Key Success Factors in IT and Operation Post Merger Integration Planning

Julian Sukmana Putra
Case #5:

Key Success Factors
in IT and Operation Post Merger
Integration Planning

This article is part of a series of case studies from Accenture Bloggers and Journalist Competition. The main purpose of this competition is to let people know more about the world of consulting, technology, and outsourcing, which are the main business of Accenture. You may comment, discuss, or share this article by mentioning the original source.
Case Study

CIMB Group of Malaysia -- the fifth largest financial services provider in Southeast Asia acquired two banks in Indonesia: Bank Niaga and Lippobank. In term of assets, Bank Niaga was the sixth largest bank in Indonesia whereas Lippobank was the tenth. To comply with the Indonesia Central Bank's "single presence policy", CIMB embarked on a plan to merge these two banks. The merger would create the fifth largest bank (CIMB Niaga Bank) by total assets of more than USD 10 billion and also among the top five in terms of distribution network in Indonesia.

Due to the IT-intensive nature of the banking business, one of the most important aspects of a bank merger is the IT and operations merger integration. The speed of completing the merger depends on the speed of the IT & Operations integration, whereas true "one-bank" service happens only upon completion of the IT & operations integration. The IT & Operations integration timeline will also drive the timeline for most other activities.

How Accenture Helped

Accenture was requested to provide integration services in the execution of the merger of the two banks. Accenture partnered with CIMB Niaga to provide the overall Merger Program Management Office.

Since Accenture's scope covered mainly IT, it leveraged its proven "Merger Integration Framework and Methodology" to plan and execute the merger in two phases:

In the Planning Phase, Accenture worked with CIMB Niaga in defining the 'To-Be' Target Operating Model for IT, Operations and selected business areas of the merged entity. The IT & Operations integration plan provides a clear roadmap with the best options on how the integration would be achieved within the timeline required by CIMB Niaga.

In the Implementation Phase, Accenture worked with CIMB Niaga to manage the execution of the merger integration activities to achieve Legal Day 1 and Operational Day 1, in line with the Target Operating Model and target schedule defined.

What would be the key success factors in the planning phase that would make an impact in the implementation phase?
Merger is a combination of two corporations in which only one corporation survives and the merged corporation goes out of existence. It is becoming more and more popular in the banking sector as competition grows and there is a global trend toward larger and larger banks that prompts financial services institutions in all regions to revisit their expansion strategies with a new sense of urgency. Hence, the number of mergers and acquisitions is expected to rise over the next few years.

As stated in the case study, due to the IT-intensive nature of banking business, one of the important aspects of bank merger is the IT and Operations integration. IT can be a powerful factor behind a merger success. According to a study by McKinsey & Company, more than half the synergies available in a merger of financial service institutions are strongly related to IT, for example in lowering IT infrastructure costs, reducing IT head count, or increasing volume discounts for IT procurement. On the other hand, IT systems integration often presents a major hurdle.

To increase the chances of getting successful IT and Operation integration, The Boston Consulting Group has identified six guiding principles to be implemented based on their experiences in numerous banking mergers as follow:

1. Choose from existing systems landscapes—don’t build a third
   Selecting existing systems from two merging banks is better than creating a new one because it limits both the amount of overall systems integration required and the time and effort needed to complete the process. Note that the selection process should be transparent to minimize politically driven decisions and avoid incurring additional costs at the later stage.

2. Identify clusters of applications
   Cluster is a set of applications and data that form a relatively autonomous unit. Comparing clusters of applications from two merged banks is viewed as the most effective way to perform selection process between two existing IT systems. This approach is better than choosing applications one by one for each function that has a risk in low synergies and long turn-around time or choosing overall IT systems as one entity that has risk of limited functionalities and high training cost.

3. Follow a rigorous selection process
   There should be a standardized framework to make technical evaluation and functional comparisons between clusters of applications chosen. Some major criteria that must be taken into account includes: The functionality within the context of new business strategy and operating model; Quality, durability and flexibility of each cluster’s technical architecture; Potential savings on operating costs; Feasibility of the migration project; and Speed of implementation.

