1Finance & Performance

1.1 Mergers and Acquisitions

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Introduction

I had just reached my six-month milestone in the newly created CIO position and was beginning to feel comfortable with my role. We had worked very hard to develop our information technology (IT) strategy and had started to deliver on some of our longer-term projects. The new IT management team was in place, and the staff was beginning to work together as a team.

I was reading the paper before my first meeting of the day, and was very surprised to see that our company had just announced a major acquisition that promised to reshape our industry! Then my phone rang, and my boss, the company CEO, asked me to come right over to his office to discuss the acquisition. On the way over to his office, one of my newly hired directors stopped me and asked if she would have the same role in the combined organization. I promised to get back to her later that afternoon. My boss was unusually busy that morning and asked me to develop an integration plan by next week, as he was committed to considerable cost savings in the combined organization, especially in the IT group. I left his office in a daze and decided to call my wife and cancel the two-week vacation that we had planned for next month.

The question I pondered was, “What do I do next?” My position had just expanded considerably, and we were going to play a critical role in the success of the combined company. I was going to have to take charge and assume a leading role through the massive change that will be required to successfully complete a major acquisition.

Overview

Chapter Organization

This chapter is about managing change during a merger and acquisition (M&A) activity, as it is a major undertaking to successfully complete an IT integration effort. I first provide an overview of the many challenges facing CIOs today, including integration work during M&A. I then introduce a model for managing change that can be applied to any significant change within your organization, including M&A. Guiding principles for successful integration are also covered in this section. They offer a quick summary of best practices for IT integration. M&A survival guide is covered in the next section. It reviews the three major phases of integration: measure/evaluate, improve/integrate, and manage/run. The survival guide is organized by people, process, and technology, as these are the key components of your integration program. Merger of equals is a unique M&A situation, and this topic is covered next. I review the issues that you will be faced with in these situations, as well as strategies for addressing them. The final section summarizes key practices for successful M&A integration efforts. I have been responsible for the IT integration in more than thirty-five M&A transactions. I wish you the very best in completing your work in record time!

CIO Perfect Storm

CIOs today are faced with considerable pressures to perform our jobs. Security threats, such as viruses and worms, are making it difficult to ensure the reliability of our systems on a 24/7 basis. Regulations such as Sarbanes-Oxley (SOX) are placing restrictions on how we run our IT operations. Finally, M&A is increasing for some industries, and we need to rapidly complete the IT integration work in order for the business to realize the full benefits of the transaction. These are three examples of pressures that have created a situation that I refer to as a "CIO Perfect Storm," depicted in Figure 1.1.

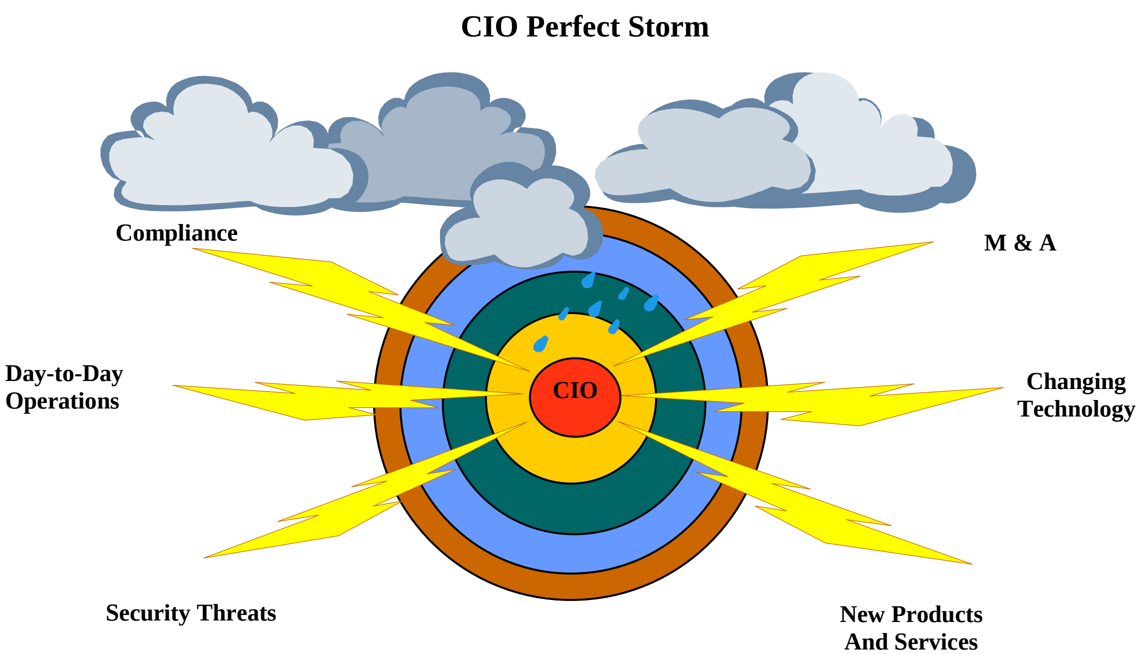

Figure 1.1

As IT professionals we are focused on enabling our businesses to offer new products and services, and these challenges have raised the bar in terms of what it takes to deliver. Going forward, we can use a major business change, such as M&A, as an opportunity for the IT organization to influence significant positive change within the organization.

