Post-Merger IT Integration: A Comparison of Two Case Studies

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POST-MERGER IT INTEGRATION: A COMPARISON OF TWO CASE STUDIES

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Abstract

This paper contrasts the steps taken in integrating the IT functions of two very similar-sized large Australian financial institutions—namely Suncorp and Promina, following the takeover of Promina by Suncorp in March 2007—with the steps taken in integrating the IT functions of Sallie Mae and USA Group, as documented by Brown et al. (2003). The paper identifies eight similarities and four differences between the approaches taken, with the four differences being very important. The paper concludes that in merging IT functions, the advice of experts on organizational transformation is highly relevant, but that in addition, most key decisions about people, systems, technologies, and their locations, remain very complex and highly situationally dependent.

Keywords: IT integration, mergers and acquisitions, Agile development
1 INTRODUCTION

The IT issues arising from the merger of two firms of similar size, with similar product sets, selling to much the same customers in the same geographic regions (e.g., the integration of IT in the recently announced Kraft Foods takeover of Cadbury1), are very different from those where all four factors are different, e.g., when a large company such as Cisco absorbs yet another start-up firm2 (Giacomazzi et al., 1997; Henningsson and Carlsson, 2007). With this claim in mind, the purpose of this paper is to learn as much as possible from a case study of the integration of the IT functions of two very similar-sized large Australian financial institutions, namely Suncorp and Promina, following the takeover of Promina by Suncorp in March 2007. At the time of the takeover, the market values of Suncorp and Promina were about A$12B and A$8B, respectively. Further, both firms were selling similar (mainly insurance) products to similar customers in much the same geographic market. The acquisition almost doubled the size Suncorp, from 8,800 employees in 30 June 2006, to 16,300 by June 2007. Post acquisition, Suncorp was the second-largest insurance company in Australia (after IAG), and the fifth-largest bank, with a total of eight million customers and an expected pre-tax profit of over A$2B p.a.

The takeover announcement said that after transition costs of $395M (including A$161M in information technology3), savings of A$225M per year would flow from consolidation of head and back offices, information technology, business efficiency, and reinsurance4. To help achieve these cost savings, a new CIO from outside both organizations, Jeff Smith, was appointed to manage the IT integration. As suggested by Mehta and Hirschheim (2004), the first challenge for the Smith and his team was to help deliver the integration cost savings that had been promised to the stock market. Longer term, their challenge—as in all IT organizations—was align IT to the needs of the business (Luffman and Kempaih 2008).

Searching for theories about how post-merger IT integrations should be conducted, it was clear that the steps in Kotter’s (1996) generic process model of organizational transformation (i.e., creating a sense of urgency, forming a powerful coalition, creating a vision, and so on) were likely to be equally important in IT mergers5. However, the arguments of Johnston and Yetton (1996), Giacomazzi et al. (1997), Mehta and Hirschheim (2007), and Henningsson and Carlsson (2007) that mergers in different contexts, with different strategic goals, need to be handled very differently, were also compelling. We therefore decided not to rush to make generalizations in this paper about how mergers of IT functions in all large organizations should be done, but rather to proceed in a more grounded fashion and see if we could explain if and why the steps taken at Suncorp made sense.

In addition, we could see that although a number of key decisions were very different, Brown et al.’s (2003) case study of the merger of Sallie Mae, a 3,500-employee student-loan financier in the US, and USA Group, a 3,000-employee not-for-profit student-loan financier in the US, was similar in many respects to this case. It therefore provided a very convenient benchmark for identifying both practices in common and unusual decisions made at Suncorp. Thus the purpose of this paper is to (a) outline and explore the logic behind the decisions made in the IT integration in the Suncorp-Promina merger, (b) compare actions taken at Suncorp with those taken in Sallie Mae in 2000-2001, then (c) draw some conclusions that might be relevant to CIOs in similar IT-integration projects in future. Consistent with the approach taken by Brown et al. (2003), our goal is not to present or test some grand theory of post-merger integration; we don’t have sufficient knowledge yet for such theorizing. Our goal is simply to identify some patterns that may contribute to theory formulation in future.

