MODERNIZE YOUR IT APPROACH AND INCREASE M&A SUCCESS

It’s estimated that upwards of 70% of M&A initiatives fail to deliver the expected business results. It doesn’t have to be that way.
Virtually all large enterprises engage in merger & acquisition (M&A) activity at some point, for a wide variety of reasons and with a broad spectrum of business objectives. Yet upwards of 70% of M&A initiatives fail to deliver the expected business results, undercutting the expected value of these transactions, which in 2015 amounted to more than $4.5 trillion globally.

Many executives point to the complexities of IT integration as a root cause of this alarmingly high failure rate. In such cases, transition teams are saddled with a lack of transparency into the data, IT assets, operational practices, and business processes of the company being acquired. Too often IT involvement comes after the fact, when it’s too late for IT teams to expose compliance and integration issues. So many M&A deals are well under way without an exact understanding of what IT assets are being acquired and how to optimize their use during the integration phase.

Findings from IDG’s 2017 State of the CIO survey indicate that CIOs are more than twice as likely as LOB executives to recognize the degree of IT involvement in business initiatives and processes, which may help explain why IT is not automatically factored into M&A considerations. And consider this observation from McKinsey & Company: “If a haphazard approach to technology can drain value from an acquisition, the opposite is also true: a company with flexible, streamlined IT—one where executives rationalize systems and make disciplined decisions about integration—can wield this knowledge as a powerful tool in choosing which deals are most attractive. Conceivably, acquirers might even be able to bid higher, since they are better prepared to capture the 10 to 15 percent cost savings that successful IT integrations deliver.”

“Identifying IT-related M&A challenges BEFORE THEY BECOME PROBLEMS is the most effective strategy for defusing them.”

iVenture Solutions, January 2016
The Need for Transparency

M&A gone awry is not something to take lightly. An analysis of 2,500 such transactions found that “more than 60% of them destroy shareholder value.” Therefore, it’s important to build a strategy focused not on integration itself but on the intended result of integration.

Transparency into data, IT assets, operational practices, and business processes—before, during, and after integration—empowers IT to deliver more than “integration” of the buyer and the acquired. According to one recent survey, 40% of respondents say they found a cybersecurity problem at an acquired company after the deal was closed.

Consider: Many organizations cannot quantify availability and performance levels because their systems and processes were built in a piecemeal manner, which leads to incompatibility and lack of transparent information. Changes are difficult and expensive and there may be little or no visibility into which systems can be phased out and where the organization needs additional investments. As a result, capital expenditures may be higher than necessary.

Transparency enables IT to deliver benefits at all phases of the M&A process, including:

- Arriving at accurate valuations in the due diligence phase
- Highlighting compliance or integration issues in the planning phase
- Pinpointing what IT assets are owned and how to optimize their use in the integration phase

“INADEQUATE OR MISDIRECTED IT INTEGRATION EFFORTS can cause integration to be incomplete, delayed and costly—ultimately derailing business goals.”

CenturyLink, June 2015
Learn how the management team at this large managed-care organization initiated a project to consolidate and in-source all the technology, infrastructure, support, processes, and people across six businesses and to manage services in-house.

Case study: **Careworks:**
**Six Separate Businesses, a Single Solution**

“We knew we had the opportunity with this platform **TO MAKE OUR AUDIT LIFE MUCH EASIER** with automated controls and better reporting. Before, we had to recreate the wheel every time.”

“**DOWNLOAD THE CASE STUDY**
Five Steps to Transparency

Often an acquisition target cannot supply anything more granular than a list of hardware, software, and network elements purchased recently. Anything more specific, such as "service mapping" (which shows how each asset is used in production to perform business processes or deliver business services) is likely to be either unavailable or inaccurate. Also, many companies lack the processes and tools to ensure compliance with software licenses, which can result in fines and penalties after the merger is complete.

Once an organization recognizes that information and business process transparency are the critical factors to reaping the full benefit of a merger or acquisition, there are five key steps that can lead to greater transparency:

1. **Put IT on the M&A team**

   All too often IT is made aware of M&A or divestiture plans after the deal has already been struck, which guarantees a rocky road for integration. Make sure IT is a full and active participant in every stage of M&A activities.

   Rob Pickering, Evangelist in the Strategy Office at ServiceNow and former CIO at AAA Allied Group, recalls that he went through six acquisitions during his time with the motor club. "In every case, IT found significant costs of which the transition team and executives were unaware," he says.

