Guide to IT Integration

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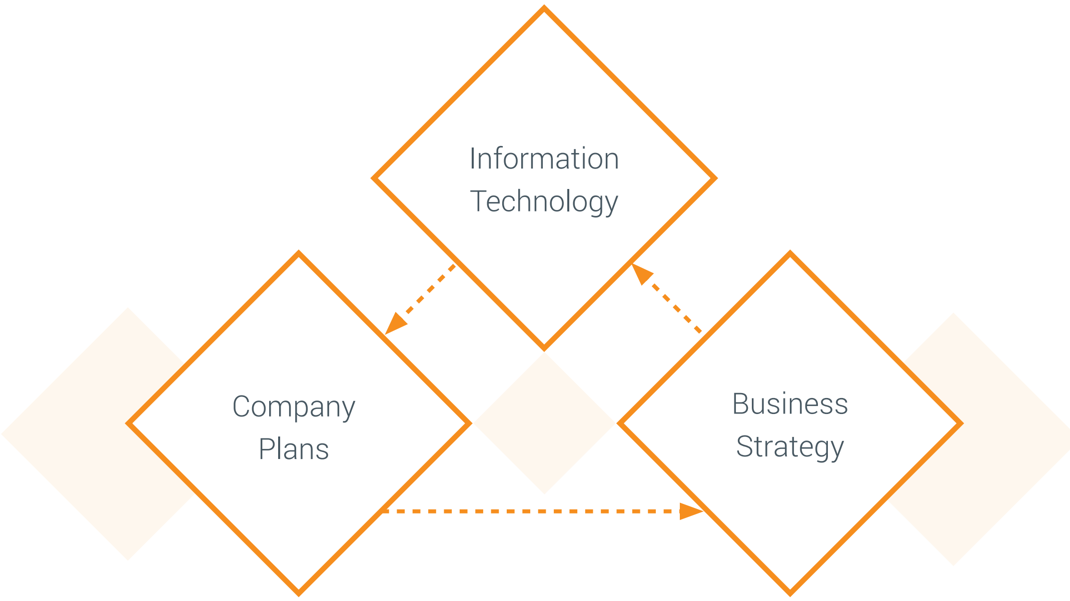
Overview

Information Technology (IT) within companies has moved from a position in which it is seen as a cost to one in which it is seen as an asset. In the digital era customers expect service anytime, anywhere, IT is at the core of meeting and exceeding customer expectations. The IT integration aspects of a merger are more important than ever

To enable a successful IT integration, the activity must align to the overall business strategy and plans for the new company. It is critical that IT integration is managed as a key component of the overall Post Merger Integration process.



IT drivers will vary dependent on the companies involved:

- Challenges Faced
- Relative Importance
- Priorities

For a successful integration, these drivers must be assessed and understood, and appropriate post-merger activity must be planned and executed.

Key factors that will influence the scale, complexity and nature of the IT integration activity include

- Size of each company
- Nature of each company's business
- Size, complexity and maturity of each company's IT estate
- Technical landscape of each IT organization
- Challenges face by each IT organization (project & support activity)

IT integration activity can be considered as falling into 3 key focus areas:

- Ensure from Day One the smooth running of the newly-merged company.
- The integration of the IT organizations, focusing on the identified objectives of the integration activity including:
    - Removal of overlap/duplication
    - Rationalisation of licensing arrangements to enable cost savings
    - Simplification of the IT estate
    - Identification and implementation of effective ways of working
- The creation of an IT company that is aligned to, and is an enabler for, the new company's business strategy.

In practice, these areas will be progressed in parallel. It is critical that appropriate attention and resource is focused on each. The relative pace of each will be significantly influenced by the Day One challenges faced by the new company and the influencing factors.

Approaching an IT Integration Activity

Broad Approach	When Appropriate / Risks
Minimal integration	This approach is often appropriate when the businesses are very different. Synergies may be difficult to identify / realize. It can also be adopted when time and/or budget does not enable effective integration. In the latter case, there is the risk that the company ends up with IT capability that is not as effective as it could be.
Select from one company	This approach would often be based on relative size (usually the larger company's IT capability would be selected). It could, however, be based on the age / architecture of the IT estates. This approach risks the loss of effective components of the IT estate and key resources. Also, there is risk attached if data has to be migrated between systems.
Select the best match from across the companies	This approach would often be taken when the companies are reasonably similar in terms of their business and size. This is a mature approach in which the 2 companies' IT assets are assessed in line with the business strategy and the best of breed is selected. The assessment can take significant time but is vital in order to make informed choices. There is an inherent risk of overspending and taking too long to execute assessments. In this time, the business landscape might have changed. As with the previous approach, there is a risk attached to data migration.
Replace	With this approach, IT systems are replaced. Predominantly taking this approach is likely only in the merger of small companies with similar businesses. The replacement can be by e.g. new build (internal and/or external) or software purchase. The key risk here is the time that the selection process could take.
Outsource	This is a significant step. The consequences must be carefully considered. The most likely scenario in which this would be a potential approach is where the merging companies are small, have similar businesses and poor IT estates. A key potential risk of outsourcing is the provider's lack of familiarity with the company.