3 This included implementing organization-wide e-mail and collaboration systems, co-locating all servers at a new A$200M datacenter in Springfield, south-west of Brisbane, by mid 2009, and identification and conversion to best-practice processes from the various business units. Target to be 95% complete by June 2009.
4 http://library.corporate-ir.net/library/14/144/144003/items/311537/ceo_speech_asia_pacific_2006.pdf
5 Many of these generic factors are captured in Morsell et al.’s (2009) model of factors affecting IT-integration success.
2 METHODOLOGY

This case study below is based on eleven interviews for a total of about ten hours with eight senior IT managers from Suncorp and one supplier manager, during August 2008 to March 2009. Three of these interviews were with the CIO. The other seven internal interviews were with ex Suncorp and ex Promina staff (more from Promina), including direct reports to the CIO and a number of project and change managers. All interviewees were positive about the approach Smith had taken in managing the IT merger, and in particular, with the Agile initiative. Interviews were audio recorded, transcribed, and compared to the other sources to assemble and organize the information presented below. Other materials used included investor presentations and annual reports from the Suncorp website, press reports, some internal documents, and one computer-based training video. Based on this material, a 26-page “teaching” case was written up. Once that case study had been reviewed and approved for public release by CIO Smith, it became the source of the case-study material presented below. The authors are grateful to the nine managers who shared their insights and experiences with us.

3 SUNCORP IT-INTEGRATION CASE STUDY

As explained above, integration of the IT systems and organizations from Suncorp and Promina was to be an important part of delivering the synergies promised to the stock market. An outsider to both Suncorp and Promina, CIO Jeff Smith, was appointed to lead and manage this IT integration. Prior to taking up his appointment, Smith had experience with large scale-integration in senior IT management roles in Australia and the USA, including Telstra (as CIO), Toyota, and General Electric (GE). According to a 29 March, 2007, press release from the then CEO of Suncorp (Smith’s new boss):

“We expect to achieve significant synergies in the IT area and Jeff has the skills and track record to deliver these. Technology will be crucial to the merged group so we expect Jeff’s experience delivering similar large-scale integrations means he will be well placed to deliver a range of competitive future platforms for the merged group.” (Suncorp CEO John Mulchay, 2007)

One year later, by March 2008, after the integration team had had a good opportunity to assess the benefits they expected to flow from a range of integration projects, the published savings estimate from integration was increased by $100M to $325M per year. Over 300 “synergy initiatives” were planned6, with the overall integration effort expected to be 95% complete by June 2009.

3.1 The IT-Integration challenge

Smith took up his appointment as CIO on 27 March, 2007, two days before Suncorp assumed control of Promina. He inherited two IT organizations, each with its own long history of computer-system development and two sets of computer systems, including thousands of application systems from both Suncorp and Promina7, many of them legacy and with overlapping functionality8. There were four data centres each with a range of mainframe computers, and approximately 20,000 PCs distributed across Australia and New Zealand9. With little outsourcing, total IT staff numbered over 1,500, plus 600-700 contractors10, thus constituting roughly 13% of all Suncorp employees. Prior to the merger, the IT organization at Suncorp had been quite centralized. It had some experience integrating IT in a previous merger with GIO Insurance, in 2002. By contrast, IT at Promina had been decentralized.

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8 For example, on the Promina side, the AAMI environment was one of IBM mainframes with COBOL, DB2, CICS, and 3270 terminals.
Promina had independent IT teams in its six different business units with little central oversight in terms of architecture or co-development of systems.

Smith sought to unite the disparate IT organizations with a new common vision: to become “a world-class IT function”. His vision was heavily influenced by his beliefs that people and processes in organizations are the key things to get right, and in the value of (a) Agile system delivery, (b) incubating innovation, and (c) open systems. In addition, he thought that Suncorp’s heavy reliance on individual contractors to supplement internal IT capability had led to inefficiency. Contractors, he said, took some months to learn their new roles, then took their knowledge with them when they left. This had contributed to certain solutions being complex and expensive to manage:

“The designs were complex because there were lots of different individual contractors in different areas with no real solid enterprise architecture. Our own people didn’t have the capability. So it all came back to a lack of skill and leadership internally. That drove going out and grabbing bodies to come in [as contractors], which in turn drove poor solutions.” (Smith, 2009)

