

Contents

Introduction	4
Mobilization	4
Current state analysis	5
ICT strategy and long-term targets	6
Day 1 targets	7
ICT architecture	7
Master data and changes in company identity	8
Program planning and mobilization of implementation projects	8
ICT project management office during project execution	9
Cutover planning and execution	9
Organizational setup	10
Post-merger integration and obtaining the synergies	11
Conclusions	11

Introduction

Mergers and Acquisitions (M&A) are done to obtain synergies, diversify business, grow market share, increase pricing power and eliminate competition (Investopedia, 2017). However, organizations struggle to achieve these targets. According to KMPG (2015), 83 percent of the mergers did not boost shareholder returns. A clear vision for the combined company, excellent planning and execution of integration and commitment on completing the integration are among the key factors in ensuring a successful merger.

ICT integration is generally the largest part of the overall integration effort. Based on our client experience, approximately 60-80 percent of the overall effort relates to ICT integration. ICT integration plays a significant role in enabling the business to achieve its targets, obtain synergies within ICT and ensure business continuity. Since ICT affects all areas of a company's operations, excellent planning and management of ICT integration is central for the overall success of the integration.

"ICT integration is generally the largest part of the overall integration effort."

cases where two large organizations merge. In smaller mergers, some of these activities can be ignored. The approach is based on our project experience from managing large and small mergers, both on the overall and ICT levels.

Mobilization

The first step to get the ICT integration started, is to mobilize the ICT integration stream. The ICT stream is one of the streams within the overall integration project organization and will closely co-operate with the PMO responsible for the overall integration as well as with the other streams affected by ICT.

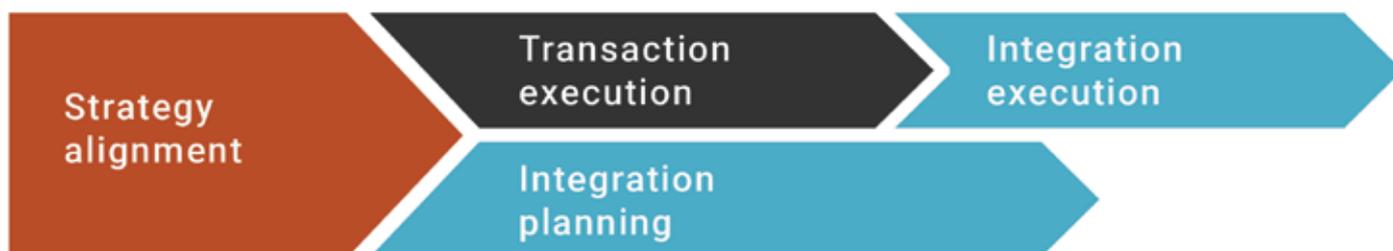


Figure 1: Overall phases in a merger

This whitepaper describes Midagon's approach for merging the ICT as a part of an overall merger. Our focus is on the (see Figure 1):

- Integration planning that starts while the transaction is being executed and
- Integration execution that starts after the closing of the transaction.

In the following section, the detailed content of integration planning and execution phases are presented in a step by step manner (see Figure 2). The full set of activities applies to

A typical way to organize ICT integration is to nominate a leadership team and subject matter experts responsible for the integration of:

- Different application domains
- Infrastructure, e.g. networks, data centers, service desks and end-user devices and services
- ICT governance, e.g. contracts, supplier management model, methodologies and architecture