Merger and Acquisition Trends

The world is getting smaller for some industries today, and CIOs need to be prepared to assume a leading role in M&A. The financial services industry, for example, has undergone significant changes over the past few years. Use of the Internet has devastated the retail brokerage industry, with online trading putting many brokers out of work, since trading can now be done for less than $10. Technology has also gone through considerable changes. The communications industry is starting to resemble the original AT&T before it was broken apart in 1984. Finally, the enterprise software industry is now dominated by just two vendors, Oracle and SAP, as the result of a spree of M&A activity. Behind the scenes, CIOs have been working overtime to ensure the integration work to support these changes is completed as quickly as possible.

CIO Role in M&A

CIOs need to carefully balance the need to quickly complete the integration work while minimizing any disruption to the business operations. Technology is pervasive—from basic communications such as e-mail, to enabling your customers to enter their orders and check on the status of delivery—and every system must work in a seamless fashion when two companies are combined. Business operations are also intertwined with their supporting systems, and employees and customers become very familiar with these systems. They find it very difficult to change. We must become *change agents* within the company to accomplish the seamless integration of such complex processes. Of course, we live under the ever-present constraint that we cannot impact the day-to-day business operations.

It is important to have an overall framework to ensure consistent, repetitive, and predictable M&A integration, and I will introduce one that you can use in this section. I refer to this framework as the Rapid Response Integration Model, shown in Figure 1.2. Staff both inside and outside the IT organization can use it to understand the work required to complete M&A integration.

This model provides an overall framework, with two disclaimers. First, it is important to note that no two M&As are the same. This model is not a cookie-cutter prescriptive approach, as each M&A will have unique challenges that you will need to address in order to be successful. Second, the entire company needs to operate within a consistent framework, along with the IT organization. With these two assumptions in mind, the model can be used to communicate the many activities going on simultaneously during IT integration.

Rapid Response Integration Model

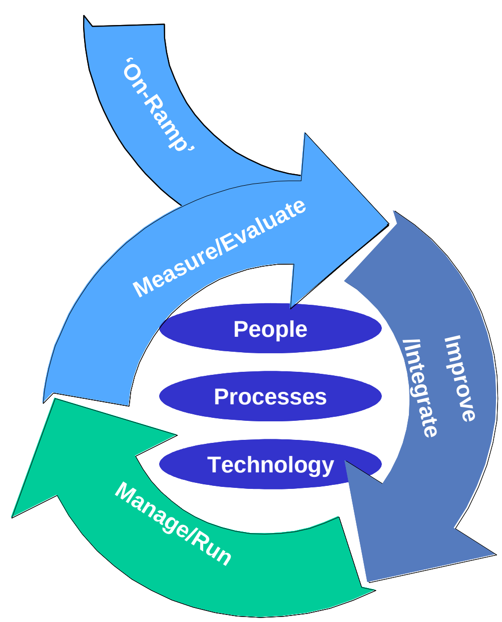

Figure 1.2

The model starts with an *on ramp* that monitors the environment to anticipate major changes, such as regulations, security threats, and M&A. The more you look out for potential changes to your environment and proactively prepare, the easier it will be to manage the ensuing change. The on ramp leads to the three components of the Rapid Response Integration Model: the phases and the elements that these phases affect. The three major phases of the model include measure/evaluate, improve/integrate, and manage/run. The elements are people, processes, and technology.

Measure/Evaluate Phase

During the measure/evaluate phase of M&A, you will have the ability to evaluate the company or business you plan to acquire and thus develop your detailed integration plans. The first portion of this phase is often referred to as the *due-diligence period*, when you conduct a detailed evaluation of the company that you plan to acquire. I would encourage you to become actively involved, if you can, during this time frame, as many assumptions are made regarding time necessary to complete the integration work, cost savings, and business impacts. It is essential that you are included in the decision making. This is followed by a public announcement; several approval steps, depending on whether the acquired company is public or private; and finally, the actual closing of the deal, when the acquired company ceases to exist.

I consider this the most important phase, as considerable work can be completed to develop your detailed implementation plans and determine your IT strategy for the combined company. It is important to note, especially in the case of a public company, that you cannot direct the IT organization of the acquired company during this time frame, although you can participate in joint planning. The major outcome from this phase is a detailed integration plan that you can immediately begin executing once the deal has been closed.

Improve/Integrate Phase

This phase includes all the execution work required to complete the integration. It starts with the day the transaction closes, commonly referred to as *Day 1*, and all the remaining activities to complete the work. This is the bulk of the heavy lifting for the IT integration and reflects how well the planning work was done in the previous phase of the project.

I recommend that you plan to complete this phase in no more than ninety days, with the understanding that size and complexity of the acquired company will have a bearing on your ability to achieve this goal. Enormous pressure will be placed on the IT organization during this time frame, as the business is counting on IT to complete the integration work in a rapid, seamless fashion. I have found ninety days to be a reasonable time frame, and recommend that you develop strategies that can be completed within this time, even if you have to develop less than elegant solutions, as the business will find it very difficult to operate on multiple systems for longer periods of time.

