Best Practice

Mergers & Acquisitions – Failure is not an option.

The aim of IT integration projects implemented in the context of mergers and acquisitions can easily be summarized as “Failure is not an option”. The integration of the newly acquired company is doomed if the business has failed to recognize the pivotal role of IT. Thorough preparation is key - and a modern IT environment forms an important starting point in this regard.

In many cases, the IT organization is not fully involved in the purchase decision, only finds out about an upcoming integration very late in the process or is asked to implement the integration process at very short notice. M&A projects rarely figure in the annual strategic planning process, and even companies that want to actively grow through acquisitions do not know which merger or acquisition candidates will be successful. There may be a variety of reasons for a purchase, such as the desire to expand the portfolio or a change in strategy.

It is clear, however, that these projects must be completed successfully - under very tight time lines, and quite independent of the actual plan for the year. Therefore, IT organizations must do a fair amount of preliminary work to ensure that they are always ready for an integration.

Preparing for the unknown

This raises the question: What can an IT organization do if it does not know when and what type of merger will occur? There are two possibilities:

A process-oriented approach:

All the processes and responsibilities for a possible M&A project can be simulated in advance. For example, a possible project organization can be configured in the run-up to an integration, and steps can be taken to determine which roles must be filled. Another step is the prioritization of internal projects. It can be used to find out which other projects must be put on the back burner in order to focus on the M&A project. Another useful preparatory activity is to scrutinize the processes in service management and structure them accordingly. In that way, it is possible to determine who makes what type of decision, and when.

A structured approach:

With this approach, scalability becomes the main focus of each decision and activity. The types of questions that are asked in this context are: “Is a certain service also offered in other regions?”, “Is a certain application available in other languages?” or “Can a certain infrastructure component be operated by other providers?”. During this process, the company’s own structures must remain clear and simple. This is where modern IT comes in: It is based on the idea of continuously and consistently improving the maturity level of the internal IT environment. This does not necessarily mean that high-tech future solutions must be used in all IT areas. Rather, the IT should correspond to the state of the art. But anything that is too complex or no longer required is turned off.

However, the reality is often different. Many companies rarely use standard technologies. Instead, they use in-house developments that can no longer be maintained efficiently. Many times, there are no globally integrated network structures or service processes. And applications are often outdated or not clearly documented. All of this reduces the IT level of maturity and hence also the success of M&A projects. In short: Scattered IT structures make it virtually impossible to smoothly integrate the IT environment of an acquired company. Thus, a modern IT environment is an elementary step towards making a company fit for mergers and acquisitions. The more modern the IT, the easier it becomes to respond to changes such as M&A projects.

But the decisive success factors can only be seen during the integration. When textbooks talk of M&A projects, they often focus on the effects on employees, the corporate culture and the organizational culture. But they often underestimate that the IT environments also must be organized so they can work with each other. Therefore, the IT environment represents an important component for maintaining business continuity. The above measures must be implemented to ensure that strong synergies from an acquisition or merger can be developed at an early stage, and that the investment is protected.

This means that from the viewpoint of the company, the professionalization of M&A projects and the structured harmonization of IT are important steps towards successful implementation. But M&A projects always involve two companies. Therefore, success also directly depends on whether the acquired company has implemented the precautions outlined above. If only one side does its homework regarding IT, the integration will be characterized by higher costs, more complexity and more risks. This applies not just to IT but also to all other areas of the company.

Best and worst case

In the worst-case scenario, the other IT environment is still deeply embedded into the parent company, and it is not clear which parts can or must be integrated. In that case, the analysis phase or due diligence process can take up to four months to complete. This reduces the time available for other project phases that are just as important.

Therefore, it would be ideal if both companies use many technologies on a Cloud basis and obtain this technology from the same provider. In that scenario, collaboration and document access can be achieved very quickly with the help of Microsoft. The implementation of day 1 activities would be greatly facilitated in this best-case scenario.

But as is so often the case, real life cases tend to fall somewhere between these two extremes. In the case of mixed forms, the main challenge is to consolidate the heterogeneous IT environments within a short time period without negatively affecting business processes, while guaranteeing efficient work processes and a viable architecture. This creates a lot of challenges for many companies:

- The integration of IT systems is a basic requirement for business continuity and achieving the business objectives. Nevertheless, the IT integration process is often started too late, and with unrealistic assumptions. The maturity level of the existing IT environment, or the compatibility and complexity of interfaces, applications, data and processes are frequently underestimated.
- Employees already have concerns about upcoming changes, and do not want the added worry of IT problems. The systems are supposed to function easily and smoothly.
- Managers also require a reliable IT environment to achieve the synergies from the consolidation of business applications, process harmonization and a reduction in the number of suppliers within the framework of the IT project. It is the only way to achieve the predetermined ambitious targets.
- Possible cost drivers must be monitored during the entire project. Particularly the costs for licenses and data mapping are often underestimated.

Important things to keep in mind

For this reason, there are several considerations that must be taken into account when conducting M&A projects.

Failure is not an option.
The success of M&A projects is always critical to the business, and regular business operations should not be negatively affected. All affected services must be under control and ready for migration to the new organization by the appointed date.

Time is short.
These projects usually come with a very short time frame of six months to a year, and a non-negotiable target date. In that time, new and future-oriented IT operations must be established that optimally support the business. This requires a strict and clear approach for managing the sub-projects and stakeholders.

No progress without decisions.
IT integration projects are extremely complex. Therefore management is constantly asked to make operational and strategic decisions. This forms the basis for the progress of the project. Management must involve the IT organization in the decisions and planning activities at an early stage, particularly regarding the detailed analysis of the infrastructure and applications of both IT worlds, since otherwise the integration process will lead to unnecessary costs.

Supervise the change process.
During the implementation, the IT organization must involve all stakeholders with comprehensive change management measures, considering the different cultures in the companies. There will always be people who are not happy with the decisions. Therefore, it is important that they are not blindsided or confronted with a take-it-or-leave-it situation. IT is the partner, not the opponent.

IT modernization as a prerequisite for success.
A modern IT environment is the basic prerequisite for the successful management of M&A projects. Modern, scalable IT environments pay off because they allow companies to significantly reduce the duration and complexity of IT integrations and thus pave the way for a successful M&A project.

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