Broad approaches that can be taken given certain characteristics of the merging companies. In practice, it is likely that aspects of an IT integration will span more than one approach, particularly in large, complex companies..

It is essential that effective management is assigned to any IT integration project.

- The appointment of an individual with overall accountability for IT integration is recommended.
- Whether this is a full-time role will be influenced by several factors.
  - If the scale warrants, the activity could form a programme in which the component aspects are managed and delivered via a number of constituent projects.
  - The use of appropriate and effective tools (e.g. Project Management software) and techniques should be considered.

Before removing IT costs, carefully consider the overall strategy for the new company.

Example: The company wants to close a site at which IT activity takes place in order to save costs.

If all consequences are not considered, this could result in the loss of key skills, which could damage activities such as:

- The ongoing provision of service
- The IT integration activity itself
- The ability of the company to progress in terms of products and service

Consequences are often difficult to quantify and, in some cases, are difficult to identify. However the broad picture must be considered in order to avoid potentially catastrophic consequences.

Activity should be broken down into categories in order to provide structure to the IT integration process.

- IT Strategy
- People
- Physical Locations
- Sourcing Strategy (In House, Contract, Sourcing Partner, Managed Service
- IT Contracts (Hardware, Software)
- IT Estate (Hardware, Software)
- IT Architecture
- Current and Pipeline Activity
- Culture / Ways of Working
- Currently Significant CARDI Items (Constraints, Assumptions, Risks, Dependencies, Issues)
- IT Security
- Service Management
- Portfolio Management

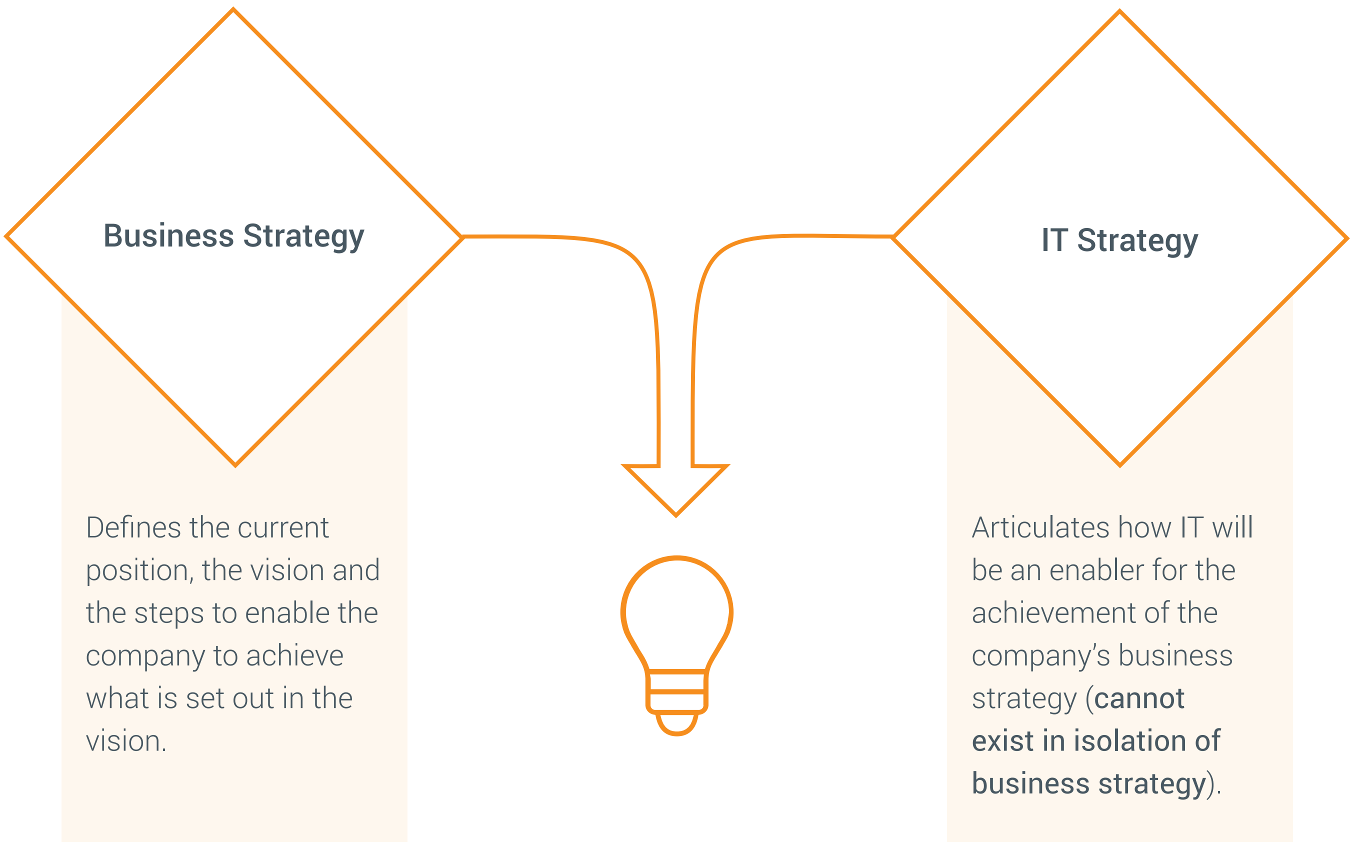
The number of categories and the complexity of merging diverse companies make the approach to IT integration management critical.