4. Look for nuggets
   Nuggets are isolated applications that can prove to be absolutely necessary for continuing certain services or sustaining a specific competitive advantage. After choosing a cluster of applications from one bank, it is common to keep a nugget application from a parallel cluster at another bank.

5. Balance integration speed with careful system selection
   It is critical to give deadlines in choosing clusters. Delays can destroy the value of merger since the merged entity should invest in two systems as long as integrations are not completed. However, an overly hurried process without sufficient transparency often results in decisions being revisited later. Rigorous and transparent method should be adopted to ensure a good result.
6. Monitor implementation closely. Implementation occurs once after all systems choices have been made. The merged bank should monitor all IT implementation projects under a common framework. It is vital to set up a tracking mechanism to help provide control over intermediary milestones and create the transparency needed to inform the stakeholders about the IT integration progress.

**Key Success Factors for Planning Phase**

According to the case study, Accenture decided to split the integration process into two phases: Planning Phase and Implementation Phase. The objective of Planning Phase is to define the new Target Operating Model for IT and Operations and selected business area of merged entity, which is reflected on the integration plan that will be executed in the Implementation Phase.

The key success factors in the Planning Phase that will make an impact on the Implementation Phase are as follow:

1. **Appropriate Integration Manager**
   An Integration Manager plays a critical role in IT and Operations integration. Besides building the integration teams, Integration Manager also helps to consolidate operations and transfer critical skills across them and struggle to meet targets such as head count reductions, market share goals, and time schedules. Integration Manager will be also required to set up an effective governance and fast decision making environment.

   In the Implementation Phase, an effective Integration Manager will not only report to the steering committee but also help to set the company’s agenda. Implementation monitoring, an important task to maintain the integration progress, will be also led by the Integration Manager. Since timing is crucial, Integration Manager should be involved as early as possible to the integration project right after recruited to get adequate time for learning what will be critical to success.

2. **Clear and well defined Target Operating Model and Implementation Plan**
   Clear Target Operating Model has proven to be a key enabler to successful integration. It is necessary, since it will be referenced during the Implementation Phase. Selection of IT systems and applications from the merged banks and design of the new system landscape will be primarily based on this model. A clear and well-planned model will ensure a transparent and reliable decision making processes during implementation.

   To maintain the integration progress, the Implementation Plan should be also clear and well-defined. The scope of business areas to be integrated, the time frame, milestones and quick wins should be identified early and the parameters for each items are distinct. Implementation Plan should also include a migration routines to transfer data from original system to the new or chosen system.

3. **Trust and commitment from senior executives**
   To ensure a smooth integration process, the involvement of senior executives from two merged banks are really important. They will help to provide any resources needed or make critical decisions to support the integration team. Integration Manager plays a key role to connect with them and gain trust and buy-in as the project goes on.
4. Right selection of new system platform

The selected system platform will best support the combined product set and any planned new products. The chosen platform should have technology that not only is sustainable over the long term but also is able to handle the additional customers from a merger process and fit into the merged company’s goals for the overall system architecture. Moreover, the platform should not be so complex that the company will lack the necessary resources and skill sets to support and develop it. Risk must be minimized, and so must the impact on customers. The new platform must also take into account the views of the business units and be deliverable within the overall time lines for the merger.

5. Risk management

IT and Operations integration process has some inherent risks that should be identified since the early stage of the Planning Phase. Unmanaged risks will make an impact on the project schedule and potentially delay the Legal Day One or Operation Day One that are critical to the success of merger process. It is good to develop a risk analysis framework that mitigates customer attrition and operation risks through proven practices, techniques, and past experiences. A thorough risk analysis effort will identify the issues, and allows the integration team to be in a position to quickly address those issues. Further, it will give comfort to executive management, the board, and regulators that the bank is prepared for any challenges associated with the merger.

References


