before the deal is signed.

Companies that performed an IT due diligence realized greater financial value from the M&A and also reported a more successful integration experience. Through a due diligence, companies can identify potential capacity constraints, low service levels or undocumented technologies.

4 Engage in detailed IT integration planning.

Several activities engaged in as part of IT detailed planning during M&As lead to greater financial success of the merger. Overall, companies that did detailed IT planning were also more likely to say that the IT integration was a success. Through detailed planning, companies are able to identify and prioritize the activities most likely to deliver value.

5 Appoint a dedicated IT integration team and manager to oversee the IT integration.

75 percent of companies who described their merger as successful had a full-time IT manager assigned to the integration endeavor (compared to 40 percent for those who did not describe the integration as a success). Companies need to make the IT integration a priority, and this is best done by identifying core resources that will work full time on the integration plan.

6 Use experienced staff to manage the IT integration.

Although such a recommendation sounds obvious, in fact almost half the companies surveyed reported that only 10 percent or less of their staff had previous experience with this kind of work. Among those who said the IT integration was a success, 64 percent reported that more than 10 percent of the IT staff had previous integration experience (compared to 39 percent for those not rating the integration a success). Experienced people not only guide the company more effectively, but also inspire more confidence in the rest of the team.

7 Use external staff to help execute the IT integration activities.

Deals that were more successful financially were more likely to have used external staff to fill temporary capability gaps during the integration work. Companies do not want, generally, to raise their full-time headcounts when the extra work will be temporary. External staff can make the whole team more productive and also free up other key individuals to focus on other things.

8 Engage in IT cultural change and human performance-related programs.

Of the possible challenges to post-merger integration, the most difficult ones named by our survey respondents were human or cultural issues: integration of cultures and reorganization of personnel. Planning must occur that is focused on the overall change journey and the methods by which people in the organization own the changes that are occurring and embrace the work of the new company.

Results of the Accenture IT Integration Research Study

Effective IT Integration Is a Significant Contributor to Overall M&A Success

In general, the most important finding from the Accenture IT Integration research initiative is clear proof that successful IT integration activities are a strong contributor to overall merger success. We found that those companies with more effective integration in such areas as IT Planning and Management, IT Operations and Application Delivery were more likely to achieve better financial results from the merger, and were also more likely to describe the merger as a success. But what specific activities during IT integration increase the odds of stabilizing the IT capability quickly, enabling a more successful merger?

The Accenture IT Integration Research Study, combined with our extensive experience with clients, points to several practical imperatives by which organizations can more effectively plan and manage IT integration, which then leads to greater business value from the merger or acquisition.

The Accenture Post M&A IT Integration Research Study

To gain greater clarity around IT and business integration issues during a merger or acquisition, and to further ground Accenture's basic integration principles in the recent experiences of companies, we conducted a study of 57 post-M&A IT integration projects in the US and Europe. The deals studied were completed from 1997 to 1999, allowing us to analyze the effects of the IT integration effort over time on the overall merger success.

As part of the research, we surveyed IT managers or directors at these companies with responsibility and knowledge of the IT integration effort. During telephone interviews, the respondents were questioned on:

- History of the merger, including IT involvement
- Planning priorities for the IT integration
- Management, staffing and resources participating in the integration
- Process challenges and outcomes

In general, the research initiative sought to answer a number of specific questions with regard to IT integration and its role in a merger or acquisition:

- What role has IT played generally in a typical M&A?
- When M&As are successful, what role did IT play?
- Does IT integration success lead to overall integration success?
- What are the most common challenges that must be addressed by IT?

Roles of the IT Function During Post-Merger Integration

During post-merger integration, the IT function has three important roles to fulfill.

1. **Continue to deliver operational services and capabilities.**
   Fulfilling this role can seem simple, but a merger can significantly challenge IT's ability to be responsive and to deliver quality. The challenge is exemplified within the context of typical post-merger changes in management structure. Soon after the merger, two IT organizations are usually brought together under one management team. Unfortunately, a unified IT organization on paper does not necessarily mean it will operate that way in reality. The two functions may have different cultures, capabilities, organizational structures, processes, systems and services. As a result, it is likely that at least one organization's operating model will be at odds with management. Additionally, communications may break down as processes and key contacts undergo significant change, and as people leave the company for various reasons. Yet despite these circumstances, the business must not perceive any degradation in service.

2. **Enable the integration of the businesses.**
   Most of a merger's intended synergies rely on IT's support in the form of connectivity between assets, people and application support for shared service integration. As the organization strives to achieve the benefits communicated to the financial community, the focus on this role intensifies. Several challenges present themselves here: the sheer volume of work for IT, and establishing priorities within that work — how to go about it, which pieces to focus on first, and finding the necessary resources. All discretionary work must be prioritized to ensure that IT concentrates on highly tactical or strategic projects.

3. **Provide a source of cost savings through realized synergies.**
   IT cost savings can generally be classified in two categories: cost savings within the IT budget and savings within the business units supported by IT. The synergies within the latter category, such as the migration to a single enterprise resource planning package, will provide long-term (versus near-term) savings. Within IT, the consolidation of commodity functions and assets — for example, the rationalization of IT vendors or consolidation of data center resources — will provide almost immediate savings. Organizations can expect ongoing IT savings of 15 to 30 percent of pre-merger IT costs.