- Appoint an individual with overall accountability for the IT integration.
- Assemble a core team that is commensurate with the size, nature and complexity of the task.
- The scope must be understood and agreed. It is very easy to roll activity into an IT integration project that is not core to the integration itself. For example, one company might have been keen pre-merger to rationalise 2 processing systems into one. If this activity is picked up as part of the IT integration, the pre-merger position must be understood when assessing the costs and benefits of the integration activity.
- These focus areas must be considered carefully when prioritising and resourcing the categories to be covered:
    - Smooth running on Day One.
    - Integration of the IT functions.
    - Creation of an IT company that is an enabler for the new company's business strategy.
- Regularly and rigorously assess the IT integration activity against the overall business strategy to ensure these remain aligned.
- Manage rigorously key CARDI items relating to the IT integration.

IT Strategy

The articulation of the current IT landscape within the company should consider the broad categories covered within this guide.

The IT Strategy underpins and informs the use of IT for the benefit of a company



The IT strategy vision should set out the required landscape at a point (typically 3 – 5 years) in the future.

Broad areas to be covered by the IT Strategy include:

- Vision / High-Level Objectives (what the IT company is setting out to achieve)
- Culture / ways of working (how the Vision is to be achieved)
- Finances (the projected costs to achieve the Vision)
- Programmes / projects (how the work to deliver the Vision is structured)

- IT Estate (infrastructure, software, people/skills).
- Key areas of risk / issues / dependencies
- Emerging / potential business and technology opportunities and threats – the impact on IT and the planned response of IT.

Broad areas to be covered by the IT Strategy include:

- The activity must have active sponsorship / support at the appropriate level within the company.
- The strategy must align with the business vision / strategy.
- A comprehensive and appropriate understanding of the current position must be obtained.
- The vision for the IT organization must be clearly defined.
- Consensus amongst key stakeholders must be achieved.
- The focus must be on the approach to be taken to achieve the strategy, not the detailed steps that need to be taken.

People

People are a key aspect in ensuring the smooth running of the newly-merged company from Day 1.

- The criticality of IT's contribution to this will vary widely between companies.
- The immediate needs must be understood very early in order to ensure the effective management of this area.
- As much of this work as possible should be carried out pre-merger to enable plans to be executed in a timely manner once the merger is complete.

Concern and uncertainty in the direction the company is taking can encourage individuals to actively seek roles elsewhere.	Recruiting companies can take advantage of the situation by targeting potentially unsettled individuals.
An early view of the mobility and marketability of IT staff is recommended.	This is particularly important where niche or scarce skills are needed.

Concerns

Broad aspects of the people side of IT integration will be part of the overall people strategy for the new company.

To minimise the risk of losing key staff, the strategy, direction and ethos of the new IT organization should be communicated effectively and as early as possible.

Complexity & Considerations

The people side of the IT aspects of a merger are often complex due to the inherent link with many other categories of the merger.

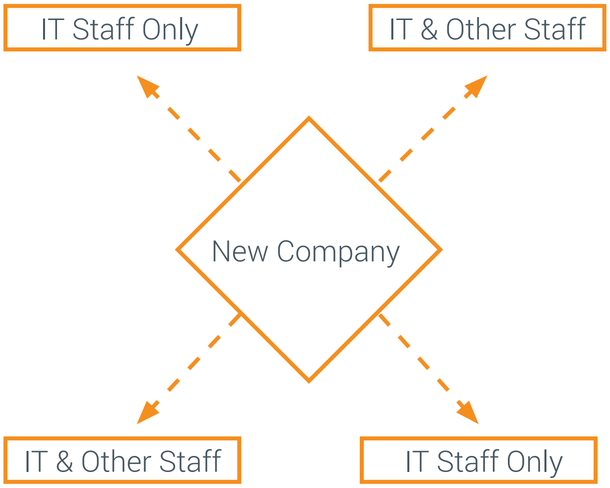
- Physical Locations
- Sourcing Strategy
- IT Strategy
- Current &Pipeline Activity
- Culture/Ways of Working

The people aspects should progress at a pace to minimize the risk of losing staff but without jeopardising the other categories.

Physical Locations

Staff

- The IT aspects of the new company are very likely to involve staff at more than one (often multiple) locations.
- In some cases, a particular location will have IT staff only, but often IT staff are co-located with other functions, either strategically or for practical / historical reasons.
- Rationalisation of locations will usually be a consideration.