3.2 Application Integration

As noted above, the business case for Suncorp’s Promina takeover was based, in part, on the financial analysts’ belief that consolidating IT systems from the two organizations would be value adding. The analysts’ plan was to consolidate everything. But Smith challenged this:

“The answer to everything was consolidate… But if there’s no business impact it is not worth doing. Let’s say I spent $20m to replace one system with another, but the business doesn’t operate any better with no material benefit, why do it? Maybe there’s a marginal cost difference to operate one compared to both of them, but the fact is, there’s a big cost in migration and consolidation. Consolidation can be a means to an end, but it shouldn’t be the end.” (Smith, 2009)

“People use these integrations as excuses to spend money, right? So I kept asking, ‘What problem are you solving?’ We looked at where is a real opportunity for us” (Smith, 2009)

Since they were merging two very similar businesses, Smith found that an effective approach for identifying which systems to consolidate was to compare the strengths of systems in the different highly comparable business units, as well as to consider ways of improving both. This approach identified three areas that could yield benefits: claims processing, pricing, and the internet. For example, in claims processing, Suncorp found that although AAMI’s and GIO’s general and automobile products were very similar:

“AAMI’s automobile claims processing was significantly more efficient per claim than GIO’s, and GIO’s pricing engine was much better than AAMI’s. Changes in these areas would add huge value to the business. This was where Suncorp decided to consolidate.” (Smith, 2009)

However, it was decided that other areas, such as policy administration, should not be consolidated:

“We’ve got three major policy administration systems. Even if I consolidated to one there’s no huge business benefit, because all are pretty standard and efficiently run. It would be nice to do, but it wouldn’t be on your hit list.” (Smith, 2009)

3.3 IT-Organisational Integration

The merging of separate IT functions is a significant challenge in any merger of two large organizations. In this case, Suncorp had multiple IT functions, each with its own culture, processes, and business-domain knowledge. Smith’s approach was to paint a vision that offered an attractive future for all IT staff. Whilst many of his peers in similar organizations were seeking to accelerate their off-shoring and outsourcing plans, Smith proposed building a world-class internal IT function that would be acknowledged as a key source of competitive advantage at Suncorp. The core of his thinking was that, first, people and processes, not technology, are the critical IT success factors:

Most people focus on technology as their differentiating factor. But it’s not. It’s the people and the processes for how work gets done. [CEO] John [Mulcahy] would say the competitive
advantage in our business will be our IT capability. We have to do [IT] stuff better than the best people in the world. Our methods and our people are our leverage point, not our technology. (Smith, 2009)

and second, Agile development techniques (see sidebar) (a) are the most effective way to develop new IT-based systems, and (b) provided a future vision that could enthuse staff from both IT organizations:

“I was worried about how do you bring six or seven cultures together. I mean we are talking about the Suncorp culture, the New Zealand culture, ... Promina was a basket of many cultures. Agile gave everyone a new vision. It said ‘let’s go here’. It was not tied to where you were. You were not talking about one group taking over the other.” (Smith, 2009)

Agile development has generated enormous interest amongst software designers around the world (Beck and Andres 2004; Schwabe and Beedle 2001). Proponents of “Agile” (as it is often called) argue that it is hard for users to specify the functionality they need in advance, and that traditional “waterfall”-model software projects are notorious for time and budget overruns (or even failing to deliver a usable product). Therefore, they argue, software is best produced by programming teams that work closely with intended users and that produce quickly, e.g., in two to three weeks, small chunks of working functionality that can go into production (i.e., normal use) immediately.