	Return on Sales		Return on Assets		Return on Net Worth		Composite Score		Self-described Success		Average
	High	Low	High	Low	High	Low	High	Low	Yes	No	
IT Planning and Management	3.9	3.2	4.5	3.3	4.2	3.4	3.9	3.3	3.8	2.5	3.5
IT Operations	3.8	2.9	4.0	3.0	3.8	3.2	3.7	3.1	3.7	2.0	3.3
Application Delivery	3.4	3.0	4.0	3.0	3.6	3.0	3.4	3.1	3.4	2.0	3.2

Finding One

Drive the Integration Program Based on a Vision of Future IT Capability

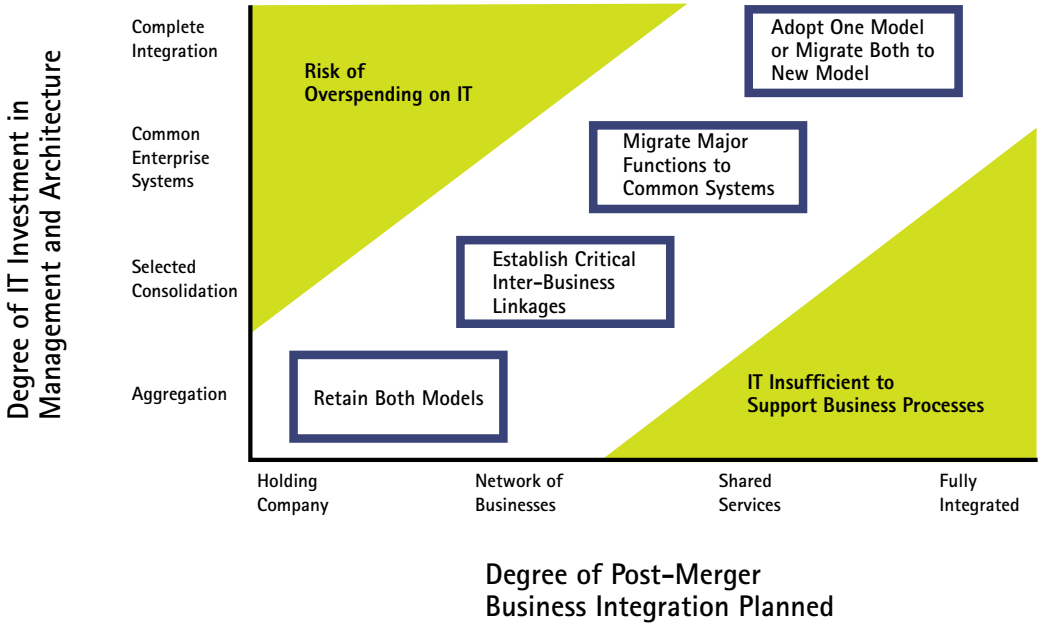
Over three-fourths of the respondents in the Accenture research study reported that a vision of future IT capability is critical to integrating IT for multiple mergers. Previous Accenture research and experience have consistently affirmed the importance of a business vision for many different types of change initiatives, particularly those involving large and complex efforts. During times of great upheaval, such as a merger or acquisition, a vision creates a common "banner" under which the troops can rally. Of those deals that were more successful financially, 71 percent said they had a vision of the future IT capability in place (compared to 35 percent of those scoring lower on the financial success scale). And of those companies who termed the overall integration a success, 58 percent were driven by an IT vision.

The Importance of an IT Vision

The vision is important for at least four reasons:

1. It establishes a concrete destination for the many different aspects of the work. People will be moving along different paths, but all toward the same goal.
2. It has important symbolic value, leading the charge and drawing together various people under a single banner.
3. It serves as a constant reminder when things get tough, or when doubts arise and people begin to become less sure of where things are going.
4. The vision helps IT coordinate with the business people, who most likely have a clearer view of what they think their business will look like following the merger.
5. It provides the foundation for performing a gap analysis and then identifying the individual initiatives needed to achieve the vision. Following that analysis, the initiatives can then be sequenced based on interdependencies and relative business value.

The vision needs to be stable enough to serve as a substantial target for planning. At the same time, you need to make sure the vision is revisited and refreshed as circumstances merit. As any changes occur, frequent communication is vital, both within the IT organization and within the company as a whole.



Creating the IT Vision

So the vision is important ... but how does one create the vision? The future IT organization and its capabilities must be an outgrowth of the future business organization and its capabilities. So a guiding principle for us is that the degree of IT integration following a merger or acquisition should correspond to the degree of business integration in the new organization.

As seen in the accompanying figure, IT integration poses risks at either end of a spectrum. On the one hand, insufficient attention to IT integration can lead to a merged organization whose IT capability cannot support the new business processes. At the other end, there is a risk of overspending on IT such that part of the value of the merger is not realized.

Within those two extremes, companies can plot their course of action depending on the degree of IT investment, management and change on the one hand, and the degree of business process change on the other.

Such an approach suggests four possible courses of action:

1. **Retain both models.** Organizations should retain both models if the merging organizations are to remain fairly independent; if there will be few business linkages between companies; and the companies' go-to-market strategies, products and channels are entirely distinct.
2. **Establish critical inter-business linkages.** Establishing critical inter-business linkages is appropriate when the organizations are slightly more integrated. There is some central coordination, sharing of business practices and cross-selling. These organizations seek to capture some obvious synergy opportunities, like procurement and payroll. In addition to integrating systems for the business functions that will be centralized, consolidation of key communication tools such as e-mail should also be considered.
3. **Migrate major functions to common systems.** Organizations with central coordination and leadership, integrated and consistent sharing of proven practices, and consistent performance metrics would migrate major functions to common systems. In these organizations, a network distribution channel emerges, and facilities and back office functions are selectively consolidated.
4. **Adopt one model and migrate both organizations to that new model.** Adopting one model, or migrating both companies to a new model, is appropriate when there is a corporate hierarchy with centralized management and a common product offering. An enterprise-wide solution is necessary to accommodate the single business model.