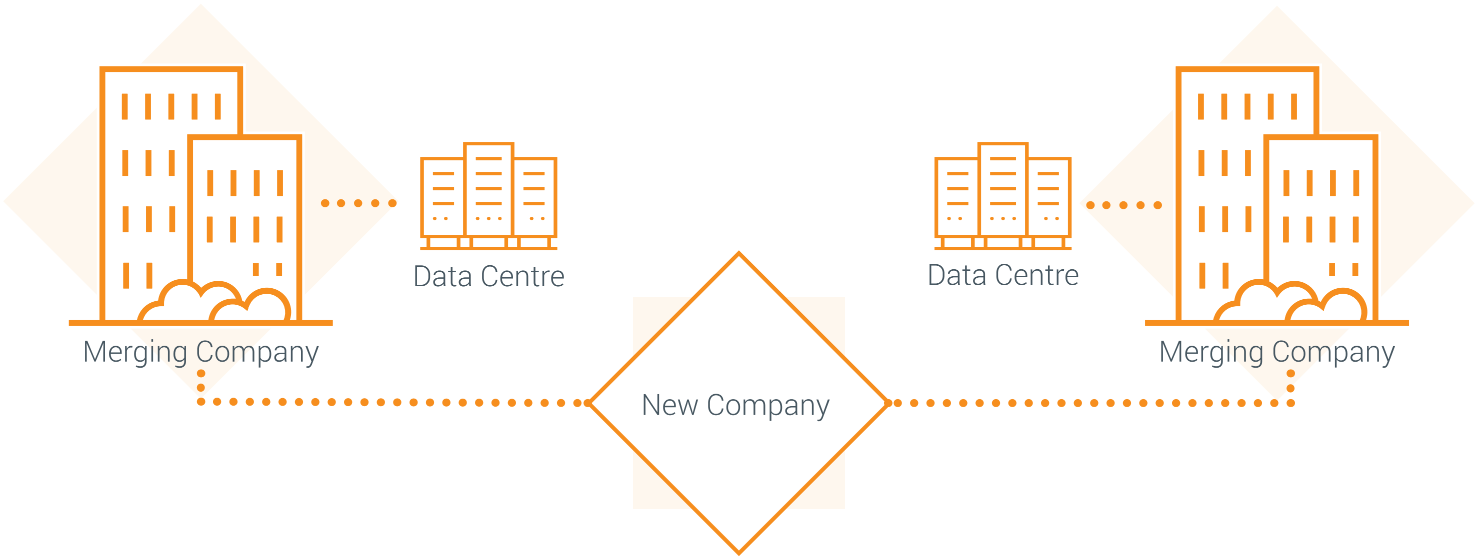


- The IT staff aspects are often part of a much bigger picture.
- However, the points in the previous section (PEOPLE) need to be carefully considered.

Hardware

The location of hardware is another consideration.

For example, in a simple scenario, two merging companies could each have their own data centre



There is most unlikely to be an immediate need to place the rationalisation of these high on the IT merger agenda.

Remote Working

- The improving reliability and performance of Wi Fi and communication tools are making remote working increasingly effective.
- This option can be an attractive aspect in the retention of staff and can influence the merged IT organization's location strategy.
- This is not just about closure of locations. The more efficient use of existing locations is also important.
- For example, person to desk ratios can be increased by assessment of actual desk usage and by making it easier for staff to work from home.
- Also, outsourcing and the use of a crowdsourcing marketplace such as Topcoder can reduce the need for physical space.

