

Planning for a Successful Post-Merger Integration

By Scott von Ploennies

The banking industry continues to undergo massive restructuring as a result of the financial crisis, with bank mergers and acquisitions (M&A) playing a key role in that transformation. In 2010, there were 183 unassisted mergers of commercial banks and 13 unassisted mergers of savings institutions.¹ Regardless of the rationale for bank M&A activity, the ability to execute on technology integration is an important success factor for achieving merger objectives. This article provides insights regarding three key areas that can help drive a successful integration:

- Strong governance delivered through an experienced PMO
- A clearly defined Target Operating Model
- A clear and well-thought-out systems integration approach

Strong Governance Through an Experienced PMO

An enterprise Project Management Office (PMO) establishes consistency and standards to govern and oversee all M&A-related work streams across an organization. Mergers generate numerous projects across the enterprise and place a high level of stress on resources that normally are focused on “business as usual” activities. The PMO is responsible for orchestrating these projects and providing the necessary frameworks, support and tools to manage projects to a successful conclusion.

A PMO staffed with resources that have prior integration experience is crucial to the success of the integration. These resources bring “lessons learned” and knowledge to the table, which will accelerate establishment of the PMO, and also provide some piece of mind to management that this has been done before. Creation of the enterprise PMO should be completed as soon as possible to allow for the necessary time to identify the important success factors for integration.

Integrated project control is of great importance when managing integration activities. The PMO must be able to identify interdependencies between projects and assess the risks that could ultimately cause delays to the integration timeline. Projects must be monitored so that there is adequate sharing of resources, use of similar tools and standardized use of methodologies and processes.

A centralized repository to store project information is also crucial for integration-related activities. With a large number of projects taking place simultaneously, ready access to

¹ FDIC, *Changes in Number of Institutions*, Table CB02 and Table SI02, April 2011

information related to the numerous projects being undertaken throughout the organization is essential.

A Clearly Defined Target Operating Model (TOM)

Companies undertake mergers and acquisitions to achieve a variety of goals, including, for example:

- Entering new geographies
- Driving scale in the business
- Eliminating a competitor/improving industry structure
- Capturing a greater share of an existing market or markets
- Entering new growth markets
- Acquiring new assets or capabilities

These goals are often best articulated in a post-merger Target Operating Model. The TOM defines and describes how an organization needs to operate in the future to work toward the needs of stakeholders across both business and technology domains. Key elements of a TOM include vision and strategy, services, processes, organizational structure, technology, and geography. The ultimate goal of the TOM is to create a business architecture that improves business performance.

A clearly defined TOM provides a high-level roadmap with defined objectives and metrics needed for a successful integration. In addition, the TOM paints a tangible picture of the future, ensures transparency of the end goal throughout the integration, and provides guidance to decision-making processes.

A Clear and Well-Thought Out Systems Integration Approach

There are four types of approaches commonly used in merger integration efforts.

The first approach involves conversion of the acquired organization's systems and processes into the acquiring organization's existing systems and processes. This simplifies the conversion planning process by eliminating the need to analyze which systems are go-forward systems.

The second approach involves looking at existing systems and processes in the current ecosystems of both organizations and identifying the best systems going forward. This approach requires more upfront analysis, but will ideally yield a solution that integrates best-of-breed systems from both organizations.

While the previous two approaches are the most prevalent during M&A discussions and planning, two less-used approaches are also available. The third approach keeps the acquired organization as-is and makes no changes to systems or processes. While this speeds completion of M&A related transactions, it would be sub-optimal in a situation where the new combined company had operating cost reduction as a primary goal. The final approach is to select one or more new third-party systems. This approach would require a close look at both one-time and ongoing operating costs vis-à-vis the other options discussed. This solution would be a smart option to consider when the merging institutions are both hampered in terms of cost or flexibility by their legacy systems.

If speed of integration is of the utmost priority, the options best suited for this would likely be to leave the two organizations' systems alone – at least initially – or convert the acquired organization's systems and processes into the acquiring organization's existing systems and processes (especially if the acquiring organization has prior merger integration experience). However, if the primary integration goal is to reduce costs through greater efficiency and/or economies of scale, and/or to offer a wider breadth of products and services, the optimal integration approach would be either to complete a review of both organizations' systems to determine which are the best and select those systems and processes for your target environment; or, especially in the case of integrating two organizations with legacy technology issues, to look at moving both organizations onto a new, more efficient, and flexible platform.

Conclusion

Organizations that have engaged leadership and resources with prior expertise are best positioned for successful merger integrations. However, in addition to these considerations, three other factors can play a crucial role in post-M&A integrations success: strong governance delivered through an experience PMO; a clearly defined Target Operating Model and a well-thought-out systems integration approach and plan. Each of these areas deserves close attention in planning for the implementation phase of a post-merger integration effort.

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