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The Importance of Getting the Vision Right Early: Allianz and AGF

The 1997 merger between Allianz and AGF created what was eventually a merger integration effort between not two but six insurance companies in France. The challenge was made more complicated because most of the companies had been previously purchased but not yet integrated themselves. In terms of integration, this effort probably ranks as one of the world's largest and most challenging insurance integration efforts, including migration towards a single brand, system, processes, and products.

How did the company succeed? Very early on, they identified items in the merger integration effort that heavily influenced whether or not merger synergies would be achieved. These items included the target operating environment (systems, processes, etc.), target branding, merger integration milestones (merger events), as well as the detailed merger budgets (both merger event expenditure caps plus cost takeouts for each organizational unit).

Further detailed planning was then completely defined within the context of these events. For example, when the migration of the auto insurance product was being planned and the proposed functionality enhancements were too costly for the IT budget, certain enhancements were cut to ensure adherence with the budgets. Budgets for cost takeouts were monitored periodically from the highest levels, as were the merger budgets (event expenditures).

By making these decisions early, the company could quickly set the timelines and targets. They also were able to avoid numerous potential disagreements down the road (and therefore countless workdays) in detailed planning. This also permitted everyone to focus on the merger, rather than on the supporting decisions. All these activities have contributed significantly to the positive market evaluation of this merger.

Finding Two

Involve IT Early in Business Discussions About the Deal

Few of the deals we analyzed involved IT in early business discussions about the merger. 67 percent of respondents reported that IT was not very or not at all involved early on in the deal. With most deals, IT issues were raised only after the public announcement.

However, those mergers that did involve IT at the pre-deal stage had an advantage over the others. Those deals scored higher on our success composite scale, and were more likely to describe the IT integration of their own company as a success.

These deals were also more successful financially, based on our analysis using a three-part scale of return on sales, return on assets, and return on net worth.

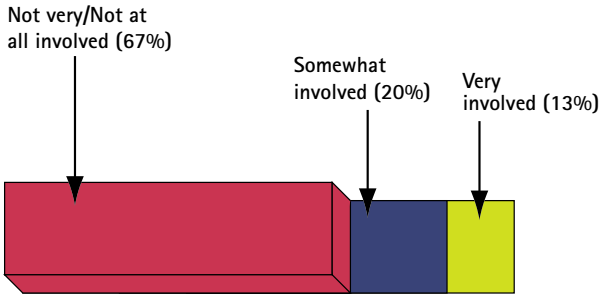
Why Involve IT So Early?

Most organizational consolidations will rely on IT in order for the consolidation to be financially successful. In practice, however, many companies do not adequately involve IT before making the decision to complete the deal. As a result, they are less able to recognize potential difficulties in integrating technologies before the actual integration has taken place. This often leads to unexpected expenditures and delays in achieving integration milestones and value realization.

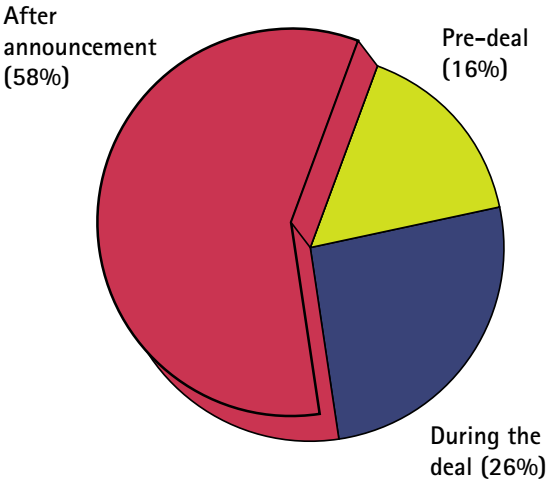
If companies can more quickly get their IT leadership involved in the business planning, the IT function will then be better able to raise risks and issues early and develop a realistic technology approach that truly enables business integration. If IT is not involved properly, their work will progress independently. Remember that in most circumstances after a merger, the IT organization is given savings targets of its own. Absent any role in the business planning side of things, IT will naturally devote its energies to its own priorities in support of its own cost-saving efforts. That may ultimately impede the ability of IT to support the business in its larger objectives.

In addition, many post-merger tasks of IT can have long lead times. IT needs to perform a risk assessment for the different technologies, as well as a skills assessment to determine what knowledge must be maintained and preserved to enable collaboration across the new company environment. In addition, a great deal of work is associated with such tasks as network integration, application consolidation or conversion, and in transitioning people to new support models. The workroom for the merger must be partitioned off, and IT has to scope the complexity of the integration effort. Because of all these activities, IT is likely to be in a race against time to go through work plans and project their costs. From a functional perspective (not a cost accounting perspective) IT integration will be one of the largest spending areas during integration; this new spending will show up in a one-time charge against earnings. It's vital for various briefings to the marketplace that this accounting be as accurate as possible.

How involved would you say your IT function was in early business discussions about the merger (before public announcement)?



At what point did IT get involved in integration planning on either side of the deal?



Finding Three

Perform an IT Due Diligence Before the Deal Is Signed

Performing an IT due diligence increases the chances of a successful integration experience. The majority of the deals studied (59 percent) did perform an IT due diligence regarding IT risks, costs and benefits in the potential deal.