Manage/Run Phase

This is the final phase of the M&A integration and most, if not all, of the work should be completed at this point. If your ninety-day integration plan was completed successfully, you should be in a position to reevaluate the IT organization and governance program to ensure it is working for the combined business and make any necessary adjustments. Some very long lead-time work, such as integrating product-licensing systems, may extend into this phase, but the majority of the work should be completed.

People, Processes, and Technology

People, processes, and technology are the three major elements that you need to address in each phase of integration. People are by far the most important and challenging element of M&A work. Employees do not like change, and the IT organization becomes a major change agent within the organization to convert to common systems for the combined business. Employees are also going through major personal changes during this time frame, with fear of losing their job, working for a new manager, and having to learn new business systems and processes.

Processes are the second area, and these include the business processes to run the combined organization, in addition to the internal IT processes such as change control to manage your organization. Considerable effort must be placed on understanding the processes of the acquired company and mapping these to the processes of the combined company. I will discuss this in more detail in a later section and offer suggestions on how to accelerate this effort.

Finally, technology must be addressed, and decisions must be made on which business applications should be used for the combined company and which standards will be followed, as it is unlikely the two organizations are using the same ones. This is an area that the IT organization needs to move very quickly to make these decisions and communicate them to the business, as you do not have a lot of time to debate—you must move into integration mode.

Guiding Principles for Successful M&A

The following are recommended guidelines for rapid, successful IT integration, based on my experience with more than thirty-five M&A transactions:

1. *People are number one*. It is important to first address people issues, such as whether someone has a job in the combined organization and who the manager will be, before you can expect to make a lot of progress.
2. *Speed is king*. You need to move very quickly during M&A integration, as the business is counting on being able to operate in a combined fashion, and IT is essential to this effort. You should plan to complete your integration activities in ninety days or less, with the understanding that larger, more complex M&A may require more time.
3. *There must be IT governance*. You need to set up IT governance board, with executives that represent all business functions, for oversight and rapid decision making, as you need to quickly resolve issues so you can focus on completing the integration work.
4. *Design for scale and reliability*. It is important to have a flexible IT architecture that can easily support the combined organization in a highly reliable manner.
5. *Use common project management methodology*. You need to follow a consistent project management methodology for the combined organization as quickly as possible to ensure successful integration planning and execution.
6. *Communicate effectively*. Clear communication on the IT integration strategy is essential, so everyone can understand the changes that are planned and they can execute accordingly.
7. *Align IT with other business functions*. It is important that the IT organization is closely aligned with business priorities, and critical business decisions such as what products that will be bundled together are made quickly, so the IT group can develop plans to support these decisions.

M&A Survival Guide

This section drills down into the three major phases of IT integration and provides best practices that can be used for each area. Figure 1.3 provides an overview of the major activities in each of these phases.

The M&A integration summary provides a quick overview of what you should be focused on during each of the three phases. It separates these activities into people, process, and technology categories. It is important to note that each M&A integration effort is unique, and some of these activities may fall into another phase. For example, in the case of a simple acquisition of a smaller company, you can accelerate many of the integration activities into the measure/evaluate phase and quickly decide on appropriate roles in the combined organization. By contrast, in the case of a much larger company that is comparable in size to your company, you may not be able to announce any organization changes until the deal has been approved and you are operating as a combined company. Keeping this in mind, I will now review each of the three major phases in more detail.

M&A IT Integration Summary				
	Measure/Evaluate	Improve/Integrate		Manage/Run
		Day 1	90 Day Plan	
People	Finalize IT organization model	Announce new IT organization	Evaluate new IT team	Re-evaluate new IT leadership
	Joint planning of IT management	Assume control over key IT operations	Regular staff communications	Ongoing IT planning meetings
	Establish reward & rentention plan	Communicate reward and retention program	Monitor program progress & reward staff	Reward high performing staff
	Meet business leaders at new company	Status on integration activities to new business leaders	Establish rapport with new business leaders	Ongoing meetings wth business leaders
Process	Finalize governance model for IT	Implement IT governance model	Monthly governance meetings	Re-evaluate IT governance model
	Establish communications & change management program	Establish 24x7 command center	Publish IT integration dashboard	Publish IT metrics for combined organization
	Finalize project management methodology	Operate under project management methodology	Project management methodology training	Integrate project management into IT training program
	Identify small number of critical IT processes	Begin implementing critical IT processes	Integrate key IT processes	Continuous process improvement program
Technology	Finalize scalable IT architecture	Implement critical IT functions	Publish compbined IT Roadmap	Deliver programs according to 6 quarter IT roadmap
	Inventory applications & integration strategy	Complete cutover to key business systems	Complete business application cutover	Complete long term integration (e.g. licensing)
	Identify risks of acquired businesses (e.g. security)	Implement risk mitigation plan	Implement long term risk soutions	Ongoing risk management program
	Finalize technology decisions & standards	Communicate technology standards	Migrate to new IT technology	Ongoing technology review & standard setting process

Figure 1.3

Measure/Evaluate Phase Overview

This is the most important phase of the M&A integration effort, as you have the ability to plan out your work, without the pressure of operating the IT organization for the combined company. I strongly recommend that the CIO and his leadership team become heavily involved during this phase, as it is essential that you have a well-thought-out plan that you can execute once the transaction has been completed and you are operating as a single organization. You may have regulatory constraints during this time frame, such as announcing leaders for the new organization, so you need to be very diligent on focusing on those areas in which you are not restrained.

