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An Examination of the Success of Post-merger IT Integration

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ABSTRACT

IT integration is one of the most critical and complex tasks in a merger-and-acquisition (M&A) project. Many studies on M&A have focused on the technological and organizational issues of IT integration. However, existing researches remain sparse in explaining the assessment of the performance of post-merger IT integration. The success of IT integration from merging with other companies can be viewed differently by different stakeholders such as the CEOs, the CIOs, the business managers, the customers of the merged companies, and therefore the standards used vary from process enhancement to customer satisfaction. The objective of this research is to examine the success of post-merger IT integration from both strategic and operational viewpoints and to track the integration performance using a wide range of business measures. It is hoped that the resultant measurement of IT integration can provide a useful benchmark for evaluating IT integration after business investment in M&A projects.

Keywords

Post-merger, IT integration, M&A, Multi-stakeholder, Measurement

INTRODUCTION

Since the early 1990s, companies have increasingly used mergers and acquisitions (M&A) to change the scope or competitive environment of their businesses (Gadiesh et al. 2002). It has long been a popular form of business investment in the corporate world, and the main objective is to channel the corporate assets towards their best possible use (Song et al. 2010). The goals most often cited by merging companies as the reason for their merger are to improve operational efficiencies, to obtain access to new markets and new products, and to increase market share (Harrell et al. 2002). Other motives for M&As might be potential synergies (Cullinan G et al. 2004), learning (Hakanson 1995), or access to competences (Bresman et al. 1999). But in today’s world of rapid technological advances, mergers occur not only for these types of organizational reasons, but also for technological reasons (Harrell et al. 2002). For achieving these purposes, M&As may either be related to the core business or be in new business areas (Bruner 2004).

Studies have shown that companies grow more through M&A (external growth) than through the expansion of their productive capacity (internal growth) (Giacomazzi et al. 1997). In the past 20 to 30 years, a growing number of companies have used M&A as their primary method of growth and competition. M&A has become a main strategy in the business world, and many companies have announced M&A deals, even during difficult economic times (Bien 2009). As the world economy showed signs of recovery in 2010, M&A activity rebounded as well. Global deal count increased by 15.7%, from 25,705 to 29,742 transactions, and the total dollar value of M&A increased from $1.6 trillion in 2009 to $2.16 trillion in 2010, an increase of 35%. Global M&A activity increased in 2010 and continues to increase in 2011. Most world regions had significant M&A growth (McMahon et al. 2011). According to two (KPMG 2011a; KPMG 2011b) surveys of banking and global manufacturing executives, the outlook for 2012 is positive. Almost 70% of top banking executives expect to be involved in M&A activities in 2012, with an M&A focus on new geographic markets and new technologies. Global manufacturing executives intend to drive growth via innovation and product diversification, using M&As.

Today, while organizations depend increasingly on the information systems (IS) that coordinate transactions, manage operations, and aid the pursuit of new market opportunities, the role of technology in mergers becomes more critical (Sarrazin et al. 2011). Not least, integrating technology may help a business to avoid costly errors and reduce the failure rate of M&As. More positively, it may help acquirers to better realign value from the technological assets they acquire (James et al. 1998). However, an evidence has suggested that one of the main reasons for poor post-acquisition performance in the merger wave of the late 1980s was the failure of organizations to consider fully the implications of merging together the harder IS and Information Technologies (IT) (McKiernan et al. 1995). So even when companies merge for reasons other than
acquiring IS technical talent, IS integration is a vital component of business mergers (Harrell et al. 2002). An important point to remember is that if the IS integration is not effective, the business will not be effective in its operations. And if the integration of IS fails, the business will most likely fail as well (Schmid et al. 2012).

Unfortunately, statistics concerning the success rate of M&A projects show a sobering result: in most cases, such projects do not fulfill the expectations of the managers (Meckl 2004). It is estimated by various researchers that 75% or more of all M&A deals fail to meet the expectations of the acquirer, of the acquiree, or of investment bankers (Sagner 2012). Much research has been conducted that focuses extensively on the questions of strategic, cultural, and organizational fit surrounding the marriage of two organizations. It has been asserted that organizations are generally poor at amalgamating such human concerns (McKiernan et al. 1995). However, the anecdotal evidence from executives and management consultants suggests that there are other, more significant causes. A survey of 500 North American and European CIOs revealed that less than 1/3 regarded their last IS integration in relation to a cross-border M&A as a success (CIOmagazine 2006). The respondents related this to the definition of the new corporate IS, infrastructure requirements, the high cost of integration and development of IT, and a reluctance to define both IS and IT in the ex-ante stage (McKiernan et al. 1995). Of the many challenges that companies face during a merger or acquisition, the most critical is the integration of their IS (Harrell et al. 2002).