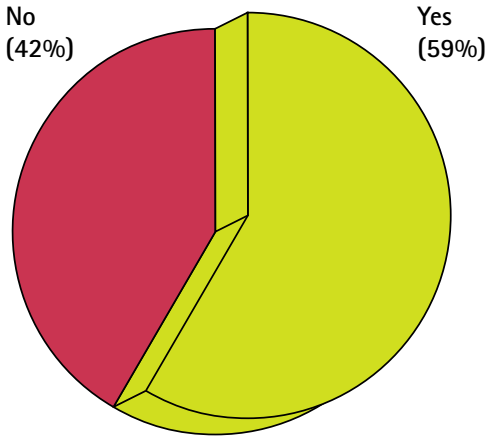
Among those who said that IT performed a due diligence, 70 percent also said that the subsequent IT integration was a success, compared to 18 percent for those who did not report the integration a success.

Companies that performed an IT due diligence were also more likely to rate higher on all three financial scores: return on sales, return on assets, and return on net worth.

The Importance of IT Due Diligence

Do the IT assets you are acquiring have capacity constraints, or possibly service levels that are not being fulfilled or are slipping? Do they rely on orphaned, unsupported, or undocumented technologies? Are some deferred investments involved? The only way to answer these questions is through a rigorous IT due diligence. Simply put, performing an IT due diligence is the only way to be sure of what you're really getting. As part of deal valuation activities, you need not only the accurate evaluation of asset value; you also need to know what the complexity of the integration will be. In addition, a due diligence can help a company identify acquired assets that it can leverage most quickly. What are the risks if the due diligence is either not performed, or done only in a perfunctory way? Recently, one major telecommunications company purchased a smaller company in order to expand its long distance service. All seemed to be going well ... until the company realized that the smaller company's billing infrastructure could not handle the increased volume of customers. No one had evaluated the billing processes from the IT side of things. An effective due diligence would have identified this issue beforehand. Would it have killed the deal? Probably not, but it would have changed the approach that the larger company took in the integration process, and probably would have changed the valuation they would have asked for it.

Before the deal, was due diligence performed regarding IT risks, costs, and benefits in the potential deal?



Among those who said that IT performed a due diligence, 70 percent also said that the subsequent IT integration was a success, compared to 18 percent for those who did not report the integration a success.

Finding Four

Engage in Detailed IT Integration Planning

Detailed integration planning from an IT perspective is not necessarily the norm. According to our research, fewer than half the companies surveyed did detailed planning for any of the major areas of post-merger IT integration. Network connectivity was the activity most often cited as the subject of detailed planning, but even there, only 46 percent of companies were likely to have engaged in detailed planning. It is significant, however, that survey participants who said that they did detailed IT planning were also more likely to say that the IT integration was a success. Additionally, the use of detailed planning resulted in higher financial scores in some instances. For example, companies with a higher-than-average ROA were more likely to perform detailed planning in business applications, network interconnectivity data/call center facilities. Companies with a higher-than-average RONW were more likely to have done more detailed planning related to network interconnectivity and mainframe/midrange infrastructure.

Planning for Success

Post-merger integration is a large, complex, multi-dimensional program that is usually driven by milestones and focused on critical path activities. The large number of inter-relations among facets of the integration means that effective project planning and program management is vital.

Here's an example. Suppose that the organization determines that on the first day of the combined organization, the sales forces must be connected so that they have the ability to sell products from either of the previous companies' catalogs. If that's to be done, the Customer Relationship Management (CRM) systems and some of the financial systems must be connected, regardless of what the respective capabilities were like three months prior to the merger. Supplementary resources may need to be acquired to meet the dates, so the business must be informed on the total cost to achieve their target.

In addition, planning must be integrated with the business units, because the link is very extensive between IT and the new organization's business capability.

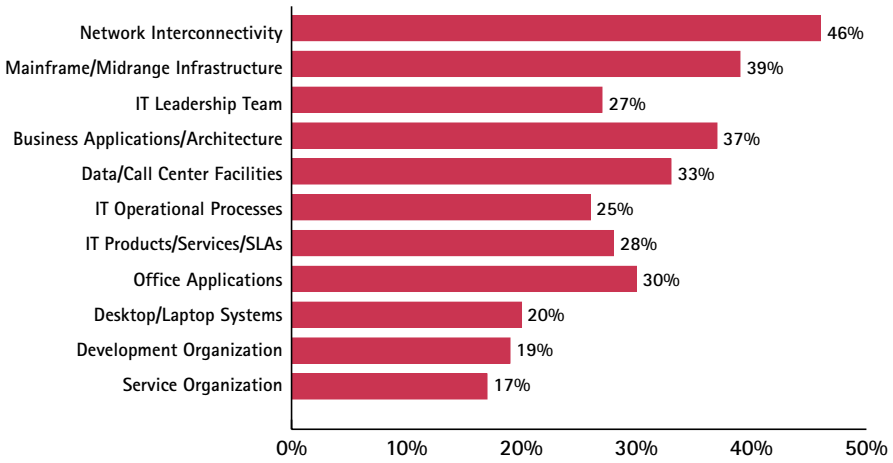
Organizational consolidations will lead to changes in back office systems; product line consolidations could lead to data migration and/or integration projects; physical relocations may require changes to network configurations. These are just a few examples. If IT planning is viewed as a separate and distinct activity, and is not integrated with the business, the results are not happy ones: rework, conflicting agendas, and sub-optimal decision making from a corporate perspective. IT will end up scrambling to provide the necessary support without time to plan and potentially incurring significant costs associated with rush orders. Individual business units may have ended up making the decisions that were best for them without weighing the impact on other groups.

IT planning will also require the extensive involvement of both finance and human resources (HR) in order to answer such questions as:

- How many people will be available or released at various times?
- How do integration projects get treated? What activities are included in the one-time charge against earnings?
- What projects that are already in progress or scheduled to begin should actually go forward, and which should be cancelled to free up available budget and resources?

