

# Mergers and Acquisitions in Banking: Understanding the IT Integration Perspective

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## Abstract

The aim of this exploratory study is to understand the key issues associated with integrating Information Technology (IT) in banking mergers and acquisitions (M&A). The study is undertaken by reviewing a number of high-profile cases and interviewing the IT practitioners who managed the corresponding processes. The result is a comprehensive review of a poorly understood and researched area providing insights into the significance of the IT-related elements in the M&A integration and specifics of the M&A IT integration process. The study concludes by formulating a blueprint layout and integration model describing the timescale, stages, and principles of efficient IT integration. The layout and model can be used by organisations to guide and facilitate the execution of their future banking M&A transactions.

**Keywords:** banking, mergers & acquisitions, IT integration

## 1. Aims and Objectives

The aim of the study is to contribute to the knowledge base on best practice for IT integration within Mergers and Acquisitions (M&A) in banking. A number of large banking M&A cases were investigated through interviews with high-ranking officers who were directly involved in realisation of the corresponding transactions. Eight cases spanning fifteen years to the present time and involving major international institutions like Citigroup, Nomura, UBS, Deutsche Bank, Lloyds, and Royal Bank of Scotland were studied. The objective of the project was to study the IT integration process, its drivers, dynamics, and associated problem areas, and identify theoretical models and frameworks, as well as empirical principles in use. The outcome would be the creation of a summative profile of the IT integration process in banking M&A.

## 2. Literature Review

### 2.1 Why Focus on the IT Integration in M&A in Banking?

The rationale behind the study's focus on IT integration in M&A in the banking industry is two-fold. Firstly, M&A in the financial services sector have accounted for almost 40% of the M&A worldwide in the past two decades (circa \$7.1 trillion in 88.3 thousand instances between 1985 and 2002 according to Thomson Securities Financial Data, as cited in Walter (2004)), a significant part of those transactions being attributed to the banking industry. Secondly, the M&A failure rates are generally far above 50%, including high profile cases such as recent Santander's takeover of Alliance and Leicester (Williams, 2010). Yet despite IT being an essential element and major enabler in modern banking, there is no appropriate common reference framework for efficient banking IT integration available in the public domain. This makes a persuasive case for investigation of approaches for improving the efficiency of IT integration in banking M&A, particularly through the development of new structured models and frameworks. To achieve this, a full understanding of the M&A IT integration process is required.

### 2.2 Is IT Integration Really That Important?

In 2004, Walter (2004) noted a long period of dramatic restructuring for the financial services industry during which a major shake-up of the institutional design and intermediation processes was undertaken; all enabled and facilitated by the advancing IT. Apart from the strategic and purely financial ones, the technology-related premise was, as Bohling *et al* (2007) and Payne and Frow (2005) suggest, that organisations could achieve efficiency through "information, technology, and applications that are used to foster the integration of processes,

people, operations, and capabilities” (as cited in Lee, Johnson and Tang, 2012). Mirroring the premise was the scale of IT related expenditure that has been the largest non-interest-related expense item for industry institutions (Mullineux and Murinde, 2003) for decades. Yet recent events, like the aforementioned troubled Santander’s takeover of Alliance and Leicester (Williams, 2010) and the meltdown of parts of the RBS Group’s IT infrastructure (King, 2012 and Boyce, 2012) clearly indicate that achieving proper IT integration remains an issue far from a complete and definitive resolution. With regard to M&A in banking, IT integration needs special attention for the following reasons:

- IT integration is often a preferred method for creating IT platforms to support the emerging new business entity. According to Davis (2000), misalignment between business and IT criteria has proven to be a major obstacle in many integration cases. This fact, together with the constantly changing business requirements, make the development of major new IT systems to support the emerging business entity prohibitively risky;
- IT integration is extremely complicated from both technology and human relations perspectives. Most major banks in Europe run a patchwork quilt of legacy systems developed generally in-house over a period of several decades. Their integration increases complexity geometrically, often with associated power struggles (Davis, 2000);
- The process involves significant capital outlays. According to Davis (2000), IT-related spending accounts for around 15-20% of a banks’ total costs and continues to grow at a similar annual rate as banks update legacy systems and invest in new products and distribution channels;
- IT integration effectively drives the M&A timetable. Typically most cost savings from branch closures and reduction in IT staff and spending cannot be realised until the combined bank’s core retail system has been fully consolidated;
- IT integration directly affects the realisation of significant part of M&A synergies. McKinsey’s research (as cited in Davis, 2000) indicates that the share of such synergies is between 30% and 50% of all M&A synergies projected.

The above factors suggest that IT has indeed been both a major facilitator and a determinant of success of M&A in the banking industry.