Much literature has been devoted to analyzing the causes and effects that M&A have on the property of companies involved in the operation and on the economic value to various categories of shareholder (Weber et al. 1996). Moreover, recent studies have found multiple factors that contribute to the selection of a particular merger strategy, the financial impact of the M&As, and the reaction of the employees to these events (Reinicke 2007). In contrast, the literature on post-merger IS integration is sparse (McKiernan et al. 1995; Mehta et al. 2004; Merali et al. 1993; Stylianou et al. 1996; Wijnhoven et al. 2006), and further, the study about measuring the success of post-merger IT integration is even sparser (Alaranta 2005). The motivation for the current proposed study is to help fill this gap in the literature. While M&A events have been well studied in other areas of the literature, this has not been the case with IS integration.

Identifying ways to increase the success rate of M&A is a major objective of academia and industry (Jaspers et al. 2006; Palmatier et al. 2007). However, information systems success is an ambiguous, multi-faceted phenomenon that can be addressed with various measures (Alaranta 2005). As Haes and Grembergen (2005) suggest, organizations need to find a good balance of measures between output and performance, comprising technical measures and business measures. Technical measures evaluate technical-related issues such as IT downtime while business measures evaluate business-related issues such as customer satisfaction. Apparently, these measures vary from proactive enhancements to passive customer feedbacks. Besides, if organizations want to justify the use of IT, it is important for them to track performance particularly. But there is a lack of consensus within organizations about what to measure given performance was viewed from different perspectives (Ko et al. 2010). Thus, examining the success of M&A by different viewpoints of stakeholders is important. Our goal in this proposed study is to bring up a measurement with a multi-stakeholder perspective to assess the success of integrating IT in M&A. It is hoped that the results will provide a helpful way to evaluate the performance and help enterprises to efficiently manage M&A.

LITERATURE REVIEW

The process of integrating IT involves complex issues such as deciding on merging or not merging the IT or parts of it. IT is perceived here as a broad term that incorporates (1) Information system (databases and processing functionalities), (2) IT infrastructure (e.g. data networks, operating systems, hardware, IT skills), and (3) IT policies (procedures for users and IT managers and IT management, IT coordination, education, and support) (Bharadwaj 2000; Broadbent et al. 1997). IS integration means changes in IS strategy, IS structure, and the systems supporting the combined IS and business units that allow them to function as a whole (Mehta et al. 2007). There are three IT integration objectives, which we understand as three different IT integration ambition levels: (1) complete integration, (2) partial integration, and (3) marginal integration (co-existence). Certain IT integration objectives will be most appropriate for specific post-merger organizational structures. In the meantime, IT integration objectives will correspond with merger objectives (Wijnhoven et al. 2006). The logic behind investing in post-merger IS integration is according to the types of IT investments as follows: investment in transactional IT aimed at cutting costs and investment in strategic IT to gain competitive advantage. IS integration, particularly in the areas of inventory control, order processing, and other data processing including financial systems, is usually pursued to increase synergy and thus reduce both fixed and variable costs of the merger firm (Weber et al. 1996).

The high failure rates have a variety of causes since M&A projects are considered highly complex in terms of the number of deliverables and the amount of communication among a wide range of stakeholders (Meckl 2004; Shrivastava 1986). In practice, there are nearly as many measures as there are studies. IS success has often been defined as a favorable result or
outcome. However, early definition of how this outcome should be characterized, or for whom the result should be favorable, is ambiguous (Alaranta 2005). Evaluation studies may take many forms and have many different functions, but commonly assume consensus on evaluation criteria. Reasoning from a theory of value pluralism, it is more likely that stakeholders will have different, and sometimes conflicting, views on an evaluated program (Abma 2000). In order to acknowledge this plurality, Guba and Lincoln (1989) proposed taking different stakeholder constructions as a departure point for a negotiation process towards consensus or a heightened personal and mutual understanding. The explicit consideration of potential trade-offs between different policy objectives and conflicts between stakeholders’ interests helps avoid the unexpected, facilitates good design, improves the likelihood of successful implementation, and assists the assessment of outcomes (Grimble et al. 1997). In conclusion, it is vital to clearly distinguish stakeholders and to define the success of IT integration by different stakeholders. Also, a good alignment among stakeholders will lead to a successful post-merger IT integration and project management.