If there are not dedicated finance and HR people inside the IT organization — if finance and HR have also been set up as shared services — it's the responsibility of the Chief Information Officer (CIO) to get those two entities involved as early as possible.

As planning continues, expect a healthy tension between bottom-up and top-down requirements planning. Both are necessary. Top down planning (What are my general budget and headcount constraints? What are my priorities?) gives you an idea of the constraints you must work against. Bottom up planning (How many people will I need for specific projects and specific support requirements?) gives you a sense of what you probably need to be able to accomplish your objectives.



In planning the post-merger integration of the two companies, how detailed was the planning is each of the following areas (very to extremely detailed)

Finding Five

Appoint a Dedicated IT Integration Team and Manager to Oversee the IT Integration

A majority of the companies we surveyed had a full-time manager leading the IT integration. Moreover, the presence of a dedicated IT integration team and manager was a success factor for post-merger integration. 73 percent of companies who described their merger as successful had a full-time IT manager assigned to the integration endeavor (compared to 40 percent for those who did not describe the integration as a success). And of those who called the IT integration a success, 58 percent had a dedicated IT integration team (compared to 40 percent for those who said the integration was not a success).

Dedicated Involvement to Lead the Effort

Ask anyone who's been through a post-merger IT integration: it's a major program effort that will sap the energy from managers attempting to perform multiple roles. If your company has not been through such an integration effort, a fair comparison would be to your Year 2000 initiative or your European Monetary Union remediation programs.

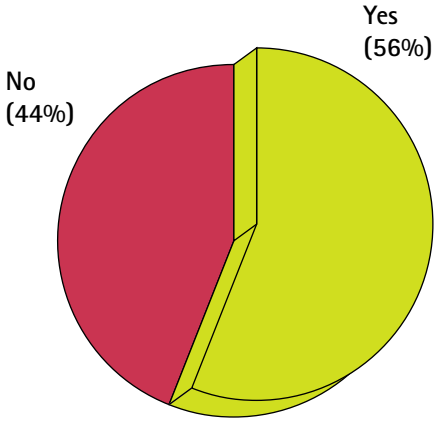
One of the proven practices we have identified through this research study, as well as through extensive work with clients, is that managing the IT integration is a full-time job. Organizations are understandably reluctant to pull their best people full-time into integration; in the long run, however, companies are better served if they can identify core resources that will work full time on the integration plan. In addition, companies need to identify specific projects related to the integration effort, and then treat them with the same staffing seriousness as they do all other projects.

The Importance of Strong and Savvy Leadership

Based on our experience with scores of companies in this area, the quality of leadership demonstrated by the dedicated management team is critical. Because speed is value when it comes to mergers, the pace of integration is often imposed from the top down. One of the more difficult principles for the high-achieving and risk-averse business executive is realizing that "80 percent solutions" often have to be good enough in cases when speed is an issue. Decisions may need to be made before all the facts are in place. That doesn't mean you get 80 percent along the way toward an effective approach; it means that you identify the most important facets of a presumed "ideal" approach — and then put in place a program to get 100 percent of the way toward those objectives.
Rigor and discipline need to be applied to determine which projects are mandatory in order for the new company to achieve its objectives. But when those have been identified, wisdom is necessary to determine the degree of "done-ness" for each project in order to balance all the variables that make up business goals.

In general, program management must be authoritative, courageous and focused. It's important for IT leadership to simultaneously take a hands-on approach to removing roadblocks and resolving issues, but a hands-off approach with respect to execution. Balancing the many challenges and conflicting objectives of the overall integration program will inevitably test IT's program management and leadership skills, but we have found that most organizations are up to the challenge.

Was there a full-time manager leading the IT integration?



Finding Six

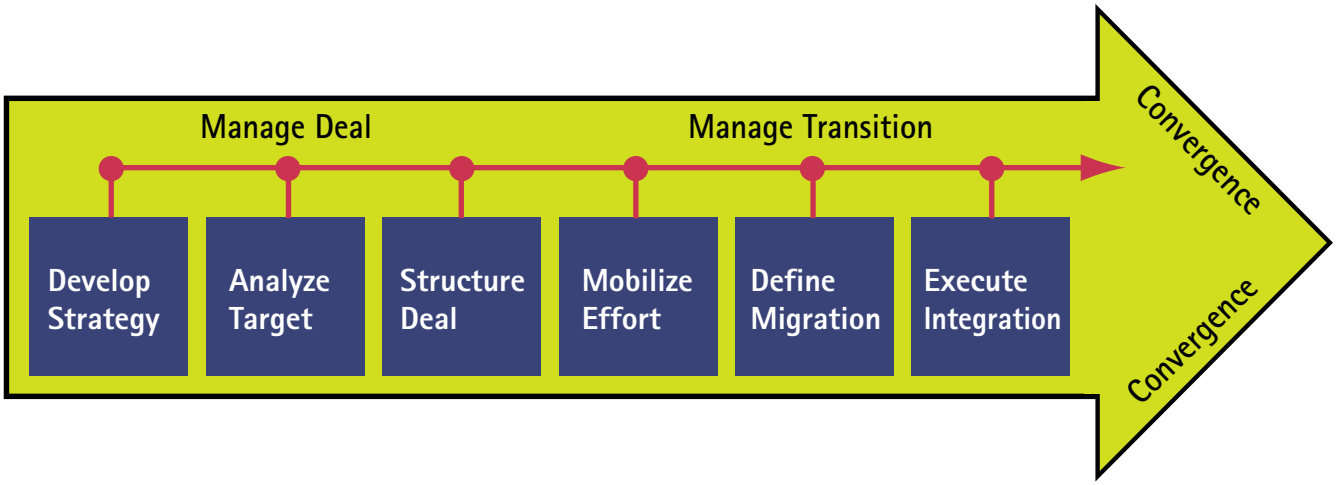
Use Experienced Staff to Manage the IT Integration

Although such a recommendation sounds obvious, in fact almost half the companies surveyed reported that only 10 percent or less of their staff had previous experience with IT integration work. Among those who said the IT integration was a success, 64 percent reported that more than 10 percent of the IT staff had previous integration experience (compared to 39 percent for those not rating the integration a success).