Secondary: Agile Development

Smith argues that Agile methods draw on a deep understanding of the problems inherent in traditional computer-system development, and points to leading companies, e.g., Cisco, SAP, Apple, Google, and Yahoo, that use Agile techniques to develop their software and hardware products:

“If you want to look at the differentiating factor in Agile, it is based on visual control systems. That’s the difference. If you throw everything else out the window, you use a story card versus a requirements definition, you do a showcase versus long steering-committee reviews with Powerpoints, and so on. The visual control systems are the ones that work: the velocity charts, the burndowns. It’s simple. When you see a velocity chart, you’ll know what’s happening. You don’t have to be an IT person to use it. The strongest advocates for Agile here aren’t me. It’s my peers and the board. They are used to seeing simple charts about where projects are. Plus they see the demonstrated evidence that projects aren’t failing. What they do see is that projects are working, and they are hitting the benefits realization.” (Smith 2009)

Based on this thinking, Suncorp Business Technology’s (BT’s) strategic plan identified five “strategic levers” to help it deliver “quality systems that deliver competitive advantage” as follows:

1. **BT Quality Assured**: Consistent delivery of robust solutions that perform to expectations.
2. **Working Agile**: Implementing and embedding Agile as the way we operate.
3. **People Development**: Developing our people capability and own our intellectual property.
4. **Partnering**: Partnering relationships providing mutual benefit.
5. **Beyond Technology**: Greater collaboration and communication across BT and with our customers.

Source: Suncorp Business Technology (BT) Strategic Plan, 2009

The first three levers reflect Smith’s belief that delivering quality solutions, use of Agile development methods, and employing highly capable people are the keys to the success of any IT organization. The fourth lever acknowledges the contribution that suppliers can make to an IT organization’s success, while the fifth looks for greater contribution by the IT function to the business. Key elements of this strategic plan discussed in the following sections were: (1) IT leadership and rewards, (2) change management and training, (3) careful partnering with key suppliers, and (4) incubating innovation.

### 3.3.1 IT Leadership and Rewards

According to Smith, the key to success in any organization is energizing people, nurturing innovation, and encouraging collaboration within an environment of honesty, trust, fairness, and respect for others. To create an appropriate culture he assesses his IT leaders in the three levels of the IT organization below him on a quarterly basis. He meets with all of them personally, and assesses them in terms of
what he calls “the four Es” and “the three Ls”. The four Es are: (1) Do they display energy? (2) Do they energise others? (3) Do they execute? and (4) Do they have edge for making tough decisions? The three L’s are: (1) Listening, (2) Learning, and (3) Leverage. According to Smith:

“the single biggest skill that is missing is the listening skills. … The hardest thing is for people to leverage other people’s knowledge.” (Smith, 2009)

At Suncorp BT, performance is measured using balanced scorecards that identify key result areas (KRAs) that are revised annually. KRAs are linked to reward systems, and rewards involve:

“a good chunk of money. We reward the top 30 people, independent of level. Level of work I could get the highest bonus in the company. He or she could get more than a senior manager.” (Smith, 2009)

### 3.3.2 Change Management and Training

Changing the way BT’s 2,000 IT staff go about the fundamentals of their jobs requires a huge cultural shift and re-skilling at all levels. Although the introduction of Agile has support from the Board of Directors, introducing both BT and the business to “Agile” has been, and continues to be, a major change program at Suncorp. Smith started with a small number of Agile projects to demonstrate the approach and build credibility. He continues to add new projects as knowledge and understanding grows across BT and the business.

To facilitate the organization’s change to Agile methods, Smith has one direct report accountable for an extensive Agile training and change management program. Various Agile coaches have been appointed, and about 1% of the operational IT budget has been directed toward the Agile program. The program has recruited Agile Coaches from specialist consultancy firms:

“The Suncorp change program, it’s very methodical. It’s very directly and publicly sponsored by the CIO, and the CEO for that matter. So the visibility and the conviction with which they’ve undertaken it is remarkable. They have exposed every single person to these de-mystification sessions – starting out with a half-a-day presentation where they learned about Agile – and were told this is how you will be working in the future, and these are the principles.” (Agile Coach)

In addition, senior IT managers have been on trips to India to learn first-hand how major Indian firms use Agile techniques. The expectation is that future IT projects will use Agile techniques wherever possible, including the way that they work with the business.

All IT staff have been required to complete Agile training, both live and via computer-based training programs, which commenced in late 2007. An Agile intranet hub has been set up so that people can access courseware. To increase awareness of Agile methods, Suncorp’s computer-based training (CBT) courseware developed has been provided, free, to a local university in Brisbane for them to offer Agile training, and to the newly formed Agile Academy (http://www.agileacademy.com.au).