CEOs' concern

Sixty-six percent of CEOs plan to use M&As as part of their global integration strategies. They described M&A as a key way to rapidly expand global reach—integrating new capabilities, realizing synergy, obtaining knowledge and assets, and gaining access to new customers (IBM 2008). Here are some CEOs’ points of view toward M&A. Dennis Kozlowski, the former CEO of Tyco, commented that the key thing I’ve learned is that acquisitions work best when the main rationale is cost reductions (Carey 2000). John Browne, chief executive of BP, explained the logic and vision behind the mergers and acquisitions. “Our goal is to be a global player. We want big fields that we can develop at low cost (Gadiesh et al. 2002).” Apparently most of the CEOs eager to achieve cost synergies by M&A (Sikora 2005). However, CEOs also address on scaling up (Sraeel 1995) and achieve revenue synergies. For example, Rolf Bjerrum, CEO of the U.K. packaging company Rexam, has overseen both scale- and revenue-driven mergers in pursuit of his goal—to transform Rexam into a leading international package player (Gadiesh et al. 2002). Jan Leschly, the former CEO of SmithKline Beecham, said we do focus on revenues because our production costs, once we’ve developed a drug, are minimal. David Bohnett, the former CEO of Merrill Lynch, said “M&A is certainly the fastest way to expand and solidify our businesses. It was a fast way to build competitive mass and expand our user base (Carey 2000).” Besides, acquiring new technologies is the CEOs’ concern as well. Roche CEO Severin Schwan outlined Roche’s acquisition strategy, highlighting an appetite for new drugs and diagnostic technologies As PricewaterhouseCoopers noted in a recent report on the in vitro diagnostics business, Roche is a global leader in the field and an active buyer of new technologies(Gale et al. 2012). Also, Jan Leschly said “in terms of improving growth, though, I’d have to say that we have been much more successful at acquiring products and technologies than at acquiring companies (Carey 2000).” Based on the survey and the above CEOs’ opinions, we propose the following indicators: (1) achieve cost synergies, (2) achieve revenue synergies, (3) scale up, and (4) acquire new technologies.

CIOs’ concerns

The CIO must ensure that the establishment of connectivity and consolidation of key infrastructural aspects are given the utmost priority (Agrawal 2010). Many IT executives define “post-merger integration success” in terms of “IT integration,” using, for example, connectivity or operational-continuity metrics: “Did we get the help desk up and running quickly?” or “How quickly was e-mail consolidated?” (Curtis et al. 2005). For CIOs, the first task is to drive technology consolidation, such as consolidating data centers, rationalizing vendor contracts, and renegotiating software licenses. Second, processes are the key to acting like a single organization. Processes such as service desk, procurement, security policies, and software development must be stabilized and standardized to achieve organizational stability. Process consistency is a major element of the firm’s perception of IT (Manansingh 2010). A service gap is neither acceptable for in-house functional departments nor for external customers (Albaryak et al. 2009). In the post-merger integration planning process, IT executives indicated that they focused on two things: (1) achieving cost reductions in the IT organization by eliminating redundant processes and systems, and (2) integrating the remaining systems to streamline the processes of the combined company (Zelinger 2011). However, as Frank Dybeck, a Principal at Communication Network Architects Inc. in Washington, said. One of the biggest determinants of successful IT integration is how quickly you can get the systems working together, so there's a lot of pressure for IT managers to be overly optimistic about the cost and speed of the project (Shearer 2004). Most CIOs are requested to achieve M&A integration within the desired costs (Agrawal 2010; Alvarez et al. 2007; Harrell et al. 2002; Honore et al. 2003; Pratt 2011; Zelinger 2011) and time frame (Agrawal 2010; Honore et al. 2003; Pratt 2011). Thus, here we indicate that the CIOs’ concerns toward IT integration in post-merger integration are as follows: (1) achieve technology consolidation, (2) achieve operational continuity, (3) achieve cost savings, and (4) integrate IT within desired time frame.
Business managers’ concerns

Many authors have argued that a key element to truly achieve the expected benefits from integration of two organizations lies in the successful delivery of the post-merger integration phase, where synergies and economies of scale are key objectives of top management (Epstein 2005) in a successful M&A deal (Fubini et al. 2005; King et al. 2004; Marks et al. 2000; Picot 2002; Quah et al. 2005; Shrivastava 1986). As individual managers weigh the uncertainty of due-diligence estimates against their own performance risk, they often translate synergy estimates into even more conservative --and easily achievable -- cost and revenue targets(Agrawal et al. 2011). However, only half of the senior executives polled in a 2006 Accenture/Economist Intelligence Unit survey believed that their companies had achieved the revenue synergies they had expected from their M&A activities, and just 45% affirmed that expected cost synergies had been captured (Kristin et al. 2007). Business executives define post-merger integration success in terms of the business integration and synergies that IT has enabled, such as technical support of merged sales forces and an integrated view of the customer (Curtis et al. 2005). Based on the literature regarding what benefits business executives expect in M&A and IT integration, we propose two indicators: (1) achieve cost synergies, and (2) achieve revenue synergies.