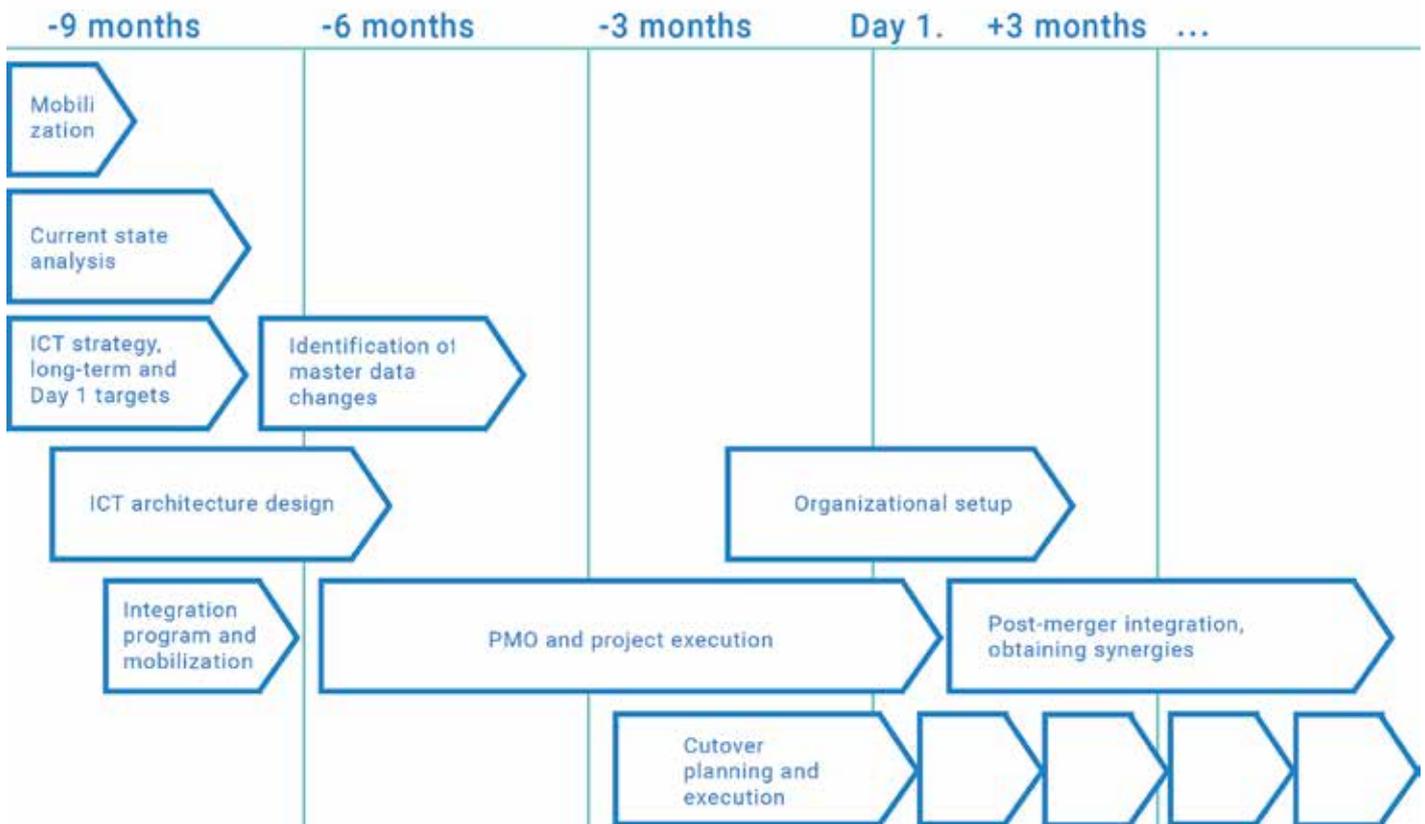


Figure 2: Phases within integration planning and execution – illustrative schedule

It is essential that the responsibilities and decision-making structure are clear. Difficult decisions need to be made during the integration. This cannot be achieved by a team of equals without clear leaders and decision-making structures. The CIO or the head of the ICT integration stream with the mandate and readiness to make prompt decisions will do so. Decisions that cannot be made by ICT alone can be made at the next levels, by the overall integration office, executive team or by the board of directors, depending on the governance model.