The way projects are justified and reported on is now different. The result is a new clarity in project management:

“Burn charts, I think, are probably the best thing I’ve ever seen for actually understanding how your rate of progress is going.” (Senior IT project manager)

The process of introducing Agile has required changes to the way the business develops and specifies their requirements, monitors the progress of the project, and even gets involved with the development:

“By the third iteration, when they, for the first time in their lives, they can actually see the drop down list and things get done, they get excited! They can actually see stuff happening, and they’re part of it. Working Agile is fun. It actually works in a way that human beings, socially and psychologically, were built to work for survival. So they get hooked! But if you don’t have that relationship up front... This is a quandary: How do you take the business along for the ride? It’s not rocket science; it’s relationships. (BT change manager)
3.3.3 Partnering

Smith has set out to build up internal IT capabilities that allow the Suncorp to build and retain its intellectual capital and foster innovation, while still being cost efficient.

“If we build our own capability up we have a higher mix of our own talent doing the work, so the costs go down. And if we use Agile methods and principles, we use less time and less people. So if your mix of your own people goes up —your costs come down.” (Smith, 2009)

That said, he still acknowledges the role of partnering with leading local and international firms to build and supplement his internal capability:

“We are going to partner. But we are really partnering with organizations that can bring our own capability up. We use Thoughtworks because they know Agile as well as we do. They know open source better than we do. And we chose a partner in data warehousing because they were really good in data warehousing. But the goal is to bring the IP in and do the majority of the work ourselves. That is something different in strategy. Most companies are still in this “outsourcing, go offshore” model. There’s some benefits to it. But I think the thing that is missed is that you can build the intellectual capital, you can build that capability up, in house.” (Smith, 2009)

Partnering with a smaller number of closer organizations has also helped him address the issues with independent contractors. The partner becomes responsible for hiring, training, retaining knowledge, and providing career paths for their staff, as well as bringing their IP:

“Rather than allowing people to go out and body-shop staff, we say “Who is our partner for that?”. So for business intelligence, we’ve selected the best company that do business intelligence as our partner. They have their own data warehousing framework. They’ve acquired real competency, as well as assets, in that space.” (Smith, 2009)

3.3.4 Innovation

Smith fosters a culture of innovation at Suncorp. He argues that organizations do not have to be large to be effective:

“You can look back 30 years—I still go back to Microsoft being formed, Sun Microsystems being formed, Google, Yahoo, Dell—they were all formed by students. They were all two-person teams. But they had clarity of purpose. And they had phenomenally gifted people, with great passion.”

To incubate innovation, Smith has created an extensive graduate programme and support for people experimenting:

“You have to find those people, and once you get a few successes you have to incubate it. You cannot try to do this across the board. So we had the 23 year old kid in banking that built our mobile banking platform, and it is a nice platform, it’s still the only web based one here in Australia and it’s better than [leading competitor] because you don’t have to download it on your device” (Smith, 2009)

Further, he believes that many organizations choose expensive solutions when, with a bit of courage, they could develop equally good solutions internally at much lower cost. For example:

“... our business banking [system] didn’t have an internet banking capability, very expensive to build, so they went out and they looked at who’s the highest rating business banking site in Australia and saw what functionality it had and said, well shoot, we can get 80% of it off what we’ve already got in the retail banking and we’ll have to build this other 20%. And the net of that is on a few weekends over two months, they built a business banking system that we had estimated would cost us about $20 million to build. Very smart guys.” (Smith, 2009)

Smith also highlights the potential of leveraging open-source software. He says that product quality and support for open-source software is now so good that open source software is often a better value proposition than licencing software from major vendors. There is a lot of margin in software
companies, he says, and even larger margins in maintenance, that aren’t sustainable in the long term. He argues that you have to look at what the best companies are doing, and they using open source:

“Eric Schmidt from Google will tell you for every dollar he spends, his competitor spends seven. And he’s figured out that having a complete open-source stack helps them deliver the lowest cost platform. Their development environment is very open which allows people to innovate around it and that’s why they can bring services so quickly. And Apple’s the same way. They use FreeBSD and that’s why they do so well. They’ve just got a huge competitive advantage over Microsoft. So I said ‘Let’s model ourselves not after what every one of our competitors is doing. Let’s model ourselves after what the best companies are doing.’” (Smith, 2009)

At Suncorp, an open-source access-management system (OpenSSO) is used extensively in the technical domain, for example, using Sun’s Open Net Environment for identity management – saving upwards of $5M plus annual maintenance costs. Further, Suncorp has plans to create a new platform for internet service delivery on a major new Linux-Intel (Lintel) platform. In the business applications space, Smith argues that open-source software is often preferable to proprietary solutions. For instance, Suncorp had previously spent over $30M on a proprietary underwriting engine. Today, it is planning to replace that with an open-source product called Drools:

"Even for our underwriting service, we are going to be using Drools, which is an open source underwriting engine. It is simpler, it is cheaper, and it is actually easier to manage." (Smith ‘09)

But despite this preference for open-source software, Smith is happy to use commercial packaged software when required, e.g., Suncorp uses the Mercury Interactive Software testing suite (from HP) to support its Agile processes. It also uses Guidewire’s ClaimCentre claims engine. The following quotation from Guidewire sums up many of the issues surrounding that purchase decision:

“Suncorp found itself with multiple claims systems following several mergers. Suncorp decided to replace these systems with one new web-based system more in-line with its technology vision. Preferring not to build its own system, Suncorp undertook evaluation of available claims systems. Guidewire ClaimCenter was selected for overall system ease-of-use and configurability, workflow functionality, and fit with Suncorp’s technology direction.” (Guidewire Corp)

Generalizing from such examples, Smith argues that IT-system development can ultimately be cheaper and more effective if it is done in house using creative people, often based on open-source resources.

3.4 Aligning IT structure with the business

Smith has set up organizational structures and processes that focus on close interaction with the business and regular performance evaluation. The new IT organization has the two main elements shown in Figure 1. The first is business-facing Customer Development (CD) centers, each headed by a line-of-business CIO reporting to Smith. Each CD is also aligned to a business structure, which in Australia is run as three businesses, Banking and Wealth, Personal Insurance and Commercial Insurance in Australia; New Zealand is single integrated business. The CDs include all business-relationship, business-analyst, and project-management staff.

The second element of the IT organization structure consists of 10-12 technically-oriented Solution Delivery (SD) centers, which provide center-of-excellence capabilities around specific processes or technologies. To drive accountability, Smith has each SD reporting to their primary line-of-business CIO, rather than, say, reporting to him, or under a single operations or development manager who

11 And although it currently has 20,000 Windows XP PCs with Office 2007, Suncorp is seriously considering moving open office at some future stage http://www.zdnet.com.au/news/software/soa/Suncorp-enslages-Linux-ODF-for-20-000-desktops/0,130061733,339289679,00.htm?feed=pt_cio
12 Drools is an open source business rule management system and rules engine. Source: http://www.jboss.org/drools/
14 http://www.guidewire.com/our_customers/c/suncorp (viewed May 2010)
reports to him. The SD capabilities include process skillsets (e.g., Claims, Pricing, Sales & Service) as well as technology skills (e.g., front-end web applications, infrastructure, and business intelligence). While some SDs are specific to a line of business, others provide services to multiple CDs.

“Underneath that they have their own solution centres for things that are unique to them. But some of them would own solution centres that are common across the whole company. Personal insurance is the biggest claims area. Our solution centre for Claims is with Personal Insurance, even though it would do solutions on behalf of Commercial Insurance.

“On the other hand, Commercial Insurance deals a lot with brokers. That’s their major business model. So building on-line broker systems would be a solutions centre that might be managed out of Commercial Insurance. They get very good at it. They can build broker systems for anyone in the group.” (Smith, 2009)

The ratio of CD to SD staff is about 1:2, i.e., about one third of the IT staff are directly business facing. All costs are allocated back to the lines of business.

