THE REASONS FOR CHANGE

Mergers and acquisitions are a common part of modern business, and most managers will find themselves in the middle of one at some time in their career. For many managers it is a regular aspect of their professional life. This is as true for IT managers as for those in any other function. The most common question in this situation is 'how does this affect me?' **Danny Davis** explores how mergers impact the IT department and specifically what the reasons for change in IT are during a merger.

There are no identical mergers. The experience of each merger and the outcome are unique. If a UK firm buys a company in India to gain access to that market the impact on functions like IT may be, at least in the short run, minimal. On the other hand, if two British based businesses merge and need to achieve synergies, then there will be rapid and significant change required within IT. In general terms, we have identified four main reasons for change in IT during a merger:

1. the successful conclusion of the merger requires significant IT support;
2. the need to deliver value;
3. the IT contribution to synergies;
4. changes in IT customer's needs and strategy.

We will look at each of these, although in reality they all combine to become the IT merger challenge. The first reason for change in IT is that the successful conclusion of the merger requires significant support from IT. No matter how much due diligence is done when two organisations come together the understanding of each business is limited. One senior management team may find itself managing both businesses' operations, and simultaneously having to drive value producing change in the combined entity. Information and the ability to consolidate the fundamental business data are essential to effective decision making and management. At the early stage of a merged business this is not about integrated systems or perfect

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information, but the minimum set of data required to run any business effectively. Usually mergers are intense, with pressure for rapid progress. An early challenge facing the IT department is to quickly provide this basic set of management data. This is not simply about consolidating separate sources of equivalent data. Each of the predecessor businesses will have used different information in different ways. There is a need for pragmatic judgement and prioritisation on what management information is essential and what is realistically available. Some data consolidation must be done simply, for example manually in spreadsheets. Often functions like finance may do this without the involvement of IT, but there will be significant pressure on IT to deliver. News of a merger will bring the large software vendors and systems integrators flocking with promises of synergies, rapidly integrated systems and ideal new world platforms. Vendors have to be managed. Significant time can be wasted dealing with them – time when you are under most pressure. It is not that such vendors should never be listened to – but you must take immediate pragmatic actions, irrespective of a longer term strategy to integrate platforms. You cannot waste too much time making choices between vendors. When required, select one standard platform and at the most appropriate time, get on with it. If you are an organisation that is executing a merger, as a one-off activity, then cherry-pick the best systems from the previous entities. If you are completing a series of mergers, standardisation of platforms is a key success factor. There is a risk that at every merger you end up reviewing the set of software each predecessor organisation has and trying to choose the best bits from each company.

This is a resource intensive, slow and political process. In our experience it is far better to decide what your standards are and to enforce this standardisation in every merger. Occasionally, you will buy a company that does have superior existing systems, but the value and speed of standardisation will usually outweigh any value from extra functionality. If you can learn what the additional functionality is, put it on your development road map for the whole business at a later date. Standardisation is central to the way IT contributes to the value of the business during the merger process. Many mergers are justified partially from the delivery of synergies. An obvious place to find them is in supporting services like IT. The challenge for IT is to look at the two predecessor IT departments and identify how money can be saved through consolidating systems, data and staff. The rationale for the merger may include other improvements, such as a green agenda, and again IT must contribute its share.

One thing we experience regularly is the tendency, when making staff redundant, to choose to retain staff from the dominant partner in the merger. This is a mistake.

Choose the best staff, especially senior IT management, from the pool of both predecessors firms. The evidence shows that firms with the best long-term track record of successful mergers are those that choose the best staff for new roles, and ignore personal relationships or politics. Some systems may not have historically fallen into IT, and the boundaries of IT accountability may vary between the two predecessor firms. This all needs clarification. Given that the objective of a merger is to deliver value, mergers are not simply a matter of sticking two organisations together. At the end of a merger the organisation will be different, sometimes radically different, from the two starting organisations. In some ways it will be more, in others less. IT's customer departments will have merged and have significantly fewer staff, including some people who have been key business interfaces for IT. On the other hand, the rationale for many mergers is not simply to cut costs, but to achieve more. This synergist increase will only be delivered with the appropriate support of IT systems. IT management must track the evolution of the corporate strategy and operational performance targets as the merger progresses. IT management must also keep control of the expectations and assumptions about new IT systems built into merger plans of other departments.

The direct pressure on IT will be to deliver a small set of critical changes rapidly. Customers across the business will define a much broader set of IT changes as essential to delivery of their merger synergies. Assumptions in plans must be exposed, and the constantly evolving set of needs must be aggressively prioritised, or the whole IT agenda will slip and IT will become a constraint on the speed of merger. The IT capabilities of an organisation can facilitate rapid and successful mergers, but IT can easily become the constraint on the speed of integration and the delivery of synergies. The fundamental merger challenge, as so often with IT, is prioritisation and focus on a realistically achievable set of outcomes. Such prioritisation becomes more complex because of the assumptions other non-IT managers make about what they will get, and the speed with which they will get it from IT. High expectations, often backed by promises to external stakeholders such as investors, must be managed. IT must be fleet of foot, as the familiar landscape will transform with a rapidly changing IT customer base within the newly merged organisation.

Note
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