At the same time, different levels of the integration organization should include managers and subject matter experts from both merging organizations. This facilitates different viewpoints to be brought up and to make balanced decisions. Decision-making can easily be perceived as politicized, favoring solutions and colleagues from another of the merging organizations. As a result, close attention must be paid to ensuring neutrality, fact-based decision-making and cultural differences. A real or perceived imbalance will demoralize part of the team and will result in the attrition of critical people.

When key people in ICT are assigned to integration activities, their old responsibilities should be reduced. If this is not done, their workload is likely to become overwhelming which will reduce the speed and or quality of the integration. The workload can be managed by reducing other development activities, backfilling usual work with internal or external resources or getting external support to help with the integration.

Current state analysis

Once the team is in place, the work can proceed to integration planning. Understanding the current state of ICT is the basis for planning. Information is needed for the areas shown in Figure 3.

This information can ideally be obtained during due diligence. The level of detail of this information is often insufficient for integration planning purposes and additional information needs to be collected. Going through hundreds of agreements, applications or master data definitions is a formidable piece of work. Therefore, time needs to be reserved for this exercise.

ICT strategy and long-term targets

The need for rethinking strategy depends on the nature of the merger. When a small organization is merged into a large one, the need for revisiting strategy is smaller than in the cases where the merged organizations are of equal size.

If ICT strategy and targets need to be redefined, they should be aligned with the overall strategy and targets. Various issues need to be considered. What are the ICT services needed in the future to support the demands of the business? What is the targeted cost level after integration, what synergies are expected and how are they to be obtained? What is the balance between costs and quality? What is the role of in-house vs. outsourced resourcing? What joint development methodology is to be applied? What will change compared to the situation before integration?

Another fundamental question is the level of integration:

- In full rapid integration, ICT is fully integrated with the rapid timeline.
- In full delayed integration, more time is allowed for the integration. Integration may also be started at a later stage.
- In minimal integration, operations are maintained as they are for the longer term and operations continue acting independently.
- In hybrid integration, the degree and timing of integration varies depending on the area.

Integration is occasionally started without a clear top management guideline on the targeted level of integration. This is likely to result in political infighting, mixed levels of integration and suboptimal end-results.

If the target is full integration, it can mean a two to five year integration period due to the massive effort required in integrating the applications and infrastructure. Existing contracts and contract periods also limit the speed of integration, unless the company is ready to pay the penalties resulting from an early termination.

There is often an urgency to build up Day 1 readiness. As a result, the time available for