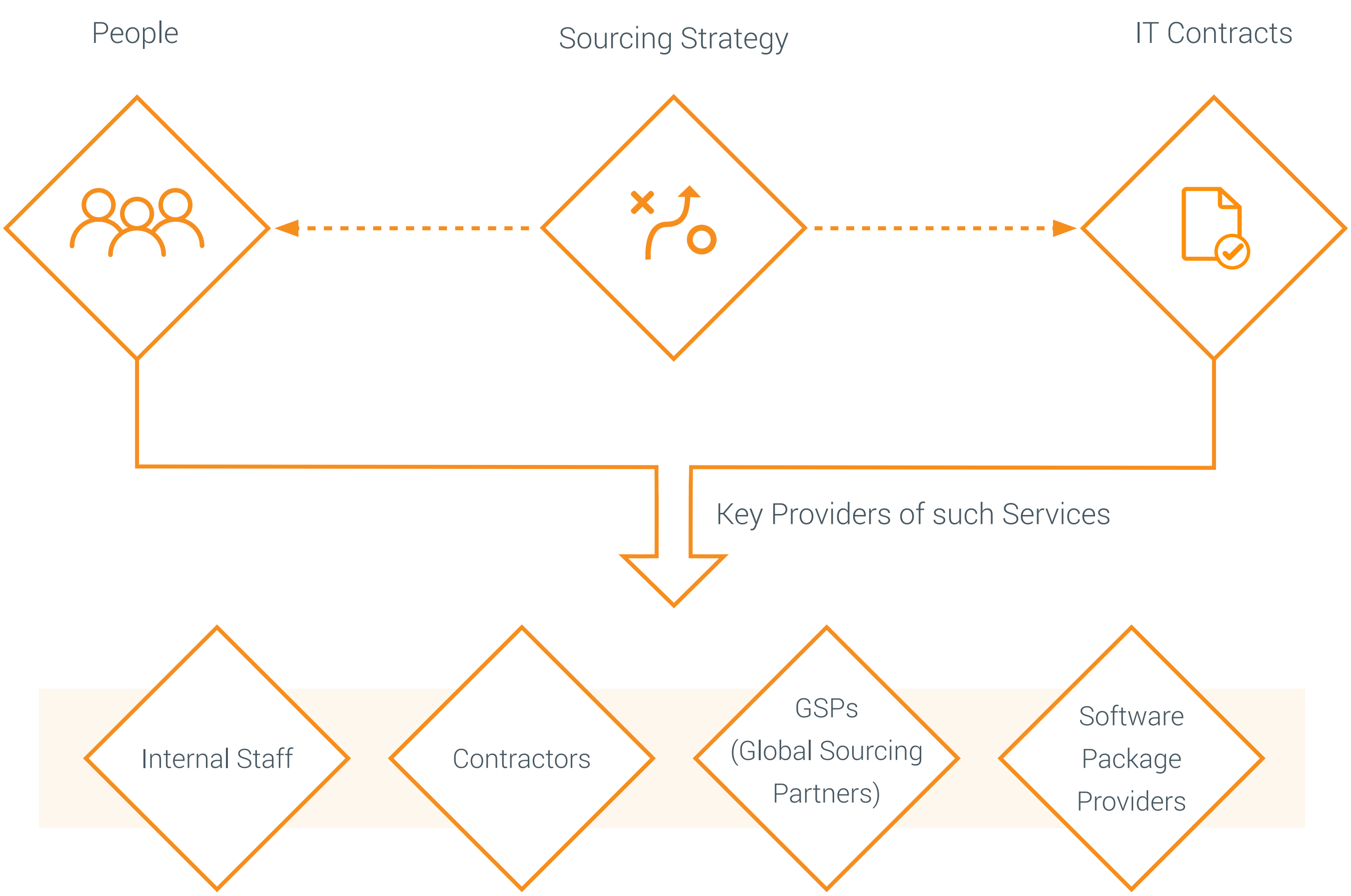
Sourcing Strategy

A strategic approach should be taken to IT sourcing.

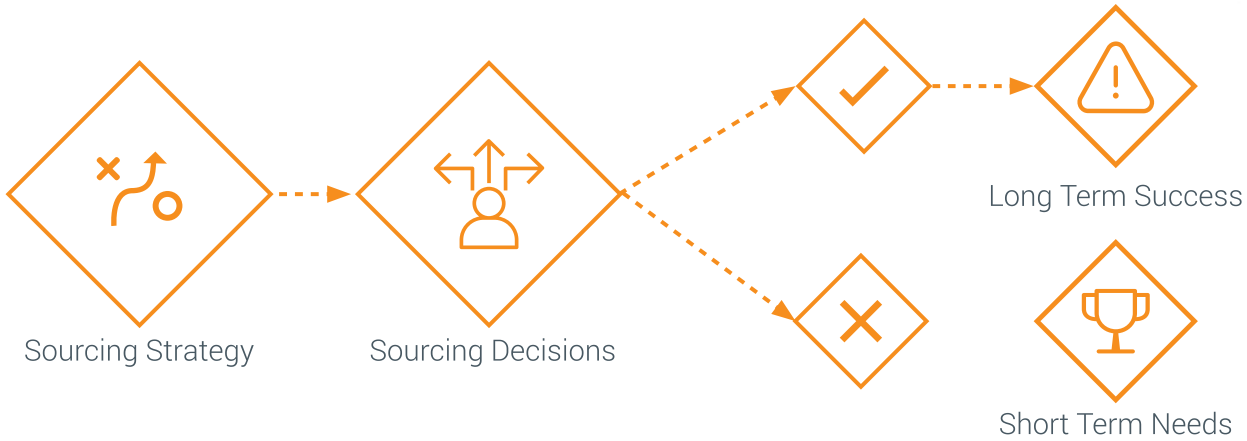
Areas for sourcing strategy consideration include:

- Planning, design, delivery, operation and control of IT services
- Hardware e.g. storage, printers, workstations, networking equipment
- Software e.g. business application packages, anti-virus / anti-malware software

IT services provision is closely linked to the People and IT Contracts Categories



To maximise the benefits from IT sourcing a sourcing strategy should be produced



The sourcing strategy should underpin sourcing decisions, ensuring they are aligned to the company's direction of travel rather than meeting immediate and often short-term needs.

In-House

The use of in house resource can bring a number of benefits:

- Experience within the company (systems and business knowledge).
- Relative stability in terms of tenure.

Risk

- Security of tenure can lead to lack of commitment and complacency, particularly if individuals have endured previous integrations and carry negative memories as a result.

Contract

- Contract resource provides flexibility.
- There is usually a relatively short exit period should a contract need to be terminated.
- Contractors can bring in a wealth of knowledge and relevant experience.
- The often short-term nature of a contractor's involvement with a company can lead to an indifference to the task in hand – however, contractors are often out to impress as the next contract negotiation is always round the corner.

Offshoring

Offshoring is popular because it is seen as a cost-saving strategy.