Finding Experienced Staff and Leadership

If you're trying to bring a big ship into the harbor, you'd better hope you have an experienced tugboat captain familiar with the area, who knows how to avoid the rocks and shoals. An M&A is a "big ship" that can overwhelm people because of the volume of changes that occur and the speed at which they are realized. It's therefore vital to have leaders who have been through these uncertain times before, can identify the keys to success and pitfalls to avoid, and can inspire confidence in the staff.

Although every organizational consolidation may feel to the participants as if they are inventing it for the first time, in fact integration issues do repeat themselves, and the general phases of the merger and key activities in each phase remain unchanged. (See figure.)
In such areas as data scrubbing, architectural consolidation, and technology migrations, one can apply lessons learned from previous experience. Experienced people will also be much more comfortable dealing with the organizational uncertainty that usually characterizes this period of a merger. Having these people working on your key migration and integration projects can add significant value to the project.



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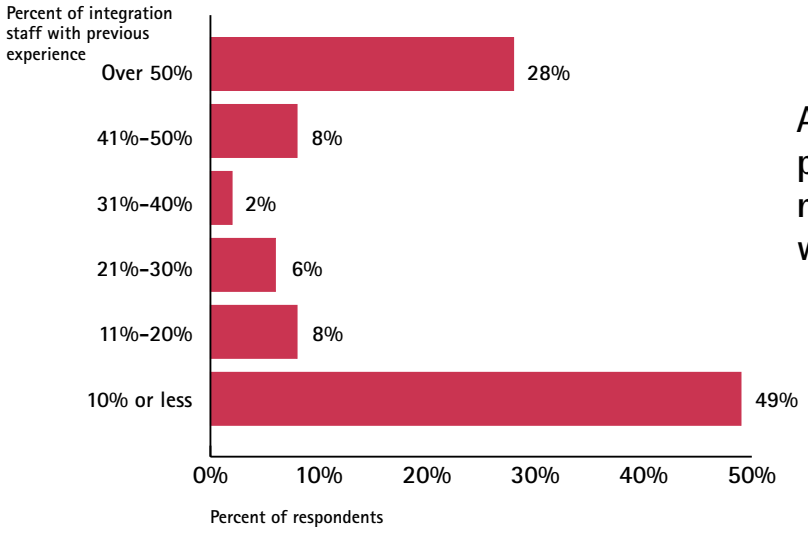

Among the combined full and part-time integration staff, how many had previous experience with IT integration?

The Importance of an Experienced Guide: The Chase Manhattan and Chemical Bank Merger

The two jets streaking toward the processing center carried $11 billion in receivables — the final step in the largest credit card merger in history. The merger of Chase Manhattan and Chemical Bank created a new card operation that was the fourth largest in the country.

The integration task was monumental. The Bank's card operations were being processed on completely different systems, and their integration was crucial to realize expected cost reductions. But the size and complexity of the integration effort would clearly outstrip the capabilities of the Bank.

The project team quickly began integrating the two systems onto a more efficient and scalable card processing platform. It also launched an assessment and conversion of the Bank's credit card customer service processes, and mounted a major training program. The project was completed nine months after launch — on time and on budget.

Over the final weekend 25 million customer accounts and $11 billion in receivables were converted. On Monday morning, 4,000 newly-trained employees began operating the new system, and through it all, operational control and data integrity were maintained. Customer service never skipped a beat. And, perhaps best of all, Chase was able to realize the significant cost savings that were the bottom-line goal of the merger.

Finding Seven

Use External Staff to Help Execute the Integration Activities

Only about half of the companies surveyed reported using external staff during the integration effort. However, there was some correlation between use of external staff and the success of the integration. Deals that were more successful financially were more likely to have used external staff to help execute the integration work. Among those companies that did not use external staff, only 39 percent said the IT integration was a success. Deals with higher scores on our financial composite scales were more likely to say that IT used external staff than those who scored low on these scales.

The Value of External Staff

The decision to use external staff is closely related to the previous finding about the need for experience. If experienced staff cannot be found internally, companies will be best served by filling capability gaps with temporary staff. Companies certainly do not want to have the integration effort looming over the IT organization over a long period of time. It will wear people down, and will defer benefits that are supposed to be derived from the merger.

Adding temporary external staff can free up key individuals in the company, and also compress the time associated with integration. These people can provide specific, point knowledge about the effort; they also provide "bench strength" as the work piles up. In addition, external staff can be important from a simple headcount perspective. The integration effort will initially lead to a net increase in the IT headcount required to support the organization as well as to perform integration projects. But this will only be a short-term staffing increase; it would not be advisable to meet a short-term HR need by adding permanent headcount. What are the specific tasks to be performed by external staff? In our experience, we have seen such staff brought in to handle one-time integration activities that will not have follow-on implications. They are also able to handle critical functions as staff is diverted into organizational decision-making, or if key people leave the organization during the integration.