Customers’ concerns

Companies naturally expect M&A deals to result in significant benefits, from the growth of market share to new economies of scale. But these companies run the risk of falling short in their efforts if they fail to keep a close eye on a key factor—the customer (Mangan 2006). In fact, Customers would likely either benefit, if some of the cost savings are passed along in lower prices, or be unaffected(Chang et al. 2002; Fee et al. 2004). In the meantime, customers worry about potential disruption in service (Gadiesth et al. 2002) or providing less service (Bekier et al. 2002). As customer often become nervous when the announcement of the merger/acquisition hits the news. They need to be reassured that their needs will continue to be met(Thach et al. 2001). In an eye-opening 50% of the deals, consumers gave the company lower marks either in companies’ prices, quality, or ability to meet expectations. Customers thought they got better service or prices from only 29% of mergers (Thornton et al. 2004). Besides, an Accenture survey indicated that 51% of respondents fingered mergers as a cause of higher prices and 38% blamed them for declining customer service (Sikora 2005). Indeed, a 2004 Business Week study found that 50% of consumers reported they were less satisfied with the company service, even two years after the merger (Mangan 2006). Thus, staying on top of customers’ needs and satisfaction can safeguard market performance during the merger process. It is vital that the newly merged company communicates and responds to customer concerns in a timely manner (Homburg et al. 2005). Based on the perspective of the customer, we propose the following indicators: (1) obtain consistency of service level, and (2) obtain better deals.

METHODOLOGY

The research objective is to offer a measurement of a multi-stakeholder perspective to assess post-merger IT integration. Based on the literature review, we summarize the success indicators above for each stakeholder (shown in Table 1). By analyzing Table 1, we derive the following preliminary findings:

1. We can clearly see that CEOs and business managers focus on the strategic indicators. In contrast, CIOs and customers are prone to care more about operational indicators.
2. CEOs, CIOs, and business managers expect to create synergy in order to operate smoothly after the merger.
3. The CIO is the stakeholder who is under more pressure regarding cost and time.
4. The CIO is the only one dealing with IT-relation issues in both business processes and information technology.
5. To some extent, the CIO and the customer have common consensus about successful IT integration because the CIO has to achieve operational continuity to provide consistent service for the customers.

Finding the stakeholder’s opinions toward successful post-merger IT integration requires broad and in-depth data collection and analysis. A broad range of data collection builds a generalized foundation, while the in-depth formulation of stakeholder concerns brings up insights with regard to the post-merger IT integration. To accomplish the goal of collecting data broadly and deeply, this study adapted the Delphi method (Linstone et al. 1975) to form an understanding of the research topic by collecting a broad range information with in-depth case evidence from experienced stakeholders and consultant managers, and then thoroughly verifying the findings.

In order to determine concerns of the four groups, a Delphi survey, designed to elicit the opinion of a panel of experts through iterative, controlled feedback and discussion, was chosen as the research method for this study. We selected two teams of experts differing by industry. One of the teams was from the banking industry, and the other was from the IT
industry. Each team contained 10 CEOs, 10 CIOs, 10 business managers, 10 customers, and 10 consulting managers. The CEOs, CIOs, business managers, and customers were selected due to their direct involvement in M&As projects, and 10 on each side were selected to maintain a balance between opinions. The consultants were selected for their holistic view of implementing M&A projects and for their abundant experience. All of the participants had experience with M&A. The opinions of the stakeholders are expected to be enhanced and verified by the consultants. Besides, the number of M&A projects the stakeholders had participated in ranged from one to three projects.