### 2.3 Are There Any Ready-to-Use Models Available from the Academic Literature?

The first model for information systems integration in M&A was proposed by Giacomazzi *et al* (1997) who described a number of possible IT integration scenarios, each with a different level of standardisation of applications and a different final configuration of the architecture of the new information system (e.g. total integration, partial integration, no integration, transition). The model identified factors influencing the choice of integration strategies and advised on choosing a strategy based on the particular combination of those factors. While presenting some useful argument and “shortcuts” for the choice of appropriate integration strategy, the model however came short in several aspects. Namely, the “situation variables” used (referring to the external influence factors) did not provide enough modelling flexibility and the model was only validated using manufacturing sector companies and, more importantly, the study regarded integration as a single step process and completely ignored the internal process dynamics.

More work in this direction was done by Wijnhoven *et al* (2006) who proposed to regard post-merger IT integration as an IT alignment problem (Henderson and Venkatraman, 1992) whereby the IT integration strategy would be an integral part of the overall business integration strategy and executed within the context of the business merger goals and objectives. Useful to a degree, the study still has the same shortcomings, i.e. the lack of specifics for a particular industry (e.g. banking) and no insight into the dynamics of the IT integration process.

Perhaps the closest match for our case in terms of the specific industry context is presented in the work of Maire and Collette (2011) who looked at a merger between the alternative investment division of a Swiss private bank and a Taiwanese asset management boutique. Based on a real industry project, the study presents integration managers with theory-based yet practically applicable guidance for achieving a successful post-merger integration. Spread across six dimensions (strategy, social and communication, structure and organisation, speed and change management, success, and surroundings) the proposed 4S Integration Model and 6S Watch List cover a broad spectrum of issues that “one should monitor during post-merger integration” and make up a holistic approach to structuring the M&A integration process. Unfortunately, the IT integration element is only mentioned briefly in the model (Systems and Processes in the Structure and organisation category) and not much detail is given on how this element should be handled. The authors also acknowledge that “no theoretical model proposing key variables including internal dynamics to monitor or manage a

post-merger integration process” was found in the literature.

In light of the above, it appears that no ready-to-use models or frameworks to guide IT integration in banking M&A exist in the public domain today, which calls for further work in this direction.

#### *2.4 How Would Further Study of the IT Integration Process Help?*

It has been established that integration is the prevalent method of combining the technology infrastructures in a banking M&A and its efficiency is critical in making the transaction a success. It has also been established that there exists no definitive body of knowledge that would facilitate a disciplined approach to planning and execution of such transactions. Full understanding of the process drivers, hindering factors, and dynamics would enable one to manage those in a uniform manner with stably predictable outcomes. Furthermore, making such knowledge commonly available could potentially result in a higher M&A success rate in the industry overall.

### **3. Research Design**

#### *3.1 Method and Techniques*

The study adopts grounded theory as a method of “systematic generation of theory from data that contains both inductive and deductive thinking... deriving conceptual profile of the phenomena by employing a systematic set of procedures” (Glaser and Strauss, 1999). The method employs techniques such as literature review, interviews, and analysis in order to propose a new process model.

#### *3.2 Data Collection, Selection and Analysis Methods*

The literature review sources involved sixty five peer-reviewed academic publications, as well as sixty four company reports, white papers, and other relevant works. The sources for the interviews involved four London-based high-ranking bank officials who supervised IT integration in a number of M&A transactions (conducted by major international financial institutions such as Citigroup, Nomura, UBS, Deutsche Bank, Lloyds, and Royal Bank of Scotland) and suggested a number of cases for the analysis. Table 1 lists the principles that guided the case selection process and the resulting features that were realised:

Table 1. The case selection process – principles / resulting features

| The selection should...  | The case selection features...  |
|--|---|
| Allow the study to cover a broad spectrum of M&A transactions  | Good spread in composition and size of the transactions, some being mergers between very big organisations of similar size, others being takeovers of a small business by a far larger firm |
| Have a time perspective and be a fair indicator of how the industry M&A practice has evolved over recent years | Fifteen years to present time span  |
| Ensure high degree of validation in respondents' opinions  | All the respondents have extensive relevant practical experience and half of them were involved in more than one of the cases   |
| Even out the bias resulting from a respondent being either on the acquiring or acquired side of the deal       | Almost even split: Five cases where a respondent would be on the acquired side, three cases where they would be the acquirer  |

#### *3.3 The Research Process*

Interviews took place in March 2010 with the subsequent analysis accomplished in the following two months. In order to facilitate the analysis a number of categories of assessment were devised:

- 1) Significance of IT in M&A
  - a) IT-related advantage as an element of projected M&A gains
  - b) Significance of IT-related gains in the scale of overall M&A synergies
- 2) Specifics of planning and implementation of the IT integration tasks
  - a) IT integration planning – features and constraints, process dynamics
  - b) Implementing the IT integration – issues, implications, outcomes.