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Finding Eight

Engage in Cultural Change and Human Performance-Related Programs

Of the possible challenges to post-merger integration, our survey respondents named human or cultural issues as the two more difficult ones: integration of cultures and reorganization of personnel.

This finding validates our experiences with clients, where we have consistently seen culture integration as a major challenge inside the IT function. Why? Perhaps because CIOs and technology managers by their nature are "good at what they're good at": namely, managing the technology. They may need to be reminded that the people need to be managed effectively, as well. Systems and software integration are things that the typical CIO deals with on a regular basis; organizational integration happens much less frequently, so there are fewer opportunities to gain experience and wisdom.

Integration is a human performance challenge. The activities are difficult. Jobs, roles and reporting structures will change. People will be asked to move; some will lose their jobs. All of those things cause people to become distracted, to become less efficient and productive than they were before ... at least temporarily. If companies can decrease the duration of the inevitable dip in productivity, they can reap significant financial benefits.

The most important thing to be done from a leadership perspective is to take a top-down view of the entire transformation program that characterizes the merger. We refer to this as the long-term "journey" of change. Managing this journey for a merger involves attention to some basic human performance principles:

- The people most affected by the change need to feel part of what is going on, as early as possible.
- Managers need to be able to lead the change in their areas, but they themselves may first need help to understand its full implications. All of the apparently isolated changes need to be seen as part of a bigger picture — where the business is going and what it will be like when it gets there.
- Progress needs to be publicized (and celebrated) to maintain momentum and morale.

The Accenture Journey Framework (see figure) divides organizational change issues into four categories of work that must be done to ensure that a workforce both can and will perform over the course of a change journey. The journey framework uses two important axes. The first is supply vs. demand; that is, organizations must attend not only to programs that "push" the change initiatives, but also to programs that create a "pull" for the change from within the workforce itself. The second axis is macro vs. micro. Major change requires both high-level programs that affect the entire organization as well as programs that touch each individual person. These axes result in four major factors that enable major organizational change:

1. Planning and navigating the overall program, including various phases or roll-outs. Change doesn't happen all at once, with some sort of "big bang" conversion but in a sequence of related phases.
2. Supporting the performance of people with the right content, training and performance support. During a merger, you are asking people to perform in new ways; that won't happen unless you support their work in new ways, as well.
3. Providing strong sponsorship from key thought leaders and other respected individuals within the organization. The "journey manager" for the initiative needs to work diligently with these sponsors so they can be effective influencers throughout the combined organization.
4. Helping people "own" the change (rather than having it inflicted upon them) through an almost relentless communication program and other activities designed to build confidence in the new performance environment.

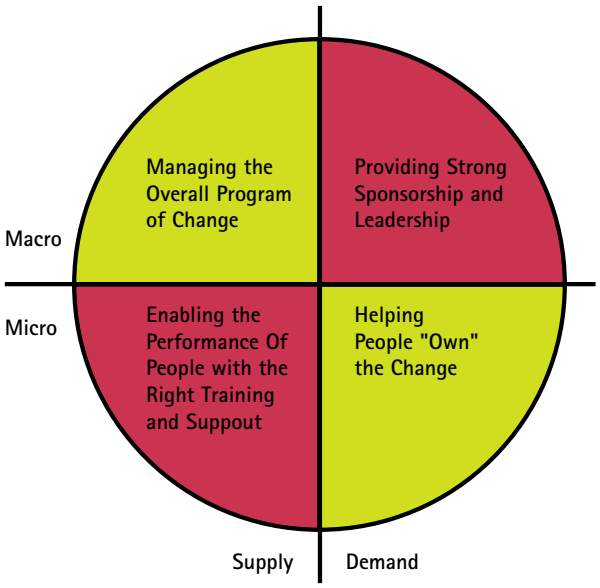
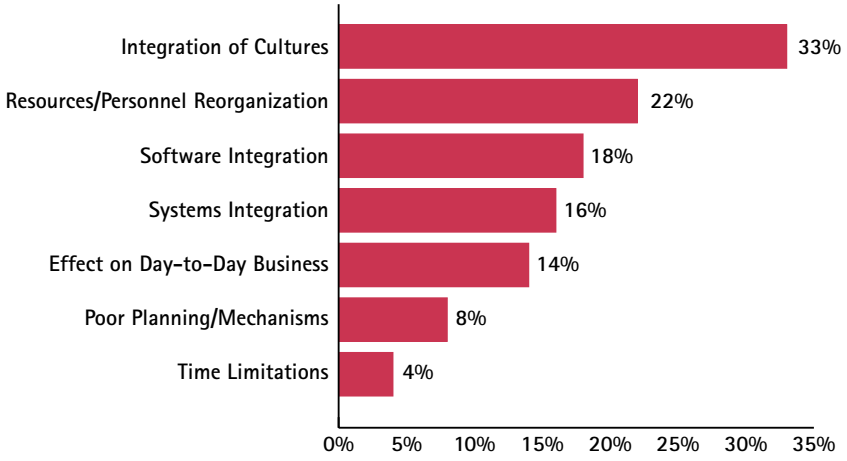


Figure: The Accenture Journey Framework

At different stages along the journey, each of the four areas comes into special prominence. Early on, for example, strong leadership and program management are vital to set the direction and establish momentum. Later, new enablement initiatives must reassure people that the organization understands the new performance environment and is ready to help. From the beginning, communications must help people understand and take personal responsibility for the new kinds of work being performed. Then, as people reach the inevitable "valley of despair" ("things just aren't the same anymore!") strong leadership again becomes vital.