Measure/Evaluate Phase—People

As mentioned previously, the most important issue to address involves critical personnel, as the IT organization will not be able to operate effectively until you have answered the following three questions for the entire staff:

1. Do I have a job in the combined company?
2. If I have a job, who will be my manager in the combined company?
3. What is my new role and scope of responsibility?

The IT employees will be totally focused on these three questions and will not be able to concentrate on their work until they are resolved. For this reason, I recommend that you step back and concentrate in this area, first starting with the IT organization model. When integrating a smaller company that might not have a formal IT organization, this will be very simple, as you need to decide whether you can find a role for these employees in the organization. Larger IT organizations may require more time, and you can also use this as an opportunity to reevaluate your existing IT organization model and staff and make adjustments. These adjustments may include the addition of a new leader to head up a function that previously did not exist, such as the establishment of an independent quality assurance (QA) function, as a result of a larger development organization. You may also want to reevaluate your existing leaders who may not be performing at an optimal level and use this opportunity to move someone else into their role.

One final point is that it is important to identify meaningful roles for key members of the acquired company, as this will send a clear message to the staff that you value their contribution and want them to be part of the future organization. This may not be possible for a number of reasons, and it is equally important to let them know their status and assist them in finding a new role outside of the IT organization. It is essential to include the staff from the acquired company in your planning activities and begin to operate as an integrated organization as quickly as possible. It will take time for your combined organization to bond as a team. The sooner you get this process going, the faster you will complete this effort and focus on providing IT services to the combined company.

You should also establish a reward and retention program for IT staff that either motivates staff to work very long hours for a period of time or provides an incentive for staff to stay with the company until key portions of the integration work have been completed. This program would include retention bonuses for staff that will be terminated after a finite period of transition time.

You also need to meet with key business leaders of the new company to establish relationships and plan the integration work. In most cases, these individuals will experience considerable change during the IT integration, and it is important to establish a good rapport, as you will need their help to manage their organizations through the change that will occur during this period.

Measure/Evaluate Phase—Processes

Your IT governance program needs to be established. You can use your existing model as a starting point and make adjustments as required. I recommend that you quickly begin holding integration planning meetings and have an executive governance board that oversees your plans and makes any decisions that are required. Your executive governance board should include executives from all the business areas, chaired by a senior level executive, ideally the CEO or COO of the company. IT needs to take a leading role here, as all the organizations within the company are going through the same process. Unless a formal program is in place, you will not be able to confirm that your plans are aligned with the business and obtain rapid decisions from business leaders.

You need to quickly get a few processes in place to ensure your program is running smoothly and everyone understands your plans going forward. Communication is essential during times of massive change. I recommend that you have someone assigned to this area for all IT integration work. Communication studies have proven that you need to tell someone several times before it finally sinks in and they understand what you are saying. Combine this with all the chaos going on with employees worried about their jobs, and business changes necessary to operate as a combined company, and it is challenging for everyone inside and outside the IT organization to comprehend your plans and support them.

I had the luxury of a full-time communication person who managed the communication program for our integration work, and she developed a comprehensive plan for all three phases of the program. Communications included everything from broad employee communications on what to expect from the IT organization in areas such as their e-mail system, to very targeted communications to individual groups on changes to their specific business application. If you don't have a trained communications professional to dedicate to this effort, I would recommend that you contract other staff to assist in this area.

Project management methodology is key, because you need to quickly communicate in a common language during your integration effort. I recommend that you adopt your existing methodology and train the acquired IT organization. This enables you to develop project plans that are consistent and provides a common understanding of what someone means when they are talking about certain activities such as integration testing. You can think of IT integration as one very large project for which you need a plan that means the same for all parties involved in the process. Time should be set aside to train the acquired IT organization on your project management methodology, terminology that is being used, and any tools that are available. A common dashboard of IT activities should be developed quickly and used to communicate the status of the program, as shown in Figure 1.4.

IT Integration Status Dashboard

Track	SubTrack	Major Day 1 Activities	Measure of Success	Status / Issues	Overall Status
G&A	Finance	Revenue reporting	High-level daily revenue reports reflect both companies	Preliminary plan drafted, but not approved	**Red until Finance plan locked and approved**
		Expense controls	All expenses managed using consistent controls		
		Ledger integration	Ability to close books		
	HR	Single source of employee information	Managers can use one system to manage all employees on HR-related matters	Plan drafted and working priority of application interfaces	**Yellow**
		Integration with other applications	Other business functions' applications reflect changes in employee population		
Sales, Marketing & Services	Sales	Automated discount authorization process	Order management is able to verify discounts approved by Sales	Business process to be completed in 30 days	**Yellow**
		Customer Account reports	Sales account managers have single report reflecting customers from each company	Draft report under review	
	Marketing	Web site look-and-feel rebranding and containing appropriate cross-linkages	Customer able to locate product information from both companies on web site	Plan for Day 1 drafted	**Green**
		Joint marketing campaigns	Leads resulting from joint campaign can be routed to the correct lead management system	Plan for Day 1 drafted	
	Services	Phone / Call Center support for customer handling	A misdirected customer call can be handed off to the correct call center smoothly	Plans to be finalized in next 30 days	**Yellow**

Figure 1.4

The dashboard should identify the key tracks of the program, such as the integration of your financial systems. It should include current status, issues that need to be resolved, and overall rating of *red, yellow,* or *green* status. This can be an effective tool to raise awareness of critical issues that need management attention while you have time to avoid impacts to the overall integration schedule.

