It at the table

Involving the IS professional in the merger and acquisition team early is essential. During initial meetings between the two entities, many of the general legal and business issues discussed could have potentially devastating effects on information system scope and design development.

Being present to determine the language of the acquiring or ceding company is important for the IS executives. Items as mundane as provider networks can become cumbersome during implementation if one company's definition of a provider network differs from the other's. Clearly defining operational terms during the early stages helps IS executives incorporate them into a commonly understood scope document.

The resulting design document will reflect a more realistic timeline and personnel estimate to be included in the overall economic analysis of the new formation. Information system assessment procedures greatly enhance the probability of a successful implementation.

The need to integrate new systems quickly can be an extremely difficult task for a number of reasons:

1. Corporate planning does not always include IS personnel in the planning process. In addition, IS integration - related planning typically does not occur until the merger is over, thus delaying the process (Stylianou et. al., 1999).

2. The new corporate structure must cope with the cultural differences (Weber & Pliskin, 1996), work force issues relating to differing salary structures, varying technical skills, work load, morale, problems of retention and attrition, and changes in IS policies and procedures (Fiderio, 1989).

3. The lack of planning, results in shifting priorities relative to development of application projects.

4. Technology issues relating to compatibility and redundancy of hardware and software, connectivity, and standards must be resolved. However the integration of non-compatible systems is time consuming and cannot occur over night if done properly. (references from Stylianou)

Corporate expectations relative to IS integration during the merger process are often unrealistic. All of these factors can impede the successful integration of IS during merger activity, create information shortages and processing problems, and disrupt the normal flow of business.

Communication is key to successful integration efforts. Therefore, even before the merger is completed the two entities

* must have connected the e-mail systems and share directories. The early start can make a big difference in the organisations' agility in blending infrastructures

* must connect the voice communication systems between them

* the third connectivity point should enable the companies to access each other's intranets

* have to make sure that there are strong help-desk capabilities because during a merger there is a much higher call volume.

Aside from these technological portions of the formula, there are decisions to make on a case-by-case basis. The two companies have to build bridges between the applications running at both, including

* finance

* supply chain

* human resources

* marketing

* sales

* customer service

(Taken from " The Science of Merging" article)

5. Review Your Operations

The assessment must begin with a review of operational concerns and end with a review of strategic initiatives within each organization. On the operational side, the assessment tool, at a minimum, should identify the business and systems items described here.

1. 2 ... BUSINESS NEEDS

ï¿½ Market analysis -A quick way to interrupt sales growth in a newly merged organization is to hinder the agent's ability to market the products they are accustomed to selling. Ensuring the IS can handle existing product offerings is the best way to prevent sluggish growth during conversion.

Product comparisons-Compare product offerings to ensure that systems migration plans can handle the spectrum of products.

Plan design comparisons-Compare benefit structures within each product to ensure the new structures can be represented in the systems environment.

Membership, enrolment, and billing -Continued predictable revenue is the key to solvency of any insurer, thus, membership and billing systems are key to financial stability during a merger. Creating a mechanism to enable uninterrupted billing, membership and eligibility is possible if a good migration plan is in place that includes:

Billing-Review billing policies, cancellation timeframes, late payment penalties, group and individual billing procedures, commission and override methods, and invoice formats to ensure the new system can accommodate each billing scenario.

Membership-Examine subscriber to member relationships, group membership, membership feeds, billing, and commission integration.

Customer service -Analyze customer service requirements for members and providers, which is essential to retention of both. Customer service needs escalate during a consolidation of business and automated systems, and proper response is a must to ensure inquiries are met.

Telecommunications-Determine if customer service representatives will be centralized or decentralized and figure the resulting call volumes associated with the alternatives. Determine if existing equipment and software can handle the solution and the decision trees associated with consolidated business.

Voice response units-Investigate the level to which this technology is used within the merging organizations, establish plans to unify the technology, and try to accommodate the best practices of each existing plan within the solution.

Internet capabilities-If interactive customer service capabilities exist, calculate whether the new systems solution will be able to support the existing Internet capabilities or if they will require new methods.

1. 2 ... SYSTEM NEEDS

Hardware capacity-Depending on the systems architecture, expanding hardware capacity may be easily accomplished. Consulting the hardware vendor for assistance is essential.

Software capacity-Work with your software vendor to identify their clients of like size to your new operation and evaluate their experience against your needs. This is harder to accomplish because much of the software available has not been stressed to the levels of activity required in major mergers. Load testing of software, especially in the absence of advance hardware purchase, is difficult.

Telecommunications-Analyze geographic dispersion, transaction volume, and transaction types (voice, data, image, print, etc.) to ensure speed and consistency appropriate for the various operations occurring throughout the new organization.

6. Plan Your Strategy

Once the operational assessment is complete, a strategic assessment must be conducted to determine the future development within each organization. This assessment should include the following new technology deployment issues.

System upgrade schedules-Review contractor, vendor or in-house upgrade schedules for hardware and software.

Strategic development initiatives-Review strategic IS plans to determine if the resultant organization continues to require the initiatives within the plan. If functionality or system enhancements are projected, determine the impact of additional volumes and products on the projected scope and design documents.

7. Analyze the Alternatives

The last stage of information system strategy must include a thorough and unbiased alternative analysis. Because a common IS platform is uncommon in most mergers and acquisitions, decisions must be made as to the best final solution that will optimally support the new entity. The variations differ in each case but four common alternatives frequently surface:

* Allow the status quo to continue, with each existing organization processing their information needs on the current systems structure. The pros of this approach include interruption of business processes during the critical stages of the merger. This short-term gain is usually outweighed by the difficulties in obtaining any long-term economies of scale and the difficulties in sharing membership, eligibility, deductibles, and other accumulator information over a common insured base.

* Migrating all business to one of the existing company's systems. The benefits include elimination of membership, eligibility, and accumulator issues, and it consolidates all business on a common systems environment to produce economies of scale in systems support. The downside is the large-scale " big bang" theory conversion of data, the acquisition expense of hardware and disposal of existing hardware, and training issues associated with a potentially reticent employee group. Each can have an immediate

drain on capital as well as delay in any operational economies of scale associated with the merger.

* Migrating lines of business to the best of breed information system from each of the existing companies. This, results in production of economies of scale in the lines of business affected, and it deals with the membership, eligibility and accumulator issues in the short run. Implementation of this strategy can be staged over a time period allowing for management and organizational changes to occur concurrently with system implementation schedule, eliminating the " big bang" problems associated with total systems conversion. This also affords a co-opting benefit within both companies, each contributing to the overall success of the new concern.

* Outsourcing the IS infrastructure to a third party having the functional diversity and technical capacity to accommodate the combined business portfolio of the new entity. Selecting these alternative results in the new organization's ability to focus on its core competencies as it develops a vision for the future. It also eliminates the growth of information staff to support the migrating solution, produces a common IS infrastructure to support economies of scale, and establishes a budgetable IS expense into the future for planning and pricing products. The downside includes conversion requirements and training all staff on a new system. However, rather than having a reticent employee population, it promotes a team atmosphere in that employees from both organizations are going through the same process.

8. Avoid the Crises

Most of these issues have direct impacts on the overall merger evaluation process. Therefore, IS executives must be involved in the research and planning from the initial stages of feasibility determination.

Fines levied for slow payment, in creasing administrative costs and declining profitability, and provider and member dissatisfaction highlight the symptoms of an ill-equipped information infrastructure to handle consolidation and expansion.

Using a good IS assessment tool and developing multiple infrastructure alternatives during a merger is essential to ensure an organization is capable of adding new business without interrupting the quality of service provided to its members, providers and employers.