Table 2. IT-related gains in the scale of the M&amp;A gains projected

|        |  |
|--------|--|
| Case 1 | – A major element of the projected M&A gains<br>“Actual ongoing costs of the IT systems”   |
|        | – A collateral<br>“Through automation... to make the business world class and efficient”   |
| Case 2 | – A major element of the projected M&A gains<br>“Particularly around the IPR element of the common exchange and trade layer”   |
| Case 3 | – A collateral (but even that failed)<br>“Our market share had increased, because we brought a whole lot of customers to us, the new IT-related products... but we found significant problems with the technology infrastructure and the amount of assumptions that were made by management has turned out to be... overly optimistic” |
| Case 4 | – A major element of the projected M&A gains<br>“Very strongly in the Major Element category”  |
| Case 5 | – A major element of the projected M&A gains (same as Case 4)  |
| Case 6 | – A major element of the projected M&A gains (same as Case 4)  |
| Case 7 | – A major element of the projected M&A gains (same as Case 4)  |
| Case 8 | – Of no significant importance<br>“Due to the lack of experience the organisation didn’t know what exactly to do and what result to expect, so there was less emphasis on the IT integration early on”   |

#### 4. Summary of the Findings

For confidentiality reasons, the following conventions apply:

- The transactions have been labelled Cases 1 through to 8;
- The acquirer company is referred to as X, the acquired as Y;
- The respondents are referred to as C, H, J, and T respectively.

In the following section, we present a summary of the research findings grouped by the categories of assessment.

##### 4.1 Significance of IT in M&A

###### 4.1.1 IT-related Advantage as a Frequent Element of the M&A Gains

Whilst the primary purpose for the banking M&A deals is indisputably commercial advantage, close to forty per cent of the cases indicate specific new IT-related advantage as a second most important target, the importance of this element being described by one of the respondents as “in banks... IT actually is the business, or at least the enabler” (see Figure 1). On the other hand, in terms of achieving the projected gains, the same specific new IT-related advantage “tends to be the thing that gets longest to get in place” (Respondent J). Here the analysed cases are consistent on the commercial advantage side (*albeit* with some reservations), but not so consistent on the IT-related advantage side (see Table 2). The following points are pertinent:

Case 3 – the IT-related advantage was not realised although planned for, which happened specifically because a management decision was made to skip rigorous due diligence of the acquired business. Here, the otherwise quite detailed and standardised integration process on the acquirer’s side was not enough to provide for efficient IT integration and the organisation subsequently “repented at leisure” (Respondent T).

Case 4 – contrary to Case 3, the IT-related advantage (significant cost savings) was realised even though the IT-related synergies were not a major element of the projected gains. Instead, the prior experience of the staff involved, as well as good planning and execution made it achievable.

Case 1 and Case 2 – specific IT-related advantage was both planned for and realised; the staff involved either had prior experience of similar transactions (Case 1) or were highly motivated to achieve the target no matter how aggressive it was (Case 2).

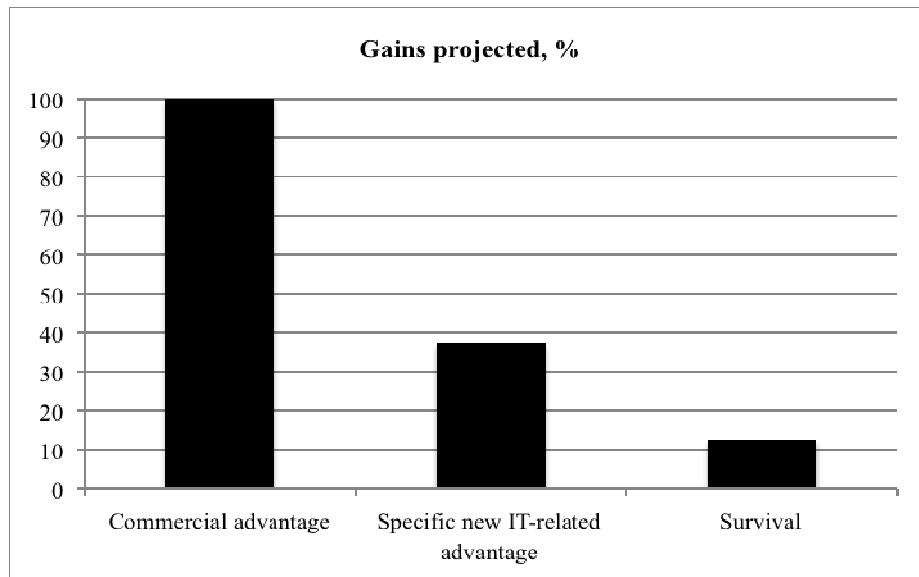


Figure 1. Projected M&amp;A gains

We conclude that IT-related advantage is a frequent element of the projected banking M&A gains. This advantage is achievable when clear and properly enforced guidance for the IT integration exists. However, even lacking such guidance, the integration might still result in significant unplanned gains if the staff in charge are experienced and keen to deliver; the IT-related advantage then follows as a bonus.