Business processes inside and outside the IT organization must be reevaluated during an integration project. Whenever possible, I recommend that the acquired company follow your business process, as this is the quickest way to complete your integration work. This is not to say that the acquired company may not have well-thought-out processes that you may choose to adopt; however, I would always err toward using your business processes unless you identify a compelling reason to do otherwise.

The major effort is to understand the acquired company's business processes and train its employees on the changes required to follow your business processes using your existing systems. This is not an activity that the IT organization can do alone. You need to facilitate this effort with the business leaders from the major functional areas such as finance and sales, as they will need to manage through this change to ensure their staff is trained, in order to be successful. The acquired company's leaders may not have experience in doing process reengineering work, so you will need to identify this gap quickly and hire staff to assist in this area. You cannot complete your IT work until the future business processes have been locked down.

From an IT internal process perspective, I also recommend that you follow your existing processes and just train the acquired staff on your processes, as you do not have the time to reevaluate this area. There may be exceptions here as well, although I would consider them rare. You need to pay close attention to this area, as smaller companies often have very informal processes in areas such as change control, and you need to quickly get them trained to follow more mature processes. If you have a much larger company, then I recommend that you focus on a few critical processes, as this will enable you to concentrate on areas of greatest risk. Areas that I recommend include handling and prioritizing of IT work requests, change control, and systems monitoring. Once you have these under control, you can expand into other areas, as it will take some time to operate as an integrated organization.

You should also review your plans for Sarbanes-Oxley (SOX) compliance for the combined company. If you follow your existing business and IT processes, you should be in a good position to demonstrate how you will run the combined company. It is a good idea to get your auditor involved in this process early to ensure that your assumptions are valid and you have adequate time to test your controls for the combined company.

Measure/Evaluate Phase—Technology

The first step in this process is to develop a detailed inventory of the applications and technology employed at the acquired company. This will enable you to compare and contrast its technology with your existing IT portfolio of applications and make decisions. I recommend that you initially focus on any application that your customers will interact with, and on systems that support the order processing and shipment functions. The primary objective is to determine if you can run the combined company on your existing business systems, as this is the most straightforward process to complete your integration work. You want to identify any changes that may be required. Unless you have a compelling business reason, I would strongly recommend that you adopt a model to quickly assimilate the newly acquired company on your existing business applications. Debates on technology are nonproductive, they can be emotional, and they waste valuable time that you don't have during M&A integration.

Standards are sometimes quite challenging for an IT organization. The most difficult are those that directly impact the end users, such as laptops, PDAs, cell phones, and e-mail. If you always wanted to get wireless e-mail rolled out but did not find the time, and your newly acquired company has this capability, you may want to consider a broader rollout for the combined company, as your new users are going to be quite upset when you take this capability away. This was the most frequent question raised during one of the integrations that I was responsible for. I decided to adopt a broader program for the company, not because this was the highest priority, but because I did not want the IT integration to be a bad experience for the newly acquired company.

This is an area where you want to leverage your IT governance function, as you should have leaders from both organizations involved in the evaluation process and supporting your decisions. You should strive to finalize all technology standards for the combined business and broadly communicate them during this phase so you can turn your focus to implementation as quickly as possible.

It is likely that you will be asked to identify cost savings. Outside of reducing staff, most of these will come from the technology area. I recommend that you quickly evaluate retiring systems, combining your licensing agreements, and reducing communications expenses as possible means to achieve savings. Pay close attention to all contracts from your acquired company, as they often have automatic renewal clauses. You may need to quickly cancel these contracts to avoid another year of fees. Communications costs are a large component of the IT budget, and redesigning your network to include the acquired company can often be a source of cost savings. Also, smaller IT organizations do not always have the expertise or time to evaluate communications expenses, so you may want to examine this area.

From an architecture perspective you need to determine if you can run the combined company with your existing systems with acceptable performance and reliability. If any of your business applications or infrastructure is already stressed, you could use this as an opportunity to enhance this area. For example, can you existing e-mail system handle the additional employees, or do you need to rearchitect your infrastructure to increase the number of servers or upgrade the hardware? Can your online order processing system handle an additional 20 percent volume, or do you need to upgrade this system? These are areas that you need to quickly assess and for which you will need to develop mitigation plans, as you will be operating as a combined company shortly.

You also want to identify any risks, such as information security, with the acquired company. In the case of a smaller company, they may have had a very small I.T. organization and were not able to implement basic security products such as anti-virus or anti-spam protection. I recommend that you quickly do a though assessment of their security technology to identify any gaps and put a plan in place for remediation, as they will soon be part of your combined organization and you are responsible for any security incidents that occur.

Your governance board will need to approve your migration plan. Thus, you need to develop a *future state* architecture for the combined company that you can broadly communicate to gain acceptance and support. I recommend that your presentation be highly graphical in nature and brief, as you will be communicating with staff at all levels and understanding of IT, and they all need to develop a common understanding of your plans. Of course, as with every other procedure, this presentation needs to be completed as quickly as possible, so it can be presented whenever it is needed.

