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RESEARCH ARTICLE

Connecting Strategy, Execution and Enhance Value Creation (CSEEK) with M&A: 12 Point Success Formula

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Abstract

Building a sustainable organization with organic growth, healthy ROI is complex, and the complexity will be amplified with mergers and acquisitions (M&A), particularly in financial vertical due to offerings – products and services to its customers. This paper explores a prevalent pattern in mergers and acquisitions, especially the upcoming challenges of post-integration engineering regarding business data and IT systems. We propose an adaptive strategy to mitigate these risks, cut costs, and achieve expected business growth. The most traditional models of M&A will work; however, the value realization may not be optimal, therefore, the authors propose a 12-point success formula by connecting strategy, execution and enhance value creation framework.

Key Words: *Mergers and Acquisition; Artificial Intelligence; Post Integration; Legal Day; Conversion Day*

Background

According to Roger Martin of Harvard Business Review "70%-90% of acquisitions are abysmal failures" [1]. Banking is tightly regulated and much of strategic business growth comes from successful M&A. Banking Labs, a boutique an AI-powered financial intelligence company, consulting division has been involved in number of pre and post M&A integration initiatives. In Oct-Nov'23, the team at Banking Labs has conducted a survey with 2 methods- face to face interviews and online and the survey can be accessed at SurveyMonkey [2]. The survey results revealed that 79% of executives felt that AI/ML will help accelerate the M&A but not used extensively considering timelines of M&A and scarcity of skill set in the organization. For M&A amongst banks, the most challenging stages of the journey are those

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numbered days between the deal being legally approved and effectively closed with ownership transferred. Critical emphasis is rightfully given to due diligence that focuses on the organization, people of business capability. Unfortunately, however, these are but the head portion of the iceberg where the business data and IT systems are the least visible and least transparent challenges that make up the bulk body. Fundamental failures will be seeded in these neglected days of opportunity unless comprehensive planning and execution are actualized, for which Banking Labs develops an implementable framework aligning to our ASPIRE framework [3] for successful M&A.

Launch the Integration

Thinking of two icebergs colliding with each other, the risk is obvious but when will be the best time to launch the integration to mitigate risks? Here comes the first factor, the Timing to Launch Integration. When the M&A is closed and the transfer of ownership is in progress, it is too late. Integration launches rather on a selected lucky day between Legal Day (LD1) and Conversion Day (CD1). Further to the timing factor IT is often taken as an afterthought. Sadly, business views IT as a necessary evil. Neglecting the IT teams or forgetting to invite the key stakeholders for systems and data is unfortunately among the fatal mistakes in M&A.

In our experience, at least half of the IT team despite my recommendations to launch IT integration early. senior leadership team prefers to "sail" towards the planned end-state for the business first. As said, these are the tips of two icebergs that are set forth to embrace each other. However, the data and systems that enable customer interaction and financial transactions make it possible. IT must collaborate with the business to interpret business objectives and capture synergies to make the M&A a success. Therefore, the integration of systems and data is not only a high priority but also the costliest. Cost is the second factor to consider.

To be cost-effective, three mistakes must be avoided:

- Duplication: The integration of a new entity increases operational expenses due to the need to run two IT departments in parallel. Often the business assumes that rationalization of IT applications, staff, and infrastructure will be instantaneous and simple.
- Lack of Appropriate Budget: The senior leadership team will often put together an IT integration budget during the due diligence phase. If IT was not involved in the due diligence, this budget would usually be significantly underestimated due to a lack of specifics.
- Contractual Obligations: Vendor obligations and termination fees are commonly overlooked during due diligence. The business often assumes that the current vendor offerings are scalable and that termination fees will be minimal.

Factor #3 is to manage the expectation by defining clear and achievable outcomes.

- A communication plan that can be used by the IT Integration Program throughout the integration effort.
- An evaluation and interpretation of business M&A goals.
- An IT Integration Program will be responsible for conducting discovery, delivering operational imperatives and quick wins, and executing the integration roadmap.

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- Support from the executive team for IT to be involved in M&A integration.
- A completed IT Integration Charter that highlights the goals and participants of the IT integration.

Factor #4 is to recruit skilled resources to build up an integration team.

- Often, a team of integration specialists will form the Integration Management Office (IMO). This office acts as the facilitator of the integration effort and provides a critical communication channel between the CEO and the functional integration programs (IT, Finance, etc.).

Discovery and Planning

The next factor, #5, is discovery and planning, where things can go off-track unexpectedly. One of the most effective tools is business capability mapping (BCM), where all acquired business lines, products, and services come together with IT systems and business data, as well as people, processes, and organizational aspects. Current vs. Future State BCM should be socialized. Simply build up a matrix and use it to discover and plan. Another tip is to always go through a day in the life of the target you are acquiring. Use the operating model, current state, and functionality in each domain to determine who you want to be when. Begin discovery immediately following deal closure or announcement to assess the current state and design the technology end-state across all IT domains of the resultant organization. Validate and/or modify the integration posture to achieve the desired technology end-state in each IT domain. It is important to constantly revisit the risk log throughout discovery as added information comes in.