#### 4.1.2 Significance of the IT-related Gains in the Scale of the Overall M&A Synergies

Table 2 includes the respondents' comments on the significance of the related gains in the overall projected M&A synergies. Most of the respondents agree that the IT-related gains are either a major projected element or collateral (*albeit* sometimes not fully understood and leveraged) in the M&A gains. The peculiarity of IT, however, is that it is not just the initial saving on rationalisation of assets, services, and applications ("you've got two banks, you overlay and you cut out everything else", Respondent H) that makes the proper IT integration such a major concern, but the ongoing savings that become possible as a result of a leaner, combined IT platform. As Respondent T states, "in the scale of the deal... the finances of the technology are immaterial to the finances of the deal itself..." and "as you go through due diligence, the technology finances are not material and the risks that you see in technology are never going to be show-stoppers for the deal, because they can always just buy their way out by writing a cheque for another fifty million...". But he also adds that "once the deal is done and you get down to the "let's run it", then all the tens and hundreds of millions start to add up", which is further confirmed by other respondents referring to "IT as being a significant investment on an ongoing basis", "ongoing maintenance, simplified and updated", and "natural cost savings of the ongoing costs".

In light of the above, whilst the initial capital outlay on getting the two IT systems connected and working together is considered insignificant compared to the overall projected M&A gains, the savings on the ongoing maintenance cost of the new IT platform supporting the combined business are significant; this makes achieving the IT-related gains worth the extra effort.

### 4.2 Specifics of the IT Integration Process in M&A in Banking

#### 4.2.1 Key Features

As summarised in Table 3, it is a commonly held view that the knowledge about IT integration opportunities always informs the business strategy and vice versa; this is paramount in making realistic business decisions and properly prioritising IT integration tasks. This however does not always occur in practice, as conditions for the M&A transactions vary a great deal and are not always favourable, so planning the IT integration process in practice often becomes as much an art as it a science. The only viable strategy in such a case is "relying on the experience and professional judgement of the IT managers and their knowledge of the environment" (Respondent J). The conviction is further supported by the respondents agreeing on the importance of having relevant staff (subject matter experts and people with prior experience) involved in the transaction as early as possible.

Table 3. Key features of the IT integration process

|        |   |
|--------|---|
| Case 1 | <ul style="list-style-type: none"> <li>– Clear understanding of the new firm’s business priorities and how these translate into the IT integration targets and activities</li> <li>“We had our teams working together to just make sure that we clearly understood the ongoing cost, so you certainly factored in the cost principles early on... and that gives you a chance to invest and still reduce your costs”</li> <li>– The staff involved have prior experience in similar projects</li> <li>“Similar experience is very important as well as having subject matter expert on board from each of the legacy systems... we brought in a very senior person from another bank who led the IT integration in a similar deal...”</li> <li>– Relevant IT staff involved from day one</li> </ul> |
| Case 2 | <ul style="list-style-type: none"> <li>– The staff involved has prior experience in similar projects</li> <li>“Yes, sort of. A few people had experience in mergers, but nobody had experience of this, it was new. There was no clear understanding of how this would go, it was done literally in two to three days, and it really was relying on experience and professional judgement of the IT managers, their knowledge of the environment.”</li> </ul>   |
| Case 3 | <ul style="list-style-type: none"> <li>– Clear understanding of the new firm’s business priorities and how these translate into the IT integration targets and activities</li> <li>“Understanding the business driver for the deal is vitally important when assessing the technology component of the deal”</li> <li>– The staff involved have prior experience in similar projects</li> <li>“We have a team whose job is in M&amp;A situations to be responsible for the IT planning pre-deal... whose job is to do just that, and within the functions there would be people who aren’t specifically dedicated to M&amp;A, but who are subject area specialists, so you would involve them when their experience is needed...”</li> </ul>  |
| Case 4 | <ul style="list-style-type: none"> <li>– Clear understanding of the new firm’s business priorities and how these translate into the IT integration targets and activities</li> <li>“Typically what happens on these (hostile) deals... the acquirer is the one who has all the power and he thinks he knows how everything should be done, and they plan on that basis... whilst the target organisation is not going to give up a lot of its information... until the deal is done and you are ready to do the integration”</li> <li>– Relevant IT staff involved from day one</li> </ul>  |
| Case 5 | Same as Case 4  |
| Case 6 | Same as Case 4  |
| Case 7 | Same as Case 4  |
| Case 8 | <ul style="list-style-type: none"> <li>– The staff involved have prior experience in similar projects</li> <li>“You need a blend of subject matter experts from the existing systems... but also people that have done similar projects before, especially if it is a project on such a very large scale... and you need to really prioritise the decisions”.</li> </ul>  |

In terms of the classic project management dimensions, the majority of cases postulate the combination of quality (considered a close correlation to the functionality implemented) and delivery time as the ultimate measure of success (see Table 4). This and the earlier-established fact that “the finances of the technology are immaterial to the finances of the deal itself” leave the cost of integration as a measure allowing most flexibility.