Measure/Evaluate Phase—Summary

At the completion of this phase you should have your organization model addressed and the new IT leaders should be meeting on a regular basis and starting to work together as a team. All the IT employees should know if they have a job and who their new manager will be, unless you have a business or regulatory reason for not disclosing this information.

Your single integrated plan should be completed, and you should have completed multiple tests of your Day 1 cutover activities. The entire IT team should be trained on a consistent project management methodology and using similar terminology, as you cannot afford to have differences in this critical area. Broad communications should be occurring on the status of the IT integration work, and regular meetings should be scheduled with the IT staff.

Finally, your architecture should be scaled to support the combined business, and you should publish the IT roadmap for the next year. Critical decisions that affect the end users, such as e-mail, PDAs, and laptop standards, should be approved by the IT governance board and communicated to employees. Major business risks, such as information security, should have been addressed with mitigation plans.

Improve/Integrate Phase—Overview

This phase is all about execution, as your success will depend in large part on the quality of work that was done in the measure/evaluate phase. Enormous pressure will be placed on the IT organization to enable the company to communicate effectively and to operate in a seamless fashion with your customers. This is a great opportunity for the IT organization to have a very visible and positive impact on the combined company.

This phase consists of two major activities: Day 1 and your ninety-day integration plan. Day 1 consists of all the activities that you plan to complete on the first day that you operate as a combined business. Your ninety-day integration plan is all the remaining activities that must occur in order to integrate the two businesses. I strongly recommend that you plan to complete your integration work in ninety days or less, as extending this beyond that time frame can be very costly and will affect the overall success of the transaction. Larger or more complex M&A may require more time, although I would encourage you to always strive for completing the IT integration work as quickly as possible.

Improve/Integrate Phase—People

If for some reason you could not announce the organization earlier, I recommend that you quickly hold a meeting with the entire IT team to communicate the new organization and answer team members' questions. It is essential that all staff members know if they have a job, who they will be working for, and what their role and scope of responsibilities will be in the combined organization. Regular sessions should be held with the IT staff, at all levels, to provide an update on integration activities and to answer questions. It will take several quarters for staff to fully integrate, so it is important for the new IT leaders to be very visible during this time to ensure that team members are working toward common goals.

Prior to Day 1, you cannot usually direct the staff in the acquired company. However, on Day 1, you need to immediately take control of key operational functions such as the operations, network, and security functions. You are now responsible for these functions, and any issues that occur are now on *your watch*. It is very possible that you will not have been fully briefed on outstanding issues; it is important to get the details of these issues so you can understand any risks and develop mitigation plans.

This is a great opportunity to evaluate your new IT staff in action, as you will be under considerable time pressures, and they will have to deliver. Staff that is not performing as required should be counseled during this time frame to ensure that they understand their new roles and performance expectations. Make sure that everyone understands your reward and recognition program; this can be a great incentive to staff who will be working very long hours during this first ninety-day period. Non-monetary recognition is also important, and using IT communications meeting to highlight accomplishments can be a great motivator to the staff.

You should also be meeting with key business leaders on a frequent basis to ensure that their issues are being addressed in a timely manner. This is a great time to establish a positive rapport with business leaders, such as finance and sales, and to demonstrate the IT organization's ability to enable them to run their businesses. It is a good idea to contact them on Day 1 to ensure that everything is going smoothly from an IT perspective, as you can often address simple issues very quickly and make a very positive impression.

Improve/Integrate Phase—Process

From a process perspective, you should establish a 24/7 command center to manage all the Day 1 cutover activities. The command center would be staffed around the clock and would include the employees who developed detailed integration plans, who understand the dependencies and key assumptions in the plan, and who know who to contact with issues or questions. Depending on the amount of work that needs to be completed, you may want to have the command center operational a few days before Day 1, continuing until it is no longer needed. The command center should be providing regular updates, coordinating all IT activities, and serving as an escalation point for any issues that occur.

Your IT governance should be in place by now. I recommend that you have formal updates at least monthly to ensure that key business leaders are kept informed on integration progress, troubling issues are resolved, and critical decisions are made. Your integration dashboard should be published weekly during the next ninety days to provide everyone with an update on progress and to highlight any issues that need to be addressed. The IT team should be trained on your project management methodology. It should become routine that the team contributes to the integration dashboard. Follow-up training on your project management methodology should continue for the next ninety days to ensure that all the staff are trained and are following this methodology when doing their day-to-day jobs.

Critical IT processes, such as change control, should be integrated for the combined company. I recommend that the acquired company adopt your business processes, as you do not have time to reevaluate this area initially; you need to focus on speed. During your first ninety days, you should have plans to address critical IT processes, including those required for regulatory reporting such as SOX, as you will need this in place for a period of time so your compliance program can be verified during your testing process.

Improve/Integrate Phase—Technology

It is essential to enable communication between employees and your customers. Getting all employees on a common HR and e-mail system is key to communications. I recommend that you plan to have this work completed on Day 1 whenever possible, although some of this work may extend beyond this date. Your Web site should be integrated from a customer perspective, even if that means that you have links between two separate Web sites, as you want to appear as a single company to your customers. Financial control is also important, and I recommend that you integrate your key financial systems such as the general ledger and your planning and budgeting systems. Managers must be able to understand the budgets for the combined company.