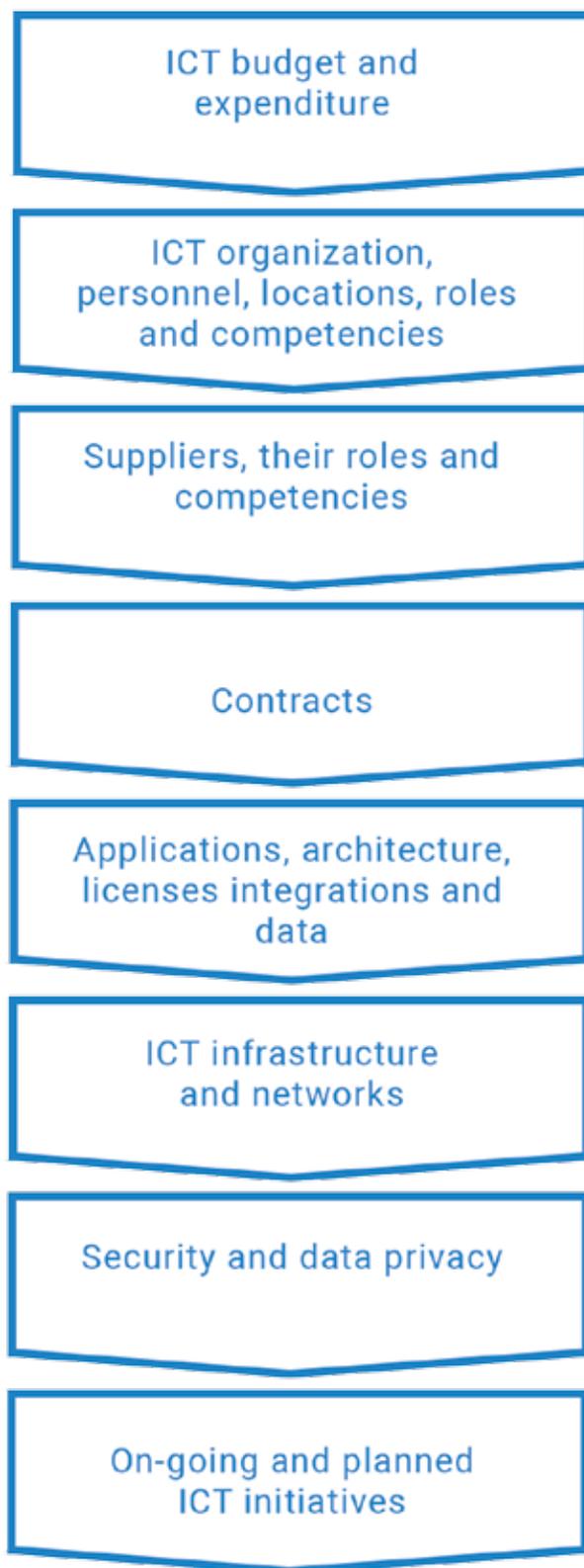


Figure 3: Areas of current state analysis

long-term target setting is limited. Consequently, a light version of the strategy, a long-term vision and an integration roadmap can be established at the beginning of the integration effort. The long-term targets can then be revisited and the roadmap creation continued after Day 1.

Day 1 targets

Day 1 is the point of time when the legal merger comes into effect. The Day 1 focus is on ensuring business continuity in the merged organization, in minimizing disruptions and in fostering legal compliance.

Typically, at least the following ICT changes need to be completed by Day 1 or soon after:

- Financial systems are changed to enable consolidated financial reporting.
- Human resources systems are consolidated to merge the employee data, establish new organization in the systems and to enable payroll to continue.
- Master data is harmonized across the applications (at least financial and HR master data).
- New company name, logo, visual image, address and other company identity related changes are applied in its websites, social media and other instances, where the company identity is shown to the customers and other external parties.
- Joint e-mail and other messaging systems are established. E-mail addresses are changed.
- Networks are connected to allow cross-use of data and applications across the merged companies.
- First visitor access systems (WLANs, LANs) are in place to support started business activities as merged company.
- Security of the systems in the integrated organization is ensured.

When planning for Day 1 targets, the company should evaluate, the minimum level of integration that is needed on Day 1 as well as what else needs to be achieved by that date. Prioritization is needed between competing initiatives to keep the Day 1 scope manageable. Day 1 targets should be the first step towards the long-term targets, rather than a set of stand-alone short-term workarounds to make the integrated company work as one.

ICT architecture

Architectural design is a part of integration planning and closely linked with both Day 1 and long-term target setting. Application architecture defines which applications will be used in the target state and which ones will be ramped-down. Much of the architectural design work is done on different domain areas. For example, ICT applications to be used in the HR area are defined with the stream responsible for HR. The result is an application architecture for the HR area. This domain level architecture is then connected with the overall architecture of the company.

Data architecture defines how data is processed, stored and utilized in the information systems. Handling of master data is very important in integrations and will be discussed in the following section. Technical architecture defines the infrastructure level architecture and answers questions such as what data centers or cloud providers will be used, which ones will be ramped down, how the network architecture will look and what the server architecture will be.