Table 4. Impact of quality and time considerations

|        |  |
|--------|--|
| Case 1 | “You must have criteria for the core things that have to be delivered to the right quality... Here it is more around getting the right sense of pace. Rather than detailed and refined consolidation, we really needed to get the core elements in place and if that meant one or two short-term compromises that clearly gave us some great competitive advantage for our customers, than those decisions were taken” |
| Case 2 | “The performance measures were “can you be more economical, cut costs, etc.”, but fundamentally it was “How quickly can you get the stuff working?”  |
| Case 3 | “Quick and dirty – the Legal Day 1 activities may be so, but then detailed and refined in the end. And the other important thing... the audit are going to come and look at what you did... so even the quick and dirty is constrained by our quality standards”   |
| Case 4 | “We normally talk about Day 1, Day 1.5, Day 2... Day 2 defined as your strategic end-game... and about what functional requirements you need to provide for each of those different states... but for most of them the focus is... on getting integrated to the right standard”  |
| Case 5 | Same as Case 4   |
| Case 6 | Same as Case 4   |
| Case 7 | Same as Case 4   |
| Case 8 | Same as Case 1   |

In short, a successful M&A transaction is characterised by the clear link between the business strategy driving the merger and the priority of the IT integration tasks, the availability of staff with relevant experience and motivation, as well as the completion to the required standard as soon as possible.

#### 4.2.2 Issues

The variety of issues that could adversely affect the IT integration process may be classified into four categories: lack of clear business strategy, aggressive targets that overstretch organisational and technological capabilities, lack of personnel with relevant experience involved in a timely manner, and any power struggle between management of the merging organisations (Table 5). These categories are often interdependent (e.g. achieving the targets that are already aggressive is further stifled by the lack of personnel with relevant experience and warring senior executives), but the common denominator for most of them is quality of management decisions. Where the process is impeded, these are either ill-informed, or poorly planned, or not executed to a high standard, or any combination of these.

Table 5. Issues impeding the IT integration process

|        |  |
|--------|--|
| Case 1 | – Lack of experts with relevant experience<br>“This inevitably happens on sort of an cyclical ongoing basis, as you’ve got certain requirements and there are some unknowns, so... having a team that consists of business subject matter experts, IT subject matter experts, and people that have done it before... these are the sort of critical things that mean that the right decisions can be made quickly, even if they are difficult decisions”   |
| Case 2 | – Aggressive targets<br>“Business plans were very influenced by the speed at which we could deliver IT capability... so they had assumed the same work rate for the next three years, but people seriously couldn’t keep that pace that long...”<br>“A lot of vendor negotiations, system platform selection and high-level design took place before the project was even mobilised properly”<br>“Intellectual Property Rights (IPR)... nobody expected that and it turned out to be huge, so we delayed the projects until we knew where the IPR laid... Then there was the legal entity setup – what was going to be the legal entity structure of the new broker dealer (that then affects how you are configuring specific parameters within your broker system)...” |

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- Case 3 – Lack of clear business strategy  
 “Business decision requirements have always to be specified... Your IT guys know what they need to do, but your business guys could go “well, we’re not sure if we are keeping those branches, we are not yet sure if we are going with this or that application, we’ve got to do some analysis”... so then the IT integration timelines could be impacted”  
 “We bought this bit of another bank and this little unit just refused to integrate with us, just refused... And the reason it happened was that this senior person wanted to buy that bit of business, the deal was done, the senior then left, so we had no idea why we had it there...”
- Case 4 – Power struggle  
 “You got people with different perspectives; this was the large part of the tension. My legal counsel at the acquired firm were telling me that I could not give approval to anybody, I couldn’t give access to anybody, and yet the legal people at the acquiring firm were telling me that I was part of that acquiring firm and I was destined for the acquiring firm and therefore I should be giving them access...”
- Aggressive targets  
 “Because the acquired business was part of a consortium, before it could be folded into the acquiring business, it had to be separated... and the regulators had to give approvals for demerger... so before the approvals were received we had restrictions in terms of who could see what... it has been a major problem... some things had to go slower than we would have liked...”
- Case 6 – Power struggle  
 “The CEO of the acquirer would not talk to the CEO of the acquired firm... That was a big problem for us, our leadership was marginalised, and that does give you some technical issues because it means that you don’t know how to proceed – if you have to argue about a particular solution, you haven’t got your escalation path”
- Case 7 – Lack of a clear business strategy  
 “Our users were fired very early on in the merger and that meant that a lot of people who had the knowledge from a business knowledge point of view weren’t actually in the firm anymore. So that gives you a technical challenge”
- Case 8 – Lack of clear business strategy
- 

The issues mentioned above are not exclusive to any particular industry or type of business transaction and hence the solutions to them are equally well recognised (e.g. increase planning and resources to improve chances of success). There is, however, a distinctively M&A specific element that gives the whole affair a new slant and determines the way the IT integration is often carried out. All the respondents are content with the view that a typical M&A IT integration process is not a single operation, but rather a two-part effort comprising the speedy establishment of basic connectivity between the merging IT platforms and the subsequent complete integration of the IT assets. The guiding principles for such a split are the need to enable quick support for the combined business entity, as well as balance the quality and time-to-deliver elements of the project. To enable realisation of these principles, a specific process layout and model are required.

