

## View Point



### IT's Role in Enabling Successful Mergers and Acquisitions of CSPs

IT best practices to enable efficient mergers

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Technology advancements have changed the business landscape of Communications Services Providers (CSPs). Macro and micro economic conditions influence consumer behavior. These factors combined with globalization and deregulation compel the CSP industry to consolidate through Mergers and Acquisitions (M&A). Mergers are important for the CSPs to survive and thrive.

The role of IT in M&A activity has been growing steadily as CSPs depend heavily on IT to conduct business. This paper identifies best practices that IT should follow in enabling faster, successful and efficient M&A.

## M&A activity in the CSP industry

Globally, the way people communicate has undergone tremendous changes with major technological advancements – from analog to digital technology, wireline to wireless networks, from narrowband to broadband services. It has compelled CSPs to evolve from traditional wired telecommunications providers to full-service communications networks providers offering Internet-based and mobile-enabled communications to end-customers anytime, anywhere.

In addition, the global economic downturn has made customers conservative in spending. It is true for both retail consumers as well as enterprises consuming communications infrastructure and services.

To survive and thrive in a dynamic business environment, CSPs will focus on growth through M&A. Mergers are initiated to increase the geographic reach where two companies have common products in different geographic markets. They also enable expansion through new products and services. In the recent past, we have witnessed a few instances of M&A activity in the North American CSP market.

## IT's Role in M&A activity in the CSP industry

When a company merges with another company, its systems (i.e., the combination of technology, process and people) need to be merged. While this concept of merger of systems appears simple, it is very challenging. Typically, it takes several years to implement in practice. A majority of M&A failures are due to improper estimation of the effort and time required to merge systems or the lack of implementing a merger road map efficiently.

A CSP's business is heavily dependent on Information Technology (IT). IT plays a critical role in the M&A activity of CSPs unlike other industries where the business' dependency on IT is lesser. Consequently, merging IT technologies, processes and people is an important step in the CSPs' overall M&A process to enable the CSP's business of the future state.

The technology dimension includes applications, networks, communications, data centers, desktops, etc. The IT process dimension includes the policies that govern the day-to-day operations of the IT department and the methodologies used in developing and maintaining the IT systems. The IT staff dimension includes the organizational design of the IT department from the CIO to the programmer.

**Merging Technologies:** IT will merge applications, networks, communications, data centers, desktops and other IT infrastructure of the two companies. The typical ways of merging IT applications are integration, consolidation, or a combination of these methods. *Integration* keeps both the acquiring company's IT applications and the acquired company's IT applications as-is, and builds interfaces between them to facilitate interaction. It is usually quick but is applicable ideally in cases where the two companies' products/services and business processes are complementary in nature and have very minimal commonalities. On the other hand, *consolidation* focuses on identifying the commonalities between the two companies' IT applications. It either creates a single target platform (that includes buy vs. build decision) that caters to the business needs of the merged company or enhances the best-fit application suite to cater to the business needs of the merged company. It is a risky route of mergers due to organizational change management issues, but results in cost reduction since the target platform is usually smaller and simpler than the addition of the two companies' old platforms. Mergers are usually done for a combination of efficiencies and complementary products and services. In practice, IT goes through a combination of *consolidation* and *integration* at the time of M&A. Maintainability and adaptability to cater to the future business needs have to be considered while deciding on the target platform in the post-merger scenario. New advancements such as lighter versions of Enterprise Architecture and Service-Oriented Architecture methodologies can be explored for adoption in the target platform, as they fit the current business needs of CSPs.

**Merging IT processes:** IT processes refer to the methodologies followed during the software development life cycle and various governance policies that guide the day-to-day operations of running the IT department (e.g., IT security policies, IT procurement policies, etc). It is both challenging and useful – challenging because it involves a huge organizational change management effort as the merging companies may have different processes. At the same time, it is useful because there is an opportunity to achieve the best of both worlds (i.e., combine best practices). As time-to-market is the most important factor in the current business scenario of IT enabling the CSP's business, 'agile' methodologies can be explored for adoption.

**Merging IT people:** In practice, this dimension is either ignored or downplayed during the M&A decision process. But often, it is the cause for success or failure of the M&A itself. Similar to the IT application, the IT organization (people) also goes through consolidation, integration or a combination of both. It includes dimensions of cultural fit as well. It is based on organizational design principles, i.e., defining the new organizational structure, roles and responsibilities.

# IT Best Practices to enable M&A activity in the CSP industry

*IT best practices will achieve the business goals of a merger.*

## Decision Making Phase

**Involve IT early in the M&A decision process:** Very often, the decision of M&A is taken after considering the product/service fit and the acquired company's overall financial statements only. It is important to involve IT early in the decision process because the merger completion and the overall time-to-market of the merged products and services depends heavily on how quickly/easily/cost-effectively the IT systems can be merged. If IT is not involved early in the decision making process, a very cumbersome, costly and time-consuming effort in the IT merger process may be caused, thereby hindering the achievement of the merger's business goals. For example, a major US telecommunications service provider that did not involve IT early in the decision making process is still merging the IT systems three years after the merger. The current state of its IT systems is hindering time-to-market to launch any new or modified products. Even a small change takes almost nine months to incorporate into the IT system.