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Concern</th>
<th>Indicative references</th>
</tr>
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<tbody>
<tr>
<td>CEO</td>
<td>Achieve cost synergies</td>
<td>(Carey 2000; Gadiesh et al. 2002; Gale et al. 2012; IBM 2008; Sikora 2005)</td>
</tr>
<tr>
<td></td>
<td>Achieve revenue synergies</td>
<td>(Carey 2000; Gadiesh et al. 2002; Gale et al. 2012; IBM 2008)</td>
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<tr>
<td></td>
<td>Scale up</td>
<td>(Carey 2000; Gadiesh et al. 2002)</td>
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<td></td>
<td>Acquire new technologies</td>
<td>(Carey 2000; Gale et al. 2012)</td>
</tr>
<tr>
<td>CIO</td>
<td>Achieve technology consolidation</td>
<td>(Agrawal 2010; Curtis et al. 2005; Harrell et al. 2002; Manansingh 2010)</td>
</tr>
<tr>
<td></td>
<td>Achieve cost synergies</td>
<td>(Agrawal 2010; Alvarez et al. 2007; Harrell et al. 2002; Honore et al. 2003; Pratt 2011; Shearer 2004; Zelinger 2011)</td>
</tr>
<tr>
<td></td>
<td>Integrate IT within desired time frame</td>
<td>(Agrawal 2010; Honore et al. 2003; Pratt 2011; Shearer 2004)</td>
</tr>
<tr>
<td>Business manager</td>
<td>Achieve cost synergies</td>
<td>(Agrawal et al. 2011; Curtis et al. 2005; Epstein 2005; Kristin et al. 2007)</td>
</tr>
<tr>
<td></td>
<td>Achieve revenue synergies</td>
<td>(Agrawal et al. 2011; Curtis et al. 2005; Epstein 2005; Kristin et al. 2007)</td>
</tr>
<tr>
<td>Customer</td>
<td>Obtain consistency of service level</td>
<td>(Bekier et al. 2002; Gadiesh et al. 2002; Sikora 2005; Thach et al. 2001)</td>
</tr>
<tr>
<td></td>
<td>Obtain better deals</td>
<td>(Chang et al. 2002; Fee et al. 2004; Sikora 2005; Thornton et al. 2004)</td>
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</table>

Table 1. Stakeholders’ Concerns About Post-Merger IT Integration

This study includes a third phase, in which the panel comments on the resulting list and the initial interpretation of the results. Phase I is to validate and expand the list of stakeholder’s concerns. The reviewed literature is primarily formed as a list. Since the purpose of the first phase is to concentrate on items of concern, the panelists are encouraged to provide open-ended feedback to the starting lists of stakeholder’s concerns. The objectives are to validate existing lists and add new relevant stakeholder concern items. Data will be collected via face-to-face interviews. By the end of Phase I, the lists will be expanded. The proposed study will then analyze the feedback from the panel on the existing list. Then suggested new items will be analyzed to examine the similarity and difference with the existing list of items. Similar items will be consolidated, and different items will be added to the lists. In Phase II, according to the list from Phase I, each team’s stakeholders will discuss and exchange their opinions with consultant managers. The panelists will provide their own viewpoints on successful post-merger IT integration, and the panel members will provide their M&A project experience and observation of different stakeholders’ perspectives toward M&A. According to the feedbacks from the panel and the opinions of the panelists, the proposed items will become more accurate and will be more real to life after iterative discussion. The oral discussions will be transcribed and organized around the indicators of successful post-merger IT integration. These phases of data collection will be performed through face-to-face interviews. In Phase III, we will repeat the process of Phase II to ensure that all of the stakeholders’ concerns have been listed. This time, the members of group will get to have a common consensus about all of the listed items. Finally, a confirmed table of concerns with tape-recorded files will be collected. The supporting case data from interviews will be organized accordingly. Key findings will be summarized from the table to explain the managerial implication of post-merger IT integration project management.
CONTRIBUTION AND FUTURE RESEARCH

The main contribution of this proposed study is to provide multi-stakeholder perspectives to measure the success of IT integration in M&A. The stakeholders here include the CEOs, the CIOs, the business managers, and the customers. It quite differ from the traditional single or double points of view from the IT and business managers. By these measurements, it is helpful to merger managers to align different concerns of stakeholders and develop coherent strategies to fulfill their expectations. In the meanwhile, it will not only improve the M&A project’s efficiency but also enhance the performance of project management. It is hoped that the resulting measurements can provide a broader viewpoint and a useful benchmark for evaluating the integration success with IT after significant M&A investment. Future research can be addressed in two areas. First, due to the much difference in industries, the stakeholders’ concerns may be different. By finding the difference of stakeholders’ concerns between industries, it will help enterprises to figure out what indicators should they focus on as well as successfully integrate IT. Similarly, the stakeholders’ concerns may have differences between countries. By finding the different stakeholders’ concerns between countries, it may help to discover what the difference between countries in evaluating post-merger IT integration and even the strategy about implementing IT integration.

REFERENCES