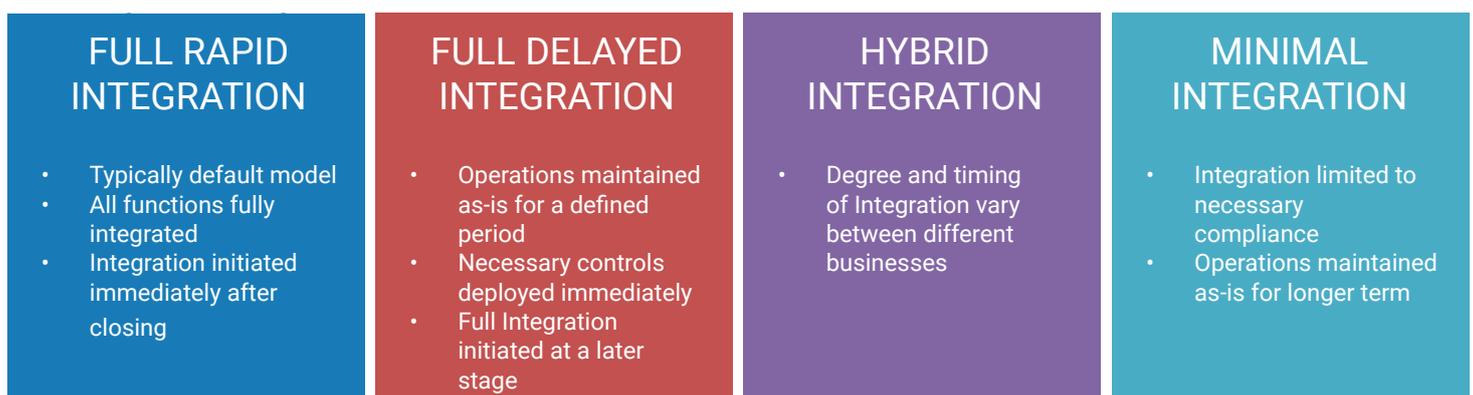


Figure 4: Alternative integration approaches

“Day 1 focus is in ensuring business continuity, minimizing disruptions and ensuring legal compliance.”

Information on the current state collected during the due diligence and current state analysis phases is utilized in the architecture work. For example, a detailed list of applications and data processed in each phase is needed in the evaluation of the future application and data architecture.

The target architecture will be implemented gradually, as the integration effort proceeds. Day 1 is typically the first step towards the target architecture, but later steps are needed to reach the target. The target architecture should reflect the gradual nature of the work. Multiple versions of the architecture illustrating intermediate steps towards the target architecture are needed.

A well-defined architecture plays a critical part in integration planning and execution. It is the basis for the integration program and project planning. It is used as a means of communication. It is a reference point used by individual projects in their planning, design and testing efforts.

Defining the target architecture can be challenging, since many political and emotional issues are tied to the architectural decisions. Ramping down a redundant application that has been developed for years can be emotionally challenging. People can feel that the other merging organization wins, when their application continues to be used while the other organization's application is ramped down. The skills needed for the discarded application or technology may become obsolete and people may be afraid of losing their jobs. However, the worst approach is to avoid hard decisions and to continue with redundant applications and infrastructure. As a result, the integration synergies will be lost and the complexity of the merged organization will increase. A neutral third party can help in defining the target architecture.

Master data and changes in company identity

Common master data is a key enabler for integration. Financial reporting cannot work without a common organization structure, profit and cost centers and other dimensions of financial master data. Human resources and access management systems require standardized personnel IDs and other HR master data. Data on sellable products, materials, customers and suppliers need to be harmonized. Company name, addresses, logos and brand identity may change in the merger.

Several steps are needed in master data related planning. Common master data standards and values need to be defined. For example, what is the new employee ID format or what is the complete list of new cost centers? Master registers need to be defined for each master data category. Information systems, where master data or company information is used or created, need to be identified and required changes analyzed. This may involve database and user interface changes, data migrations and changes in application integrations. Web pages and forms may need to be changed to address the new company identity. Planning for master data changes is a formidable effort that may require hundreds of applications, integrations and documents to be analyzed, after which implementation plans for each of these can be created.