Risk: Additional costs are involved when offshoring and to be accounted for when costing an offshoring facility. Not doing so can lead to a failure to achieve the required benefits.

- Travel
- Training
- Knowledge Transfer
- Additional Technical Infrastructure

Offshoring carries significant risks and can be a limiting factor in the agility of a company. This is particularly so when working in an agile way (e.g. using Scrum), where huge benefits can be achieved through co-located teams.

Despite the risks and limitations, pursued for appropriate reasons and carefully managed, offshoring can bring benefits. A key benefit is the ability to expand the workforce without recruiting. Such arrangements can also provide flexibility to ramp resources up and down with relatively little notice, enabling companies to flex resource in line with demand.

It is important to ensure pragmatic, effective processes are put in place to manage the relationship with the offshored company and to maximise the effectiveness of the arrangement.

For example:

- How work is communicated, agreed and managed.
- How resource demand and supply is managed.
- How quality is managed.
- What training / knowledge transfer is required and how this is managed.

Managed Service Providers

With a managed service, a defined and agreed set of services is provided by the Managed Service Provider (MSP) on behalf of the client.

Typical areas covered by MSP arrangements:

- Infrastructure Management
- Service Desk

- Maintenance & Support
- Service Management
- Cloud Storage
- Bus. Continuity / Disaster aRecocvery
- System Security
- Network Services

An IT integration will necessitate a review of such services if any are currently provided. Also, opportunities for the provision of new managed services should be identified and considered.

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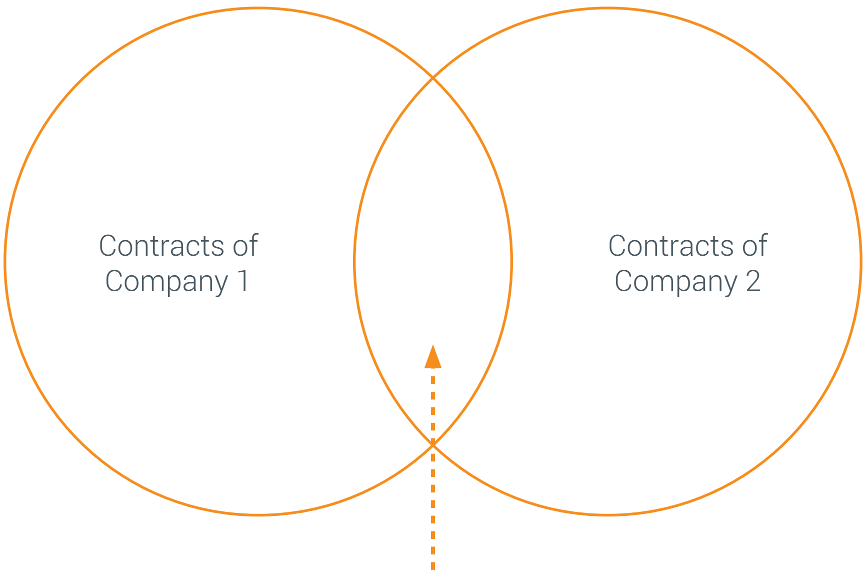
IT Contracts (Hardware & Software)

Typically, contracts could be in place covering a number of aspects of the IT organization.

- The lease and / or maintenance of physical hardware
- the provision of networking facilities
- the use of support of software
- the provision of IT services

A review of the existing contracts across the two companies might identify areas of overlap



Different pricing strategies between similar contracts and increased volumes/usage could provide an opportunity to negotiate favourable pricing improvements. Existing contracts can be a limiting factor in the evolution of an efficient merged IT organization.

Example: A long-term contract for the provision of IT services could hamper the ability of the new company to take advantage of relevant skills and resource in the new company that could be used to advantage in the provision of these services.

IT Estate (Hardware & Software)

The combined company's hardware and software estates should be key areas of focus and are inevitably linked to other categories:

- IT Strategy
- People
- Physical Locations
- IT Contracts
- Sourcing Strategy

The first step in the integration of hardware and software is to create an inventory of the current assets.

- It might be imagined that this will be simply a case of combining the two companies' inventories.
- However, it is often the case that a company has "lost sight" of its assets in one of both of these areas.
- This is more likely in large companies, particularly where a previous merger (or more than one) has already taken place.
- Also, inventories can be held in very different ways, sometimes with minimal associated data.

Hardware	Software
• Hardware estates tend to evolve with time as equipment ages and new technology merges. • This is often not the case with software. • Many estates (again, particularly in large and complex companies) will be populated by software with a wide age range and a wide range of underlying technologies (e.g. software languages). • Often, these estates will for some time have been the subject of a rationalization program. • These rationalization activities can be extremely challenging and can involve considerable spend. • When budgets are tight, the status quo is often the chosen way forward at that particular time.	• The software estate rationalization is an activity that could go on for years. • In fact, it is often a continuous activity as companies strive to squeeze the last drop of value from their investment in IT. • It is important for the merger to identify the boundaries such that the specific activity deemed to be part of the merger is understood and can therefore be tracked.