If there is one key message about managing the human performance issues during integration, it is this: effective merger integration will be severely hampered if the journey and human performance elements are seen only as "nice to have" parts of the program, dependent on whether there's budget and expertise available — or if they're done only toward the end of the initiative. These activities are not optional, and they're not separate. They are an integral part of making IT integration and overall merger integration happen, and of realizing the full value from the merger.



What were the greatest challenges for the IT leadership team in the post-merger period (unaided, multiple responses permitted)?

Employee Readiness: Bank Austria and Creditanstalt

For the 1997 merger between Bank Austria and Creditanstalt, the focus on human performance — helping employees own the change and enabling them to perform in the merged environment — was world class. Significant effort and importance was placed on employee readiness and employee communication and it showed in the results. Clear decision-making guidelines were developed and communicated throughout the organization and all management levels were involved at regular points throughout the merger, both in decision making and in communication. All first, second and third-level managers were trained or coached in project management and other necessary skills and change sponsors were identified in each branch and back-office location who were also responsible (in addition to the regular hierarchy) for communicating and implementing the necessary changes. Regular surveys were also taken to identify "problem areas" (i.e., populations resisting certain changes) and overall employee communication and understanding were taken very seriously by senior and middle management.

The results of this approach were clear — contented employees that understood what was happening at each step of the merger process and, more important, employees that could contribute to the advancement of the merger. The importance placed in this area and the corresponding results shows how important this principle is — one that is often neglected because senior management too often views these activities as secondary rather than primary parts of the integration. In fact, effective journey planning and management during the integration effort usually pays dividends many times over.

Conclusion

Accenture's eight imperatives for successful IT integration during a merger or acquisition can be summed up simply: set the target, plan how to get there, involve the right people with the right experience at the right time, and then focus on supporting the people with a broad program of change, as well as specific initiatives that help them understand and perform better in the new organization.

Getting the right experience is vital. Simply having gone through a merger is not necessarily enough. You've been through a merger. But were the experiences distilled, captured, discussed and disseminated to those likely to lead another merger? Not every organization can say that.

Post-merger IT integration is a challenge; everyone knows that. It takes time, money, vision, courage and effective program management. We see in some cases from our survey of companies that even as much as eighteen months after the merger, some areas (application integration, for example) are still far from integrated.

We believe that the eight areas identified in the Accenture IT Integration Research Study can significantly increase the chances for successful IT integration, and that a clear link has now been established between IT integration success and the overall success of the organizational consolidation. Companies must be more attentive to IT challenges as they seek to create value from mergers and acquisitions.

Do's and Don'ts of Effective IT Integration for a Merger or Acquisition

DO	• Establish a vision of what the IT capability will be, based upon the business goals of the merger, and then drive everything from that vision. What is the new performance environment of the company? • Perform an IT due diligence before signing the deal. Will the systems of the other company support the vision of the merged business? • Engage in detailed IT integration planning. Are there plans in place for things like network interconnectivity, business applications and architecture, data/call center facilities, and the service organization? • Appoint a dedicated IT integration team and manager to oversee the integration. Are you giving people responsible for the success of the integration effort enough "mind space" to manage the project, or are they distracted by other responsibilities? • Use experienced staff to manage the IT integration; if experienced staff are not available internally, fill the gaps with temporary external staff. Even if your company has "been through it before" were the lessons from the previous experiences captured in a way that will give you better odds of success the next time around?
DON'T	• Wait until too late in the integration effort to consider the human performance and organizational change elements of the merger. Planning and managing the journey of change must lead the entire effort. • Measure IT success solely as a function of IT budget reductions. • Delay in involving IT in business discussions about the deal. By involving them early, you are more assured of an IT capability that can support the business.

How Accenture Can Help

With experience from many engagements, our professionals work with you to help realize greater business value from your merger or acquisition.

The eight imperatives for effective IT integration discussed in "Keys to the Kingdom" can be stated easily. But execution and delivery are what separate the winners from the losers. With so much at stake in the marketplace during a merger or acquisition, hundreds of companies have turned to Accenture for guidance.

With experience from over one hundred engagements, we help our clients along the entire journey of an M&A toward business value. From identifying the right deal, through executing the transaction, to delivering real value, we appreciate the imperative of increasing business value. We bring smart strategic insight to identify winning opportunities by exercising specialized M&A skills, industry knowledge and operational expertise to do the right deal at the right price in the right way. This means: defining the strategic rationale; incorporating the appropriate value, synergies and structure in the negotiation; executing the deal and mobilizing the organizations through our extensive post-merger integration.

Accenture's Strategic IT Effectiveness practice operates globally, helping organizations focus on transformation of their IT capability, and driving sustainable value from their IT investments. We have planned and supported a wide range of M&A activity, shaping transformation of IT capabilities and rapid delivery of results.

Our broad perspective, experienced professionals and suite of tools can jump start program management, work planning, and IT environment analysis. Accenture can also provide bandwidth and supplemental skills to help your workforce balance and achieve support of the current environment while completing the integration.

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Accenture is the world's leading management and technology services organization. Through its network of businesses approach—in which the company enhances its consulting and outsourcing expertise through alliances, affiliated companies and other capabilities—Accenture delivers innovations that help clients across all industries quickly realize their visions. With more than 75,000 people in 47 countries, the company generated net revenues of $11.44 billion for the fiscal year ended August 31, 2001. Its home page is www.accenture.com.

Contacts and Contributors

For more information contact:

Richard A. Chang
richard.a.chang@accenture.com
1 (312) 693 0113

Justin Jenk
justin.jenk@accenture.com
44 (20) 7844 1681

Authors:

Richard A. Chang, Accenture
Gary A. Curtis, Accenture
Justin Jenk, Accenture

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