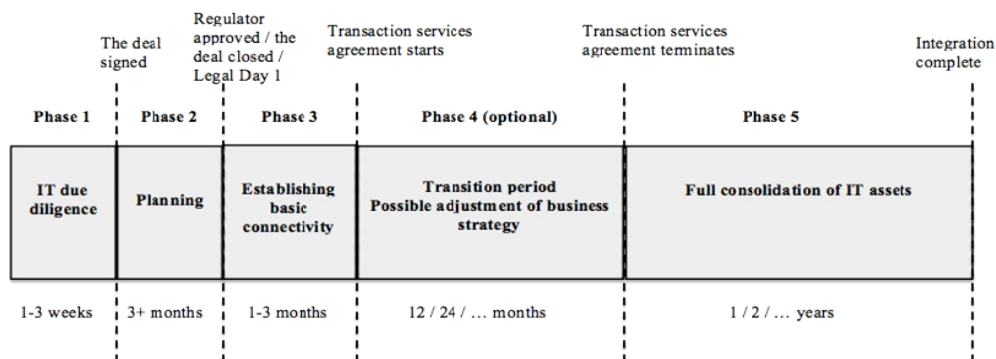


Figure 2. The proposed process layout for M&A IT integration process.



#### 4.2.3 Formulation/Elicitation of the Process Layout and Model

##### 4.2.3.1 The IT Integration Process Layout

In theory, once the merger has been announced and all the legal names and accounts have been changed, the two formerly separate IT platforms are considered to be part of the now-merged IT infrastructure. However, in reality, the creation of the integrated IT platform often takes a number of years after the official completion date. For banking specifically, this and the fact that the IT capability by and large equals the business capability, raise some serious implications. Being technologically unable to fully exploit the newly created business opportunities, as well as having to publicly admit that this might still be the case for some years to come, would mean lowered performance expectations and potentially disastrous consequences for the market value of the firm's stock. To address this issue, many organisations implement, with minor variations, a special layout of the IT integration process; its summative description is presented in Table 6.

Table 6. The IT integration process layout

|              |  |
|--------------|--|
| Respondent C | <p>“There is a programme of work and there are sub-projects, so we have got a series of projects that land at different times”</p> <p>“We wanted to provide basic connectivity quickly... and also it was important to put organisational structures quickly”</p>  |
| Respondent H | <p>“There is a lot of focus initially on integration and that is bringing the business together so that you can execute it in the name of the firm and the legal entities that you want to trade in... the business then wants to enhance the technology to support the increased business, and to do that you really need to get beyond that quick piece of integration and then you move on. So... it does fall into different categories, and typically what you find is that the first part is called integration and people are very keen to say “we’re done, we’re integrated” but then the enhancement, the embellishment of the business takes place afterwards”</p> |
| Respondent J | <p>“Typical merger is cut and shut, connect the two things together, make them work as quickly as possible, which typically happens at one speed... and then there is always that tail of dealing with the IT integration, which may take many years”</p>  |
| Respondent T | <p>“Straight after Legal Day 1 there is a piece of work to provide some connectivity between the two businesses, the ability for something to be transferred... Transaction Services Agreement (TSA) then runs... So yes, there is sort of a project, and there is sort of another project at the end, and probably the gap in between when the business goes “what are we going to do and what do we really want”</p>   |

Based on the above summative profile, the authors propose a formulation and blueprint of the banking M&A IT integration process. The process layout depicted in Figure 2 consists of two main parts: part one spanning Phase 1 through to 3, and part two consisting of Phase 5 with an optional Phase 4. The focus of part one is establishing basic connectivity and enabling the combined business to operate as a single legal entity as quickly as possible, so as to allow senior management the opportunity to applaud the successful completion of the transaction in order to send a reassuring signal to the shareholders and markets. An optional transition period (Phase 4) might be required at this point to adjust the integration priorities in light of the newly created business opportunities. The focus of part two (Phase 5) is complete integration of the IT assets to enable the combined business to fully exploit the synergies arising from the merger. In such a way, the basic connectivity works as a cushion for possible criticism over inefficient merger execution and allows the business to start recovering the cost of the transaction as soon as possible, whilst the remainder of the integration is under way.