Capture Quick-Wins

The 12-factor Formula is like a clock. Now comes Factor #6: Quick-Wins. In adaptive terminology, quick wins are a selected set of Minimum Viable Products of the M&A to validate the strategy, assess the risks, build up synergies, and demonstrate success. Quick-win initiatives often focus primarily on maintaining critical systems and internal and external communication across the new entity. Again, do not neglect the IT side of the integration. You will have to look at the whole picture when you define your IT resultant state. You will not be able to make decisions in isolation. Remember that each IT domain has implications for the other IT domains.

- Data and applications enable business capabilities.
- Data and applications run on infrastructure.
- Data, applications, and infrastructure require IT processes.
- IT people perform IT processes to support, data, applications, and infrastructure.

Develop a Roadmap

Factor #7, Roadmap is amongst the most critical factors of ASPIRE, as it has multiple dimensions.

- Current State (Target): Track key artifacts from the target organization as you receive them. It will be useful to have all the information for each domain in one place so that you can refer to them when making assumptions.
- Current State (Own): This is where you can ensure you have considered key questions regarding your organization and the capacity you must accommodate the acquired organization.
- Assumptions: Description of assumptions made in the absence of complete information to drive project scope, risks, and budget.
- Risk Register: List of uncertainties and their likelihood, anticipated costs, and status.
- Technology End-State and Project Scope: Outline the end-state of each IT domain and what must be accomplished with the budget.
- Work Schedule: Plan and monitor your tactical integration initiatives and associated tasks. Use this dashboard to monitor initiative progress and identify risks early.
- Integration Budget: Anticipated cost estimates for IT integration (including OPEX, CAPEX, and one-time OPEX).
- Change Log: List of changes made to the due diligence report throughout its lifetime.

Execute the Integration

A roadmap is rather abstract, and multiple instances must be executed to cover functional and technological aspects. Typical successful integration takes significant time, however, adopting AI/ML reduces time and increases efficiency. It is important to re-examine the target state of incorporating AI, ML and RPA to build new business capabilities—be it new forecasting models, enhanced operational processes, one source of truth for finance, risk and regulatory reporting or cloud-native infrastructure to integrate vendor solutions. Customer integration should be an independent factor going from roadmap to execution, which is Factor #8. #9 are domains or functions identified in the BCM, for example, finance, day-to-day banking, and wealth management. Factor #10 is about data integration. Executing the roadmap begins by identifying the master data domains that exist in your target organization. Master data addresses critical business entities that fall into four broad groupings: people (e.g. customers, suppliers), places (e.g. physical spaces and segmentations), things (e.g. products, services), and abstract concepts (e.g. roll-up hierarchies used for reporting and accounting). This data is typically critical to the organization, less volatile, more complex, contains many data elements, and is used across systems.

While data sets are often used for different purposes, the same data types are often shared across the organization (in different departments and across systems). Master data is the accurate set of data that is used across the organization and populated in multiple systems. Next, identify and define the System of Record (SoR) for each master data domain. The SoR is the system designed as the authoritative data source for enterprise data. The true system of record is the system responsible for authoring and updating master data and this is

normally the System of Entry. The SoR can be made up of multiple physical subsystems.

Factor #11 is the integration of IT systems, or applications, together with layered technology. platforms and tiered infrastructure landscape. An organization's application portfolio is critical to supporting business operations. Ensure minimal business function disruption by proactively ensuring the availability of key business applications immediately after deal closure. During an M&A, it is common for IT to acquire applications that achieve the same output as applications that are already in place. An assessment of application landscapes and confirmation of your application integration posture will enhance standardization, improve user simplicity, and realize cost benefits in the end state. Another effective tool is differentiating and prioritizing integration for Business-Critical Applications such as CRM/customer care, order management, customer master, product catalog, shipping/logistics, and accounting, to fulfill essential operational use. Vendor applications or SaaS applications may be business critical as well, but vendor applications remain distinctive as the risk mitigation differs significantly.

Conclusion

We will conclude the formula with Factor #12, Scaling up to the scope of future operational state. Operational imperatives should meet the following criteria: Critical to business functionality and have a measurable business outcome. Critical decisions must be made and put into action as to whether to maintain business operations in both organizations and when and how to cutover from two streams of operations into one. The financial result speaks loudly. End of the day, business growth vs. the cost of the M&A defines success or failure. The fact is that when the deal is announced, most buyers have yet to learn what they are buying. Of course, employees want to know right away whether they are going to have a job. However, after thinking through the benefits of good planning, most people would rather have the new owners spend a little time thinking about what the right structure should be and who should fit into that structure than make quick, but potentially less optimal, staffing decisions. The goal of the M&A is to achieve and deliver deal objectives. Early in the M&A, IT must identify, prioritize, and execute synergies that deliver value to the business and its shareholders. Continue to measure Its contribution toward achieving the organization's M&A goals throughout the integration by keeping track of cost savings and synergies that have been achieved. When these achievements happen, communicate them, and celebrate success.

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