**Consider the Cultural Fit:** Very often, this aspect is taken for granted and not considered during the M&A decision process. It results in broken processes, silos of information and an incomplete merger. Just as the overall companies' cultural fit, the cultural fit of the two merging IT departments must be assessed early and the M&A execution road map designed accordingly.

## Decision Making Phase and Planning Phase

**Make an IT inventory list:** Typically, a company being acquired would have gone through M&A previously but its IT technologies/processes/people may not have been merged. It is a huge roadblock for M&A execution, as the acquiring company may not have the visibility into the inventory of IT technologies/processes/people of the company being acquired. The implications are two fold – (1) it is difficult to estimate the cost of the M&A without knowing what will be merged, and (2) the feasibility of merging the IT systems cannot be estimated without the IT inventory. As a result, it is important to make an inventory of the IT technologies, processes and people, very early.

**Documentation of the IT systems:** Many acquired and acquiring companies tend to have little or no documentation about the existing processes and technologies. It leaves pockets of knowledge with individual people who, faced with the risk of losing their job, tend to withhold the knowledge and not share it. So it is imperative to create documentation as a part of the M&A readiness checklist.

## M&A Road map Execution Phase

**Recognize the 80-20 rule and avoid the temptation to stop after achieving the initial 80% merger:** Like in most real-life situations, the merger process also mirrors the 80-20 formula. The best option is to create a road map for merger using a phased approach - work on the low-hanging fruit first and then focus on the time-consuming and less-business-critical activities in the later phases of the merger. However, it is important to ensure that all activities are completed in a planned and timely manner. In addition, you need to avoid the temptation to stop after reaping the easy, initial 80% which can hinder progress in the future.

**Incomplete decommissioning of the applications, infrastructure and people:** Very often, the benefits of M&A estimated during the planning process are not fully reaped as the redundant technologies, processes and people are not decommissioned fully. It happens either due to the fear of the unknown (fear that some unknown business processes may be broken down) or due to resistance to re-deploy/release the staff. It has to be a focused effort in planning and executing the decommissioning of IT systems.

**Address resistance to adopt newer IT methodologies:** In the post-merger scenario, newer methodologies need to be adopted; e.g., 'Agile' methodologies can be adopted in the software development lifecycle to reduce the overall time-to-market for new products and services. However, companies undergoing mergers invariably have staff with an old school of thought, which resists adopting newer technologies and methodologies. It hinders the achievement of M&A goals. There has to be a focused effort in addressing this aspect.

**Address staff attrition:** IT staff in the acquiring and acquired companies tends to get bogged down with job security issues in the post-merger scenario. They leave their companies to pursue jobs at other companies. It creates a void in knowledge and

leads to broken systems. This aspect has to be addressed through focused effort on documentation, frequent communication to the staff about the overall goals/process/status/effects of the merger, and making the relevant staff feel part of the merged IT department.

**Establish effective Program Management approach:** The overall decision making, planning, and merger execution activities should be managed through a disciplined Program Management approach. Such IT program management should be a part of the overall M&A management at the company level. It should address and manage all the roadblocks. However, although a PMO is formed in most M&A scenarios, a disciplined approach that addresses all key dimensions is not practiced. It results in an incomplete or inefficient merger process that does not achieve all the M&A goals. The CXOs in the merged company have to be a part of this PMO, and should sponsor, track, and be a part of the overall Program Management.

## Summary

In view of the technological advancements, changing economic conditions, globalization and deregulation of the industry, more M&A activity is expected in the CSP industry.

As CSPs' business depends heavily on IT systems, IT has to be recognized as an enabler and strategic aspect of M&A activity.

It is important to involve IT stakeholders very early in the decision making process of the M&A and planning of the merger, in addition to execution of the merger activities.

IT must ensure complete inventory of all three aspects of IT (technologies, processes and people) before undertaking merger activities. It also has to ensure that the three aspects are merged through a focused Program Management approach to achieve the benefits of the merger.

### About the Author

Satyanarayana Kella (Satya) is an Engagement Manager with the Communications, Media and Entertainment (CME) Unit at Infosys Limited. He has more than 15 years of IT experience, including more than eight years in managing relationships with and delivering services to leading US telecom service providers. He has been working on IT transformation engagements with leading US telcos in post-merger scenarios. Satya's experience in IT transformation, rich industry knowledge, and his current role offers him insights into telco market developments and IT transformations. His areas of interest include IT strategy, IT governance and IT transformation. Satya holds a post graduate degree of Master of Technology in Industrial Management from the Indian Institute of Technology (IIT), Madras.



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