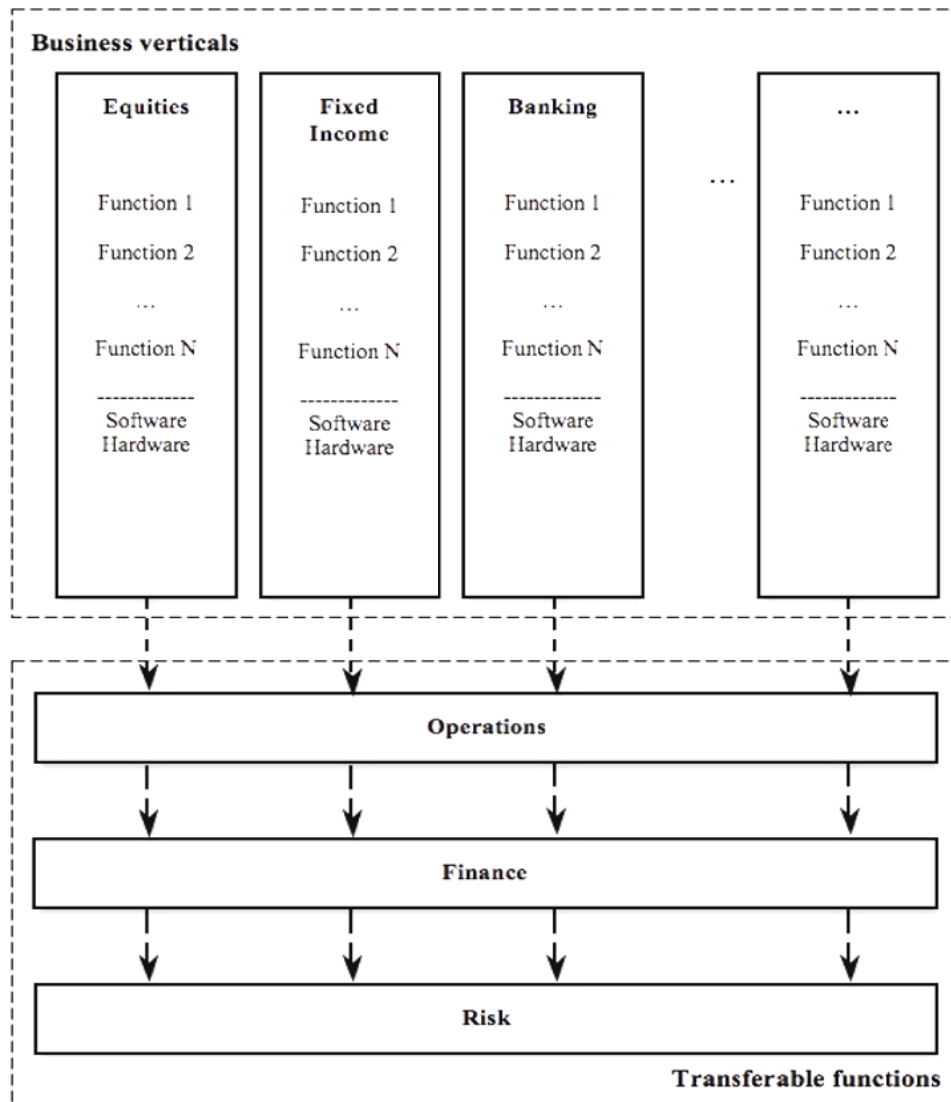


Figure 3. Vertical IT infrastructure model

#### 4.2.3.2 “Portfolio Best of Breed” as the Preferred Model of the Process

The proposed process layout allows for basic connectivity immediately post-merger and subsequent improved planning of the full-scale integration, but even during Phase 5 of the process, the time pressure is never entirely eliminated.

In banking, the IT infrastructure for transferable functions such as Operations, Finance, Risk etc., is formed of common horizontal layers (Figure 3). This is connected to the IT infrastructure elements supporting the business verticals, which are essentially specialised business functions grouped by product, department, or some other criterion (e.g. Equities, Fixed Income, Banking, etc.). In theory, to ensure the best functional capability for the emerging IT platform, one would pick and choose the IT infrastructure elements supporting individual functions within different business verticals and then combine them. In practice, however, such an approach would be prohibitively time-consuming to implement. Instead, complete stacks (portfolios) supporting selected business verticals are picked and plugged into the single chosen transferable functions layer (Figure 4). Obtained in such a way, the consolidated IT platform is a trade-off between the overall utility of the portfolios and the time needed to plug them into the chosen transferable functions layer on the one hand, and the functional imperfections in the resulting IT platform on the other. The necessary balance between the speed of implementation and quality of the IT integration is thus achieved. This approach can be described by the “portfolio best of breed” IT integration model shown in Figure 4.