IT Architecture

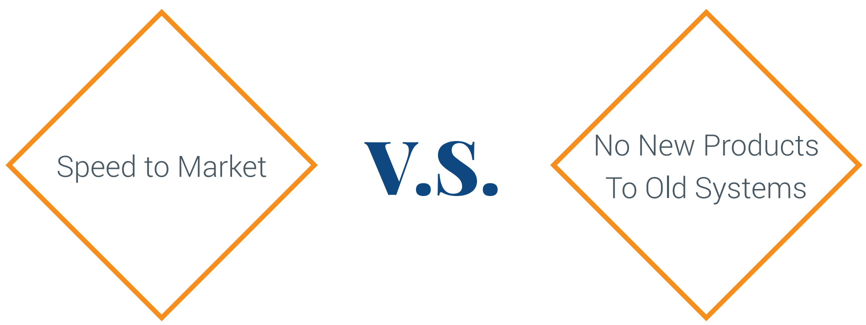
IT Architecture is the way IT components/systems are:

- Designed
- How they relate to one another
- How they can contribute to the achievement of the company's objectives

The IT Architecture should evolve as a component of the IT Strategy It is essential for this to be given time and resource as the architecture will underpin the company's ability to drive and support the business by maximising the investment in IT.

Business needs vs. Architectural Principals

- As a company evolves its products, services and geographies, the IT estate that underpins the business often evolves in a way that undermines sound architectural principles.
- In some cases, these principles themselves are either not present or are inadequate to meet the needs of the business.
- Business needs will often overrule architectural principles.



Example: The need for speed to market could overrule the architectural principle not to add further product lines to an ageing system that is targeted for replacement.

A merger invariably creates an architectural challenge; even if the merging companies adhere to sound architectural principles, these principles are unlikely to be the same between the companies. This might be inconsequential on Day One but will need to be addressed to ensure that the architectural road map supports the business and IT strategies.

Leadership

The selection of the best person to lead the architecture activity is important:

- Historically, the activity has been led by individuals who are highly experienced and respected in the field of IT architecture.
- It is important to appoint an individual who has the authority to make key decisions, who understands the business strategy and how the IT strategy aligns to it, and who can articulate the strategy options and chosen direction in language that is understood by the business.
- A level of technical understanding is important but the best person might not be the lead architect or, indeed, somebody in an architect role.

Current & Pipeline Activity

The two companies will enter the merger with both ongoing and pipeline activity.

Companies will have differing approaches as to:

- How projects are assessed for viability
- How progress and status is managed and reported
- How the benefits realisation is modelled and managed

Because a significant spend is associated with such activities, it is important to focus attention in this area.

Activites in Flight

Initial attention must be focused on those activities that are in flight. The starting point is to understand whether there are any key activities that should or must be slowed down, speeded up, paused or cancelled. The decision will depend not only on the overall objective of the activity but also where it is in its lifecycle.

Because investment has already have been made, the following must be determined:

- What is left to do
- Cost
- Business benefits
- Potential impact on the merged company

These will usually depend on the business synergies between the companies

> **Example:** A bank merging with another bank will have significantly more synergies than a bank merging with a vehicle breakdown recovery company.

Activities in Flight: Example

Activity Underway In Company A:

> The replacement of an ageing insurance policy administration system with a state of the art system with on-line access for customers to enable them to manage their policies.

Assuming this was progressing with a solid business case before the merger with Company B, what type of impact could the new merged landscape have on this activity?

- Does company B sell and service similar insurance products and, therefore, have systems for their management?
- Is there any similar ongoing activity in Company B?
- Does the strategic direction of the new company influence the activity e.g. will it continue to sell such products?
- Will the product lines be merged / rationalized and therefore potentially strengthen or weaken the business case?
- Is there a consideration of outsourcing such policy administration and therefore, ultimately making the new system redundant?
- Will the staff on the project continue to be available in order to complete the work?
- This could be influenced by many factors e.g. location of staff (are relevant locations to be closed?), the need for some staff to be used on critical integration activity, staff morale, staff resignations.

The dependencies between activities also need to be understood as these can have a major influence on the portfolio of activity.

Pipeline

- Whilst the pipeline of activity is in general less urgent, considerable cost can be incurred in developing and managing the pipeline so these activities need to be considered to decide how they should progress.
- Mandatory change initiatives must be given the appropriate attention and required resources.
- Examples are programmes projects to ensure compliance with

  A. The Data Protection Act (which will be superseded by the EU General Data Protection Regulation/GDPR)

  B. Changes to taxation rules.

Culture / Ways of Working

Differing cultures between the companies need to be acknowledged, understood and managed. The evolution of the culture and ways of working is a continuous process, which is disrupted by a merger. Whatever the respective sizes of the companies and however successful the cultures and ways of working are, it is essential to respect both companies and to approach these areas with openness, diplomacy and a willingness to learn from each other.

IT is a key enabler of business success; the key enabler of effective IT is people. This is why it is important to set and communicate the cultural tone at a very early stage.

Open, sincere and meaningful communication to IT staff regarding these areas is of paramount importance in order to retain the motivation of the staff and ultimately, to retain the staff themselves.