Figure 1: Customer Development-Solution Delivery (CDSD) model

Smith draws on the philosophy of open-source collaboration for how the CDs and SDs work with each other. Individual CDs and SDs have a single reporting line, but may be distributed in whichever city they live in. Similar to the open-source model, they rely on collaboration technologies to coordinate their activities across locations. Smith also encourages the development of communities of interest within and across CDs and SDs to develop the standards within their domain, without the need for heavy central direction and overhead. These communities of interest operate like Wikipedia: “The community is the authority”. For example, Architectural standards are set by the Architecture community of practice in what is essentially an open-source model of community development. Indeed, Suncorp no longer has a central IT architecture function; it has only solution architects.

3.5 Outcomes

A recent national daily newspaper report claims that progress on the IT integration of systems from Suncorp and Promina at Suncorp has been good:

“integration, which now moves into its final phase, remains on track and on time from both a financial and cultural perspective” (Suncorp News Release, http://media.corporate-ir.net/media_files/irol/14/144033/ASX/2_24.pdf, viewed May 2010)
However it is still too early to make any pronouncement about the success or otherwise of the Agile initiative. Although there was considerable uncertainty and confusion, even within IT, about what “Agile” meant when it was first announced, and why Agile was considered useful, and although not everyone has embraced Agile, Suncorp’s early experiences with Agile development seem generally to have been positive. For example, the change-management manager says:

“We’ve not had one instance, where we’ve brought Agile to bear, that we’ve not had success. Bearing in mind that success is also saying stop.” (BT change manager)

Externally, the achievements of Suncorp and Smith have been noticed in the industry. For example, in 2008 Suncorp won the best-implementation award for its anti-money laundering solution implemented using Agile techniques:

Our collateral and anti money laundering projects are some of the most successful Agile projects we’ve run and that’s predominately mainframe projects. It’s interesting, It has to do with the mindset and the attitude and the culture that you put in place. We originally budgeted $40M to do this. And historically, if you looked at it, if we budgeted $40M, we would spend $60M. Well, we did it for $16M. And we did it in half the time. (Smith, 2009)

4 COMPARING THE IT INTEGRATIONS AT SALLIE MAE AND SUNCORP

As stated in the Introduction, in attempting to draw lessons from this case for other IT-function mergers it is helpful to compare the actions at Suncorp to those in the merger of the IT functions of Sallie Mae and USA Group, as documented by Brown et al. (2003). Although there is not sufficient space to summarize the Sallie Mae case here, we have tried to include sufficient information in the comparisons below for the reader to make sense of the discussion without having to read Brown et al. (2003). Similarities and differences between the two cases are as follows:

4.1 Similarities between the Suncorp and Sallie Mae case studies

1. The financial analysts’ goals for both mergers were to integrate IT systems and cut costs. Both business cases required reduction in IT staff numbers.
2. Consistent with Buono and Bowditch (1989) and Kotter (1996), in both cases, staff morale and knowledge retention were regarded as critical to the success of the respective mergers.
3. Consistent with Robbins and Stylianou (1999) and Kotter (1996), both CIOs recognized the need to communicate extensively with people in their organizations, and both did.
4. In both cases there were questions about where IT staff and data centres were to be located, and which application systems were to be retained or decommissioned. Sallie Mae had 1,100 IT staff in two cities. Suncorp had 2,000 IT staff in six major cities. Both organizations decided to consolidate data centres. Due to 30% cheaper salary costs in Indianapolis, and the extra revenue to be had from leasing out Sallie Mae’s old data centre in Reston, Virginia, Sallie Mae decided to use USA Group’s data centre in Indianapolis. Suncorp decided to build a new data centre in its home city, Brisbane, Australia, for A$200M. In both cases, many servers and applications were then relocated to the new data centres.
5. Both organizations conducted comparative analyses of similar systems in the two pre-merger organizations to decide which should be retained and which should be decommissioned.
6. Both organizations chose to remain substantially in-house service providers, with little reliance on outsourcing or offshoring.

15 For an article on the cost of implementing AML legislation in Australia, see http://www.australianit.news.com.au/story/0,24897,22006090-15306,00.html, viewed March 2009
Both CIOs recognized the importance of established working relationships in existing project teams, and of existing IT-business relationships, for their integration projects’ success.