Depending on the size and complexity of your integration, your order processing and shipping systems may or may not be able to be integrated on Day 1, although you should plan to complete this work by the end of your ninety-day plan. Your remaining business systems should also be integrated within your ninety-day plan. It is very difficult for your company to operate on multiple systems for long, and this is a reasonable time frame to complete this work. It may require creative solutions to accomplish this task; however, it will become increasingly difficult to support systems beyond this time frame, as you may no longer have the staff that originally developed them.

Your IT roadmap for the combined company should have been published by Day 1, and you now need to monitor progress on delivery. The business will not stop, and you will need to continue to deliver new features and functionality beyond the ninety-day plan. Your roadmap should extend for one to two years, so management can understand when they can expect from these capabilities. Technology standards should be communicated, if you were not able to do so earlier, and any upgrades or conversions should be included on your roadmap. Standards that affect end users, such as those regarding PDAs, should be implemented as soon as possible, because they can be *wins* for the IT organization, and you want to quickly eliminate any issues that could be disruptive to end users.

Key risks, such as information security, should have Day 1 mitigation plans that you immediately execute while you provide long-term solutions. Ninety days should be the goal to implement longer-term solutions, as you want to be creative and avoid postponing your ultimate solution. These key risks need to be reviewed by your governance board, as you may be acquiring a much smaller company that has a much more relaxed risk profile, and this may mean disruptions to services while you implement your plans.

Improve/Integrate Phase—Summary

As I mentioned previously, this phase is all about execution, and you need to complete a considerable amount of work on Day 1 and during your ninety-day plan. Your organization should begin working as a team using consistent processes and methodologies such as project management. You need a very detailed plan for your first ninety days; you should be providing regular updates to the business on integration progress. This is a great opportunity to demonstrate the capabilities of your combined IT organization.

Manage/Run Phase

The manage/run phase is all about getting back to business as usual after the initial ninety days. It is a good time to step back and reevaluate the new IT leaders and determine if they have the skills to run their expanded groups. You may want to make minor adjustments to the organization model or assign new leaders at this stage, as you are now expected to deliver the IT roadmap in the coming year, and you need to have the right team in place. High-performing staff should be rewarded at this point to recognize their efforts to ensure the success of the IT integration work.

If you plan to do additional M&A in the future, you may want to identify key staff that is responsible for this function on an ongoing basis. One of my managers led this effort for me; he did an outstanding job of leading all M&A activities as one of his job responsibilities. He identified key staff within the organization that also had this project responsibility, and we had an M&A Dream Team that consistently completed integration work in ninety days or less.

Your governance program should be evaluated to ensure that it is meeting the needs of the new business leaders. This is a good time to make required adjustments. You should also establish ongoing meetings with key business leaders to ensure that you are aligned with their business goals and are delivering appropriate IT solutions. M&A integration is a great opportunity for you to spend a lot of time with key business leaders. You will want to continue this communication on a formal and informal basis.

Your ongoing IT training program should address any remaining gaps in understanding your project management methodology, as all employees should have a basic understanding by now. Metrics should be published regularly and used to drive behavior within the IT organization. Your broad communications program should continue, as employees should be settling in their roles, and need a forum to raise any recommendations on improving the organization. Considerable progress should have been made on IT processes and you should now be in a continuous improvement program to identify areas for further improvement.

From a technology perspective, you should be focused on delivering your IT roadmap and making adjustments on a quarterly basis. All business applications should be integrated at this point, and you need to be bold and retire legacy applications from the acquired company, as you will want your staff focused on delivering new capabilities. Longer-term solutions for any risks that were identified during the earlier phases should now be on your IT roadmap. An ongoing process should be in place to evaluate new technology and update standards on a regular basis.

Special Considerations—Merger of Equals

Quite a bit has been written about *mergers of equals.* Not many of these mergers have been very successful in delivering the results in terms of increased sales, improved customer satisfaction, or improved profitability. I have led major IT activities for three mergers-of-equals transactions and have to agree they are very difficult integration efforts. In this section, I will explore these issues in more detail and offer some suggestions on how to address them.

As I mentioned earlier, M&A is all about managing change. Trying to merge two companies of similar size is like experiencing all of the personal life-changing activities (death, marriage, children, move, and new job) at the same time. You have two companies, with different cultures and values, and they are struggling to define a new culture and values for the combined company. From an IT perspective, you are caught in the middle of this struggle, as employees from each company are very familiar with their business processes and systems, and you do not have a dominant system or set of standards to follow. This requires a very strong IT governance program to assist in the numerous decisions that are very simple when you acquire a smaller company and just migrate to your business systems.

The people who remain present the most difficult issue that you will have to deal with and answering the three key questions: do I have a job, who is my manager, and what are my role and scope of responsibility. I recommend that the two IT leaders work together on an organization model for the combined organization, as one of their first priorities. You may need to complete this work while you are both candidates for the CIO job, and this can be a very delicate process. My recommendation is that you quickly develop a draft organization model, without any leaders identified, that can be discussed with the senior management from the two IT organizations. Several iterations will be required to finalize the model and the fun begins when you start discussing who will lead the new functions. If you can balance the new organization with staff from both companies, this will improve acceptance from the staff that you are following a fair process, and this should continue for the next levels within the organization. The CIO who is chosen to run the combined organization will have to make these tough decisions, will be held accountable for delivering results, and will probably lean toward staff that he or she knows well and who have delivered in the past. The CIO who is not chosen should act in a professional manner to ensure the success of the integration, and avoid becoming political and disruptive during the process.