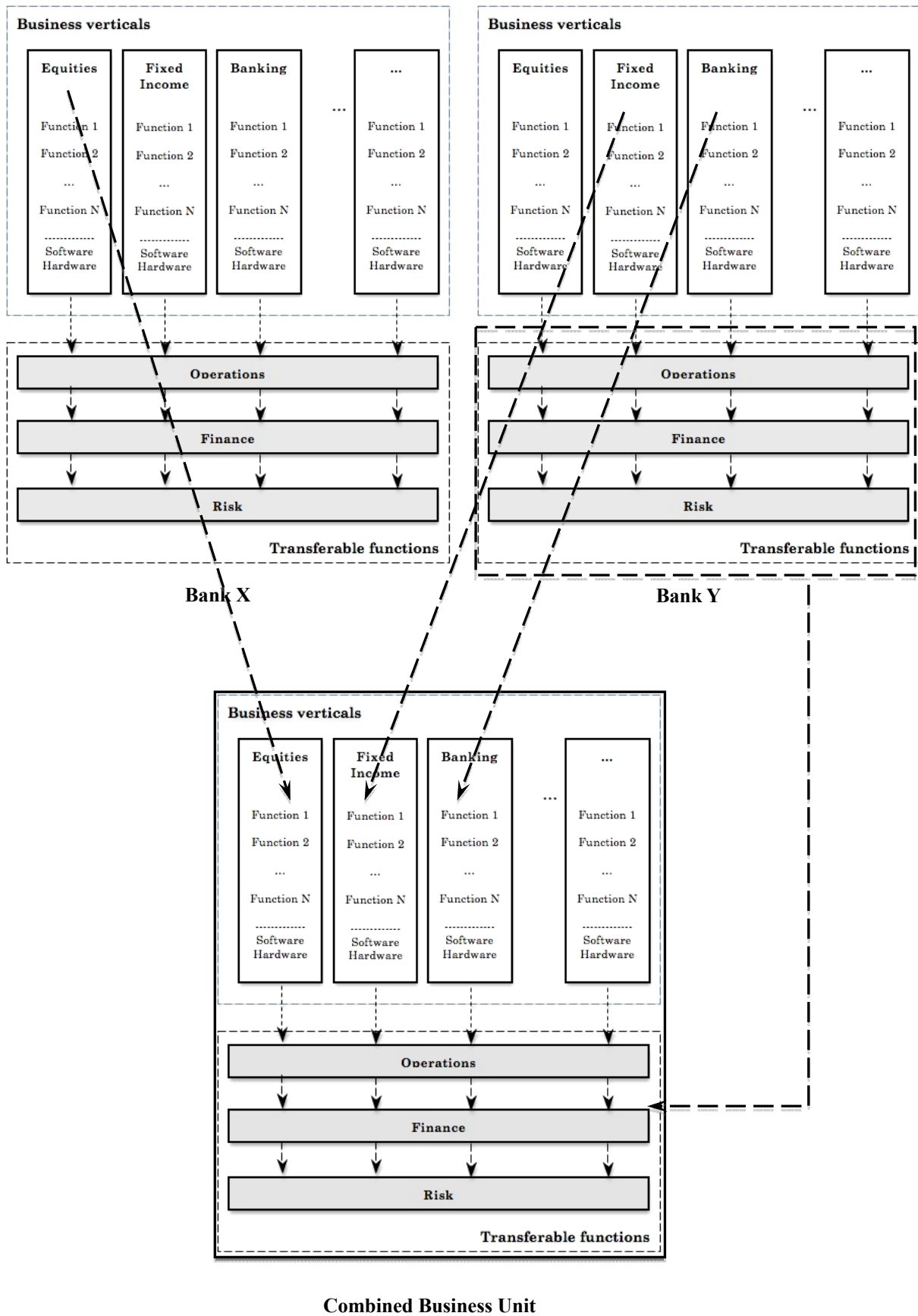


Figure 4. IT integration on a “portfolio best of breed” basis

## 5. Conclusion

Information Technology (IT) is widely considered a critical resource and an enabler in the business model of modern banking. Consequently, the IT constituent is a very important element of the post-merger integration, often underpinning the realisation of a significant part of the projected M&A gains. Key success factors of the M&A IT integration process include a clear link between the business strategy driving the merger and the priority of the IT integration tasks, availability of experienced and motivated staff, and completion to the right standard as quickly as possible, whilst the main constraining factors are overly aggressive targets and quality of management decisions.

The feature that distinguishes the M&A IT integration in banking from other types of IT integration processes is the need to prioritise the IT integration tasks to support the business operations post-merger as quickly as possible, and yet accommodate the full integration of the IT assets, potentially spanning years following the official completion of the transaction. The IT integration process layout and “portfolio best of breed” model elicited and formulated in this study address this need in two ways: the process layout shows how to mitigate the business risks associated with the prolonged IT integration, whilst the model shows how to deliver a fully consolidated IT platform in a way that is balanced in terms of the delivery time and quality. Both the process layout and model can be used by organisations embarking on M&A for guidance in their IT integration.

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