- The mobility of staff will govern the criticality of these areas.
- Mobility will be governed principally by the marketability of individuals and the available external opportunities.
- Individuals with in-demand, modern skill sets will in general be at greater risk of exiting the company than individuals with very niche skills for which there is little demand.

Agile Development

Companies are increasingly adopting Agile development methodologies in order to accelerate the delivery of business benefit and to enable more flexibility in the face of change. Requirements and their solutions evolve within cross-functional teams; these ways of working are underpinned by a set of values and principles.

The Agile manifesto values:

- Individuals and interactions over processes and tools.
- Working software over comprehensive documentation.
- Customer collaboration over contract negotiation.
- Responding to change over following a plan.

Cultural tensions are likely if the two merging companies are at significantly different points on the Agile journey.

- These tensions will not be confined to the IT teams.
- The impact on the business teams is significant.
- This area will need very careful management in order to minimise tensions and maximize the advantages of agility.
- Using Agile techniques effectively could have a significant impact on the success of the IT integration.

Current Significant CARDI Items

What is CARDI?

- **Constraint:** Something that limits or restricts someone or something else.
- **Assumption**: A truth that is needed for activity to proceed.
- **Risk:** Anything might have a negative impact on activity.
- **Dependency:** An output from one thing that is required for another.
- **Issue:** Something that occurs which needs to be addressed before activity can proceed.

The current significant CARDI items for both companies should be reviewed.

- It is likely that the merger will have changed (and even closed) some of the items and will create new items.
- Each open item should be assigned to a named individual and the next action(s) and next review date should be agreed.
- This CARDI log should be updated accordingly.
- New items should be added as appropriate.

The CARDI log should be managed closely throughout the integration.

- This is an area that is often prone to a lack of attention as it can be seen as an overhead.
- The key is to ensure that the items are significant enough to warrant inclusion on the central log and that the CARDI review is planned and conducted on a regular basis.
- Often, individual functional areas of the integration will have their own CARDI log for items that are more local to that specific area.
- It is not necessary or beneficial to feed these into the programme CARDI, although those of interest at the programme level could be managed in this way.
- The key driver here is to communicate the items and drive out associated actions.

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IT Security

What It is

> "The protection of computer systems from the theft of and damage to their hardware, software or information, and from disruption or misdirection of the services they provide."

Why it is Important

- The importance of IT Security is increasing.
- Threats are emerging in new and different forms.
- The reliance of companies on IT, the legislation protecting customers' data and the risk of adverse publicity is increasing the impact of IT breaches on companies.

The risk of IT breaches can initially increase during a merger, for example by the transfer of data between the companies:

- Companies often have different processes and technology for managing IT Security.
- This can lead to confusion and sometimes unsafe practices.
- Security processes, practices and tools used in one of the companies can sometimes be utilised to improve security in the other company.
- This can generate a quick win from a security perspective.

It is important at the onset of integration to place IT Security at the top of the integration agenda. An appropriate individual should have accountability for this area and should have the resources to manage Day One security as a minimum.

The safety of the IT estate is essential from Day One. A Security strategy should be developed and programmes/ projects/actions driven forward to protect the company's assets.

IT Service Management

A company must endeavour to deliver the best possible customer outcomes from its IT resources.

IT Service Management strives to improve the contribution of IT by the continuous improvement of:

- Design
- Development
- Implementation
- Testing
- Support

IT Service Management deals with the way that the practices of the business and the IT organization integrate to enable the achievement of business goals. In a merger, significant integration benefits are often possible in this area. Best practices can be adopted.

Example areas of attention are as follows:

- Automated testing.
- The use of effective project management software.
- Software configuration management (tracking and controlling software changes).
- Release management (the management of software through development and testing environments and into production).

Service Management will be a continuous activity but presents new challenges and opportunities. Challenges and opportunities need to be responded to in order to maximise the contribution to the business of an IT organization that was once two separate entities.

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IT Portfolio Management

Purpose

The purpose of IT Portfolio Management is to maximise the return on investment from the company's IT resources.

- At a high level, resources will be utilized on change programmes and projects and a range of business-as-usual activities.
- IT Portfolio Management prioritizes these and aligns available resources to them in order to deliver the objectives defined in the business strategy.
- A constant theme is the need to balance change and business-as-usual activities.

A merger often has a significant impact on the management of the IT portfolio, such as

- Alter the business case of existing initiatives (positively or negatively)
- Necessitate the cancellation or suspension of existing initiatives
- Necessitate the slowing down or speeding up of existing initiatives
- Modify the business requirements of existing initiatives

What is almost certain is that the merger will add integration initiatives to the pre-merger combined portfolio.

The resultant portfolio will need to be very carefully managed to ensure integration takes place at a pace commensurate with the need for critical business-as-usual activities, mandatory change initiatives and other change initiatives.

One way of responding to what is likely to be an increased book of work is to recruit temporary resource to increase delivery capacity. If a global sourcing partner is used, resource could be increased on a temporary basis. Securing the appropriate skills is critical in these cases.