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Clean Core Strategy versus Legacy Parity in M&A-Driven SAP Carve-Ins

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Introduction

In the context of SAP-driven M&A activities, organizations must navigate the dichotomy between a "clean core" approach—which prioritizes standardization and cloud-native agility—and the maintenance of "legacy parity," which seeks to preserve existing operational workflows through direct system replication. While a clean core emphasizes modularity to drive long-term scalability and flexibility, legacy parity focuses on minimizing disruption to established routines, despite the risk of technical debt and hindered synergy realization.

Literature Review

Despite the fact that Information systems integration is key for the success of the post-merger phase, little has been done in terms of synthesized research on Information systems to support decisions regarding complex integration architectures.

Similarly, the governance of enterprise systems during the M&A process is scattered in the literature and does not properly address the relevance of balancing the need of prompt operational continuity against the limits of the legacy systems' configurability.

Methodology

Integration approaches are distinguished according to SAP-specific aspects, for example, process standardization, custom code footprint, data migration effort. Based on this, integration paradigms are compared regarding these aspects. This enables the derivation of recommendations to choose the adequate integration approach considering the goals of a specific integration. Thereby, risks associated with integration can be minimized.

Based on the integration paradigms a decision model for the adequate integration approach in M&A and divestment situations is presented. The approach considers organizational power as well as SAP-specific technical aspects. Business continuity as well as IT architecture goals should be aligned. While integration and synergies effects in M&A situations are often needed shortly after the deal is closed, divestment situations are characterized by limited time frames, which might lead to temporary solutions relying on the status quo to ensure business continuity.

This chapter starts by discussing theoretical foundations of IT-architecture integration within M&A situations based on strategic alignment. Further, the approach takes organizational power into account, since stakeholders' interests and power determine the scope and timing of IT-architecture integration. Subsequently, integration paradigms within SAP landscape integration projects are outlined. The paradigms are compared regarding SAP-specific integration challenges. Recommendations are given on when to apply which approach. Finally, a decision model to choose the adequate integration approach considering technical and organizational issues is derived.

Results

Some argue that legacy parity should be adopted during the highly-charged first stage of a merger because it minimizes the threat of failure to deliver on critical business processes. However, in practice, legacy parity has been shown to lead to misalignment in the long-term.

On the other hand, an organization may implement a clean core strategy that strives to remove unnecessary artifacts of technical implementations which provide a means of unifying business processes that have been executed differently within the two companies and allows for more agility. The success of this strategy is dependent on the degree to which the EA strategy reflects business and IT goals throughout the integration.

Ultimately, an assessment needs to be made as to whether or not the target's IT architecture and SAP version can be aligned with the acquirers architecture and SAP version immediately or whether legacy parity is needed temporarily. If it is not possible to align the two firms' data, applications, and/or technical architectures, IT cannot be considered scale-free. Thus, imposing a strategy of standardization may increase IT complexity and yield little, if any, net process improvements.

In order to maximize merger value, IT must ensure that their integration plans consider technical complexities in addition to transactional considerations throughout the transaction's lifecycle.

Discussion

Allowing unlimited customization can lead to implementations that are out of alignment with the strategy of the enterprise, increasing total cost of ownership and recreating many of the issues and technical debt created by legacy implementations. Heavy customization also creates dependencies that can make it prohibitively difficult to upgrade to newer ERP releases. Such dependencies could potentially preclude migration to cloud-native ERP in the future. Customizations can also duplicate functionality that exists within the core of the product. This adds to an unnecessarily complex technology footprint, increasing TCO, obscuring visibility, and can impact the scalability that is realized through a modular approach. Customizations can also potentially remove functionality from the purview of ERP vendor maintenance and enhancement programs and may not follow ERP vendor roadmaps over time, creating significant challenges to stay in step with vendor innovation and new technology.

Balanced ERP application architecture and customization management and governance can address many of the challenges encountered in legacy implementations. Governance must ensure that customization requests are balanced against opportunities for business simplification, process re-engineering and the use of ERP product best practice functionality. Newly combined entities can present some of the greatest challenges as management attempts to reconcile unpredictable and sometimes conflicting requirements for immediate functionality against the cost-effective implementation of early wins. These situations highlight the importance of disciplined decision making and governance around customizations, understanding the risk and challenges presented by excessive ERP vendor lock-in balanced against the business value of well-informed customization decisions.

One possible approach to governance is to classify processes into "commodity" versus "differentiating" buckets. Commodity processes should be standardized on the ERP's out-of-the-box functionality, while differentiating processes could include a prudent amount of customization, fully documented and aligned to a strong business case. The degree of customization should be evaluated to ensure that future ERP upgrades will not be impacted. This approach can reduce technical debt, maintain ERP implementation alignment with business strategy and preserve an organization's business and technology agility over time.

Conclusion

Successful post-merger outcomes rely heavily on SAP carve-in transactions. It's critical that firms make the right SAP-related architectural decisions when implementing carve-ins. Specifically, decisions should be made in regard to whether to pursue a clean core and standardization efforts versus replicating the way things are currently done.

A successful and sustainable carve-in requires a holistic approach that considers the entire lifecycle of the carve-in transaction, not merely the SAP/IT aspect of the transaction. This includes assessing each element of the IS individually to identify components to standardize (improve efficiency) or customize (drive differentiation), as well as rethinking the architecture to ensure SAP solutions are built to drive the business beyond simply connecting/aligning the technology.

Identifying key areas of focus early in the process allows integrating firms to mitigate risks around business disruption while realizing expected benefits from the merger. Aligning SAP architecture and governance decisions and customizations to broader organizational/enterprise strategies with clear and concise objectives allows integrating firms to use SAP carve-ins to improve overall organizational capabilities, build a solid foundation to achieve expected benefits from M&A activity, and build a platform for future success, including scalability and competitive advantage.

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