Program planning and mobilization of implementation projects

Once the targets for integration have been set and the target architecture defined, the implementation plan can be created. Individual projects needed to reach the target state are identified. Large ICT integrations may require dozens or hundreds of implementation projects. Project managers and project team members are assigned to the projects and the implementation projects are started. Timely mobilization of implementation projects is a critical success factor. The lack of urgency is a common pitfall in integrations.

Being able to conduct the integration project

“Well-defined architecture plays a critical part in integration planning and execution.”

work, while the daily routines also need to run, requires the organization to stretch. As a result, external resources are often used. Another reason for using external resources, is to obtain the required competences that might possibly be lacking needed in integration.

ICT Project Management Office during project execution

The nature of the work done by ICT integration stream changes, when the work moves from current state analysis and planning to the execution of implementation projects. The role of the ICT Project Management Office is to maintain an overall plan for integration across different projects. Costs need to be managed, cross-project dependencies need to be understood and project-specific plans aligned to address the dependencies. Dependencies need to be acknowledged in aligning the schedules, design, development, testing and deployment (cutover) of changes. The overall status and progress of individual projects needs to be understood on an on-going basis and the overall status reported to the company level PMO and top management. If issues arise in an individual project, corrective actions need to be taken to get the challenged project back on track. The ICT Project Management Office should play an active role in managing the overall execution.

In addition to managing the project portfolio, the Project Management Office should provide the tools and methodologies needed by the implementation projects. What is the common repository for project documentation, in which the tools, plans and project backlog are maintained? What development methodologies are used in different types of projects? Cultural clashes may be expected when the methodologies, tools and technologies, and ways of working differ between the organizations. These should be jointly agreed upon in order to alleviate these challenges.

Cutover planning and execution

Cutover is the process of transitioning from an old system to a new one. It is also the point of time when potential risks are realized. If the new system does not work as planned, there is a risk of business discontinuity, negative publicity and weakening employee relations. This is the case, for example, if products cannot be sold or delivered to the customers, salaries cannot be correctly paid to the employees or the user experience is unsatisfactory.

Cutover is a common activity in ICT projects. What makes cutover in an ICT merger different and more complex, is that a large part of the system landscape changes with dozens of system specific cutovers taking place at the same time. There are often strong dependencies across the individual cutovers. For example, technical changes required by the new organization need to be deployed and new master data needs to be distributed to operative systems, so that everything is ready from Day 1 onwards. At the same time, new master data must not be activated in financial systems on Day 1, until the books have been closed. As a result, organization wide cutover planning is needed to define the right sequence of activities. In the previous example, deployment of technical and master data changes would be scheduled system by system and interface by interface.

Cutover planning

Cutover planning needs to start several months before the cutover. The needs of the cutover are ideally already acknowledged during the project planning and design phase. Cutover planning in a large merger is a formidable effort, since the project-specific cutover plans are likely to contain thousands of different activities. A person responsible for cutover planning and execution is needed for each of the integration projects. This person will create cutover plans for his or her project. A cutover manager with cross project responsibility also needs to be nominated. This person will ensure that cross-project dependencies are acknowledged in the project-specific cutover plans, a cutover master plan is created and plans are synchronized across the projects.

Phasing reduces risks and makes the overall cutover more manageable. It is desirable to schedule cutover activities, so that the cutovers in individual projects are spread over time. The ability to spread activities, depends on the business and legal requirements. It is common that the bulk of the Day 1 cutover activities are spread over a period of three to five weeks, starting a few weeks before and continuing for a few weeks after Day 1.

A cutover plan includes, on a very detailed level, all the steps needed to conduct the transition to the new solutions. It starts from preparations and continues through execution to the post-cutover activities. It includes not only the technical steps, but also other required actions like the tasks conducted by the business functions and communication. Cutover execution is rehearsed in cutover simulation by applying the cutover plan. The cutover plan is then updated based on the simulation findings. Often, one to three rounds of rehearsals are needed until the plan can be considered complete.