Both organizations used video conferencing to try to reduce the impact of travelling and to facilitate better communications between staff in different geographic locations.

4.2 Differences between the Suncorp and Sallie Mae case studies

1. The CIO in the Sallie Mae case had been with USA Group (the takeover target) for 20 years and had a strong IT team, highly regarded systems, and clear competence in managing IT projects. Unsurprisingly, he was selected as CIO for the merged entity. By contrast, Suncorp decided to employ a highly regarded CIO from an outside the organization. Their new CIO, Jeff Smith, had had experience merging applications whilst CIO at Australia’s largest telecommunications company, Telstra, where he had also led a substantial offshoring project.

2. Sallie Mae asked the 500 IT staff from Reston to either move with their families 500 miles west, to Indianapolis, or to accept a retrenchment package. (Note that even in June 2000, IT jobs were plentiful in Reston.) To retain key staff, Sallie Mae offered generous retention packages to staff who agreed to stay until the merger was complete. At Suncorp, since asking staff to move their families would cause them difficulties, and retrenching staff meant considerable loss of systems and organizational knowledge, Smith decided to keep system development and support functions close to the business in their current six major cities across Australia and New Zealand. His decisions were consistent with Mehta and Hirschheim’s (2007) observation that business structure drove IT structure post merger.

3. Sallie Mae integrated most of its key systems, in particular, the two biggest systems (student loans and PeopleSoft). By contrast, due to high data conversion, testing, and retraining costs associated with changing IT systems, Suncorp chose to keep duplicate (and even triplicate) systems running on their respective hardware platforms unless there were compelling benefits from changing. Again, business structure was a key determinant of application structure.

4. Smith’s passion for Agile system development, open source software, and fostering innovation make him different, not just to CIO Clancy at Sallie Mae, but to most other CIOs in Australia. His refreshing, logical approach offers a bold new vision for IT at Suncorp.

5 CONCLUSION

The assumption justifying mergers of organizations in similar industries in similar geographic locations is usually that there are synergies to be gained by combining the operations, including the IT systems and organizations, of the two firms. However, after change costs have been factored into the analysis, it is not clear that all IT systems should be integrated or that all IT operations collocated.

To explore the choices available in more depth, this paper adds to the emerging case-study literature on mergers of IT organizations following corporate mergers and acquisitions (Johnston and Yetton 1996, Brown et al. 2003, Wijhoven et al, 2006, Mehta and Hirschheim 2007, Henningsson and Carlsson 2007). It has reviewed and compared the IT-integration decisions made following mergers of two pairs of similar-sized organizations, with both pairs operating in the same geographic markets, and selling similar products to similar customers. The comparison shows that there were many similarities (eight are listed above), and some important differences (four are listed above), between the decisions made in integrating the IT functions in these two pairs of case-study organizations. Both integrations were described by their respective CIOs as successful, and both CIOs offer persuasive arguments for the very different choices that they made. At Sallie Mae, it was considered important to merge all student loans onto the one system as fast as possible, and to consolidate all finance and HR operations on the one (PeopleSoft) system. Yet at Suncorp—which had decided to retain its various brands—there was little immediate benefit from merging systems, so Suncorp focused on identifying and transferring best-practice processes between the two legacy organizations only when there was clear financial benefit. Sallie Mae consolidated its IT staff in a single base in Indianapolis. Suncorp decided to retain IT staff in six different cities (resulting in a more complex, matrix-like
management structure). At Sallie Mae, there was apparently no attempt to change system-development methodologies. At Suncorp, Agile methods were introduced as both a better way of building systems, and as a way of unifying the many disparate IT cultures that existed pre-merger.

The findings of this case study reinforce those of Mehta and Hirschheim (2007), e.g., see their Figure 4, p.167, which say that choices related to the integration of IT service delivery following a corporate merger or acquisition are highly contextually dependent. The one common feature of all these mergers is that they involved major organizational change, so the advice of experts on organizational transformation, e.g., Kotter (1996), is useful. However, as shown in the two case studies discussed above, as well as in Mehta and Hirschheim (2007), many key decisions about people, systems, technologies, and their locations, remain both complex and highly situationally dependent.

References


