

THE IMPORTANCE OF IT IN INTERNATIONAL M&A'S

By Frank Vielba, Feb 2006

Mergers and acquisitions are back on the agenda again. M&A activity resembles the sea on a beach with waves followed by a period of calm reflecting the ups and downs of economy activity. With the economy recovering the period of calm seems to be over and the next M&A wave is gathering momentum and approaching the shores once more.

In an ever more integrated and global world economy the nature of M&A activity is getting more international. The number of cross-border activity between UK and Europe has increased by 31% in 2005 compared to the year before (1). With international operations the question of local language, culture, working practices and processes and suppliers become more important.

The centrality of IT in medium and large organizations today is a key factor in supporting critical business processes and operational activity. In some industries like banking, retail and travel the business would come to standstill if their IT systems were to stop working. In others like manufacturing, process and recruitment the products and services would cost much more to be delivered to the end customers if IT was not used.

Therefore, it is not surprising that when companies look for synergies following a merger or acquisition the question of IT becomes a key factor in whether or not the merger is likely to succeed or fail in achieving the anticipated M&A business objectives.

Unfortunately there is plenty of evidence that supports the fact that as many as 50% of all mergers fail to achieve their anticipated synergies. If this is the case one should be careful about the planning and involvement of IT in the M&A process. However, the evidence here is also disappointing because as it was shown in a recent survey among 137 IT Managers only half of them were consulted about the technology (IT) implications before the merger happened. (2).

The financial risks and rewards of getting IT right in an M&A transaction can be substantial. In the recent merger of Glaxo and SmithKlineBeecham a GSK spokesman said: "in a knowledge-intensive business such as ours, the potential losses of not having an email system could have been as high as £1 Million per day" (3). In another example of a large retail company recent acquisition that the author has worked on the financial costs of their IT systems not functioning in their stores was quantified as £5 Million per day.

The risks are not just financial ones. The strategic impact should not be underestimated either. For example, a large US multinational company in the semi-conductor industry

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that the author worked in rushed the implementation of new systems following acquisition with disastrous consequences. Because the parent company insisted on discontinuing the acquired company systems and moving to a new untested system the result was a total loss of customer and employee confidence with substantial financial losses. The IT issues were a contributory factor to this acquisition failing to achieve their pre-merger objectives

As the new M&A wave approaches most CEO's and IT Directors should consider the best way of reducing the risk of M&A failure by addressing the IT question. In the work that the author has done over 20 years in IT and in the field of international M&A, here are some of the key learning points to consider:

IT is an integral part of M&A process.

A primary reason for undertaking M&A is to create shareholder value. Successful IT is inseparable from the business – for value creation before during and after the M&A. It is unthinkable to achieve economies of scale, globalisation, cost and competitive advantage without the use of IT. Early alignment of business and technology, of which IT is a key component, is a must. IT initiatives such as data conversion and technology infrastructure consolidation often hold the key to realising up to 85% of the merger benefits and must not be underestimated (4). Therefore, IT must be involved from the beginning of the M&A process.

An IT vision and strategy for M&A is required.

IT vision and strategy must be linked to the business strategy in which M&A strategy is embedded. IT is critical where full integration between the two companies is proposed and current research indicates that this type of integration is on the increase. Because of globalisation the IT M&A vision and strategy must be international to be successful. This is particularly difficult when no previous international experience is present so consider getting external help to avoid the pitfalls.

IT/Business partnership at the highest level.

Increasingly, IT is asked to be responsible for making significant contributions in an M&A scenario in terms of synergies, cost savings and “quick wins”. The business impact from IT is such that the strongest business partnership and IT leadership is required. The managing of change, people and communications are key success factors for IT and this requires strong business, technical and personal leadership qualities.

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A good IT implementation plan is essential.

As much of 70% of the failures of M&A's happen at the post-acquisition stage. An inadequate integration plan is one of the reasons for cost escalation, delays and failures. IT is responsible for getting mission critical systems up and running in short period of time, sometimes in as little as in 30-60 days. One of the early key success factors in the successful merger of HP and Compaq was the fact that critical IT systems such as messaging and communications systems were integrated very early in the process and there was no disruption on employees, customers and partners. (4) The integration plan should include pre-acquisition, post acquisition and post integration review. The IT plan must be an integral part of the overall M&A integration plan.

A balanced IT integration team.

Successful M&A's are achieved through the right balance of resources from both companies. IT is no different from the other functional areas, except for the fact that IT must also find the right mixture of technical resources. One of the key points of failure in IT M&A projects is the unsuccessful integration of incompatible technology. This requires technical competence in multiple technologies and is often a critical skill in short supply, particularly if dealing with old technology.

International competence

To address the question of change IT should also be adept at tuning into different organisational and national cultures. In addition to the technical language one also needs to consider the linguistic and cultural differences. Multi-lingual, IT technologists and application experts are not easy to find. The use of experienced external IT consultants can be a good alternative in meeting a particular IT skill in short supply.

Good communications and project management.

M&A IT projects are special. Lots of activities not regularly contemplated in the normal IT systems life-cycle have to be completed in a short space of time. First class project management is required. For IT is essential to get early commitment from internal customers and IT staff so a well orchestrated communications plan is also a requirement.

Past evidence shows that the risk of M&A failure is high and with the increasing contribution expected from IT there is no room for complacency. The line between success or failure is indeed a fine one; sometimes comes to a question of paying attention to detail. The question of IT planning and involvement from the onset is a strategic

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decision that companies should take on board if they are going to increase the rate of success in their M&A activity in the near future.

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