Planning for challenges

A key part of cutover planning is to plan for challenges. The availability of experts during and after the cutover is typically the best method for allowing quick issue resolution. Our experience is that, in most cases, issues can be solved during the cutover, if all the right people are available. This requires identification and designation of the required experts to be available when needed, such as during the cutover weekend. Roll-back plans are needed for critical system changes. Roll-back also needs to be rehearsed. If the roll-back is not feasible, workarounds can be planned to run the processes, such as with manual steps and extra resources. Support arrangements and incident management processes need to be defined for the merged organization, since the old processes of old organizations are no longer valid. If things go wrong, crisis communication is needed while experts continue fixing the issues.

Cutover execution

Cutover execution is done at the project level and follows project specific plans. Excellent and timely communication is critical for the success of cutover. When an activity with dependencies is completed in one project, other dependent projects can continue their work. When there are delays or issues in one project, dependent projects can adjust their schedules. The cutover manager compiles the overall cutover status based on the status of individual projects and makes it available for the top management and the organization in general. Corporate communication may also need to be involved, if communication to external parties is needed.

Cutover activities are also needed after Day 1 during post-merger activities. However, they are likely to be more limited in scope as individual changes take place.

Organizational setup

Forming a new organization is an integral part of a large merger and takes place around Day 1. The ICT organization is defined as a part of the overall organization. Streams and or persons responsible for HR, communication and change management are in key positions to support the organizational merge.

The starting point is to define the role of ICT in general and the division of responsibilities between ICT and other functions. The next step is to define and evaluate alternative scenarios for structuring the ICT organization. As a result, the units and sub-units within the ICT organization and their responsibilities are defined. The targeted role of internal vs. external resources also needs to be considered.

When the structure is in place, the positions can be staffed. This work is typically done layer by layer from the top-down. People may either be assigned to positions or required to apply for them. A hybrid approach can also be used where the top positions are applied for and on the lower level, people are assigned to positions. From a motivational perspective, forcing people into positions that they are not interested in, is not a recommended option.

Although preparations can be made before the legal merger goes into effect, final staffing decisions may need to wait until the organizations have legally merged and employee negotiations have been conducted. As a result, the organization may need to function with an interim organization during the first weeks or months following the merger.

Optimizing the headcount also needs to ultimately be addressed. This can be done either right at the start, when the new organization is being formed or later, when the most hectic integration period is over and the overall workload stabilizes.

Post-merger integration and obtaining the synergies

Once time critical Day 1 activities have been completed and the new organization is in place, integration continues. The schedule is no longer dictated by the legal and operative requirements related to Day 1, but depends on business needs. In large mergers that are targeting full integration, integration activities are likely to continue for several years after Day 1 and can be driven by the respective new business units. While Day 1 readiness may be established with relatively minor solutions, full integration involves consolidation of infrastructure and core systems and the ramp-down of obsolete systems.

The focus of integration is now on realizing the synergies expected to be delivered by the merger. This includes cost savings when the ICT organizations, supplier base, applications and infrastructure are merged and redundancies are eliminated. At the same time, ICT also supports other functions to reduce costs and increase sales. Realizing and tracking the synergies requires active management in the projects and overall coordination. Baseline costs need to be measured, actions generating synergies planned and actively executed and realized savings measured on an on-going basis. Application ramp-down, as an example, requires active measures. Redundant applications often continue to exist, as remaining minor functionalities are not implemented in other

systems or data is not archived. An active effort and work in project mode is needed, not only to implement new solutions, but also to ramp down the old ones. This will allow the synergies to be realized.

Conclusions

ICT integration is a central part of overall integration in mergers and acquisitions. Business benefits are not achieved by chance. A clear vision, professional planning and execution, and skilled experts are needed to avoid distractions and to realize the targeted synergies.

“The focus of post-merger integration is on realizing synergies.”

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