Once the IT leadership team has been decided, the process needs to be continued throughout the organization by the new leaders until all employees in the organization are accounted for. Employees who feel that are not getting the best positions during the process might be resentful; the best you can do is to follow a fair and consistent process of evaluating each staff and identifying the most qualified staff for the positions. It is very likely that you will need to reduce your head count during this exercise. I recommend that you freeze hiring as much as possible while you are going through this process, as this can help to minimize the number of positions that you need to eliminate.

Internal politics can get out of hand, so I recommend that you have a consistent and visible process to keep employees informed on the timing of decisions and current status. One effective procedure is to publish a schedule on key organization decisions, such as the date for finalizing the organization model, and provide regular updates to the staff until the entire organization has been announced.

You might find yourself in situations whereby the staff from the two organizations are not working together as a team and are very resistant to any changes from their existing processes. This can get to the stage where you have to have a group session to impress upon them the need to work toward the common goals of the department or find anther role. It is very likely that you will have staff that are very resistant to change, and you are better off not having them in the organization. As the CIO, you may also find yourself with a new boss from another company, who may be very biased toward that company's systems, processes, or staff; and you need to be prepared to deal with this situation and issues that are entirely out of your control. There are no *best practices* for dealing with these types of politics. Ideally, you can focus on doing what is best for the combined company, but you need to be prepared for this situation.

From a process perspective you need to develop a strong IT governance program to raise issues and obtain quick decisions. Ideally, you can get the leaders of the combined company together on a regular basis to review your integration plans and have them make critical decisions. Much more analysis will be required to discuss your proposed plans for aspects such as the e-mail system for the combined company, as each of the former companies will have their preferences and you need to be completely unbiased in your analysis. Strong governance, ideally from the CEO, is required so that decisions made by the IT governance board are final and will not be re-evaluated. This is essential so that the new company can move beyond any staff resistance and cooperate in implementing those decisions. The same governance is required within the IT organization, as it is unlikely that you will have used the same technology and some staff members will be very resistant to any changes.

Clear, consistent communications is essential during a merger of equals. Everyone needs to understand the process that was followed to make these decisions, define future IT strategy, and develop implementation plans. I recommend that the CIO devote a couple hours each week to hold communications sessions with the IT staff, and also that the CIO hold all-hands meetings each month for the first ninety days. This demonstrates the importance of these activities and gives you an opportunity to reinforce your plans. These sessions can be used to confirm the IT strategy, communicate key priorities, and solicit feedback from the team on how the integration has been going. I have also found informal sessions, such as lunches with the CIO, as a good opportunity for staff to ask questions or raise issues in a non-threatening environment.

Getting your integrated IT roadmap can be more difficult, as you have some very tough decisions on which systems to use and your business owners may not have decided on their business strategy for the combined company. Ideally, you can address key financial systems on Day 1; however, your order process and shipment processing will probably require more time, and numerous decisions need to be made. Locking down their future business processes, such as processing customers orders from your web site, is one of the first steps in the process, and your initial focus should be in this area. If you do not have staff that are experienced in this area, you may want to hire a third party who specializes in business process reengineering. Note that this may be a difficult position for the CIO, as the business leaders may need to make some very uncomfortable decisions, such as closing down a redundant call center or discontinuing an overlapping product. However, you cannot make progress in these areas until such decisions have been made. Once the business leaders such as finance and sales have completed this process work, you are in a much better position to determine which systems best support your future business.

In summary, you want to follow all the best practices I described earlier in this chapter; however, they are going to be much harder during a merger of equals. Human nature is to resist change, and you will need to serve as a *change agent* in order to complete the IT integration. You will have to spend considerable time communicating your plans in order to be successful. Your goal as a CIO is to remain focused on integrating these businesses in a rapid fashion, as this is how your company can realize the full benefits of the transaction.

Conclusion

You will continue to be faced with CIO perfect storms during your career, involving such issues as security threats, regulations, and M&A, while you are trying to focus on your day job of enabling your business to offer new products and services. You need to anticipate these challenges and their implications on your environment so that you can formulate plans to address them. You need to take a holistic approach to managing this change and consider the people, processes, and technology areas to ensure you are successful.

IT governance is essential during these changes. It can assist you in accelerating your decision making and gaining support of your plans. Communications is quite important, and I encourage you to over-communicate, as this will ensure a common understanding of your plans and assist employees in managing the changes to their environment. Speed of integration is quite important, and you should strive to complete the IT activities in ninety day or less, as this is essential for the business to realize the full benefits of the transaction.

Finally, this is a great opportunity for a CIO to demonstrate value to the organization and assume a leading role during M&A. I would encourage you to become a *storming CIO* and move out of a back-office role to take charge during these times. Your company is counting on you to deliver, and this chapter will arm you with some of the tools necessary to make that a reality.