   "It's critical in today's world to understand the security profiles and architectures and processes of the company being acquired," Pickering points out. Compliance with the PCI Data Security Standard for handling credit and debit cards can easily trip up M&A activities. "If the company you are acquiring is not PCI certified, you cannot bring them into your PCI-certified network," he says.

   In one M&A transaction the group being acquired had never upgraded the hardware underpinning its business services and had failed to implement antivirus protection on desktop computers. **Both resulted in unplanned expenses** post-merger.
Five Steps to Transparency

Unify management information for IT

Have your IT service delivery, operations, and business users all work off the same “system of record,” meaning a single, authoritative source of management information. This will enable you to deliver simpler, more reliable services with minimal overhead. Equally important, ensure the accuracy of your data about IT assets, which is typically contained in a configuration management database (CMDB). After all, if the accuracy of IT’s information about its own assets cannot be trusted, IT’s ability to supply reliable data to M&A teams is severely compromised.

Surprisingly, many firms and large banks still do not have a CMDB or CMDB data they can trust. Accuracy is dependent on what processes the acquisition target has implemented. If those processes are highly automated, the CMDB will likely have a high degree of accuracy – which can be particularly useful in keeping track of software and cloud services that have been implemented at the departmental and business unit level outside of IT’s purview (what has become known as “Shadow IT”).

“50 TO 60 PERCENT OF THE INITIATIVES intended to capture synergies are strongly related to IT, but most IT issues are not fully addressed during due diligence or the early stages of postmerger planning.”

McKinsey & Company
Make extensive use of industry standards and best practices

The Information Technology Infrastructure Library (ITIL), the Open Group's IT4IT, and ISACA's COBIT provide guidance on IT management and governance. By standardizing on their best practices, you will be able to provide end-to-end visibility into all processes and infrastructure through your single system of record. This in turn makes it possible to consolidate fragmented tools and legacy systems, integrate data from multiple sources, and automate processes.

“It’s not about which IT Framework you follow and adhere to, it’s about whether you have a process,” Pickering says. “The more standards in place, the larger that the IT organization can scale without driving a lot of costs.”

This can be especially critical when acquiring emerging, fast-growth companies, where the focus has been on growing the business at the expense of standardizing IT processes.

“The preparatory work of assessing systems and processes, and creating the agility and flexibility IT needs to integrate or carve out business assets, is critical to M&A effectiveness. When and if the CEO commits to a deal, IT MUST BE READY TO MOVE QUICKLY.”

Deloitte, September 2014
Manage IT services, not just IT assets

At the most fundamental level, IT is about service delivery, not infrastructure or “plumbing.” By managing IT services from end to end, you increase transparency into every aspect of the business processes served by IT. An added benefit is positioning IT as a true service provider and strategic partner to the business.

But how do you determine quality of service delivery? Look for what types of measurements and discipline the acquisition target has implemented.

“I would always look for whether the IT group was doing some type of satisfaction survey such as the Net Promoter Score (NPS),” says Pickering. If customers are satisfied, that’s a good indication of service quality. Another key predictor is the degree to which a company has implemented self-service IT features.

“As we purchased more companies, we needed to save operating expenditure while extending our footprint as quickly as possible. We needed a tool that could help us consolidate our applications and achieve synergies to lower our costs. … Our information technology vision is to cost-effectively provide easy-to-use applications for our internal teams and for our customers, so we needed a service management tool that could support that.”

Andy Nallapan, VP and CIO, Global IT Services, Broadcom Ltd., on engaging with ServiceNow
Extend the concepts of IT service management to every business process

The ultimate goal is to apply the same level of structure, best practices, and consistent service delivery you create for IT to every repeatable business process—including finance, HR, marketing, facilities, legal, and so on. That is the key to creating the transparency that makes an M&A or divestiture transaction successful.

Similar discipline should also apply to activities of the M&A transition team, which is often conducted through email that cannot be easily audited, secured, or referenced. By utilizing a single system of record, access can be controlled and granted to the right people. This provides “auditability” into the documents, tasks, and work that goes into the merger and ensures that access can be controlled.
CIOs Must Have a Seat at the Table

For many enterprises, integrating IT into the acquisition transition team may make them uncomfortable. But with IT now so closely tied to the success or failure of the acquisition, such involvement is essential for thorough due diligence. By following these five steps to transparency, an organization can strengthen its position as either acquirer or acquiree and deliver on its primary charter of maximizing business value.

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