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The role of information technology systems in the performance of mergers and acquisitions

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Abstract Mergers and acquisitions (M&As) are an important tool for improving a firm's competitive positioning and performance. Despite M&As' promise, however, they often fail to meet performance goals. Challenges often arise when managers try to integrate two companies' information technology (IT) systems, and the difficulties encountered often create both short- and long-term performance problems for companies. To help address these challenges, we highlight important issues that managers involved in M&As must consider. We also present some best practices that managers should follow to improve the odds of successful IT integration.
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> Many mergers don't live up to expectations because they stumble on the integration of technology and operations. But a well-planned strategy for information technology integration can help mergers succeed.
>
> (Sarrazin & West, 2011)

1. The urge to merge

Mergers and acquisitions (M&As) are an important tool for improving competitive positioning and organizational performance. M&As offer managers a way to build, strengthen, or renew competitive advantage by combining the strengths of two companies. More specifically, they can help a firm expand geographically, add new product lines, reduce competition, achieve economies of scale, enhance research and development, and obtain other strategic benefits. In an effort to capture these potential benefits, companies worldwide conducted M&A transactions in 2014 totaling approximately $3.4 trillion (Raice, 2015). If M&As were a national economy in 2014, they would have been the fifth largest in the world, trailing only the United States, China, Japan, and Germany.

Despite their promise, however, M&As often fail to improve company performance. For example, Mattel purchased The Learning Company in 1999 for $3.6 billion and sold it just a year later for $430 million—12% of what it paid. Similarly, Daimler-Benz purchased Chrysler in 1998 for $37 billion. When the acquisition was undone in 2007, Daimler recouped only $1.5 billion worth of value—4% of what it paid. More generally, research has found that M&A success rates may be as low as 10%—30%, with the remainder

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creating no appreciable improvement and, in some cases, even reducing a combined firm's long-run performance (KPMG, 2009).

M&As are challenging, in part, because they require managers to integrate two companies' personnel, cultures, infrastructures, and business strategies. Often unforeseen problems arise that reduce anticipated benefits from or increase projected costs of a merger (Haspeslagh & Jemison, 1991). Although experts often attribute successes or difficulties to managing 'soft' strategic issues like integrating different company cultures, merging 'hard' assets like information technology (IT) systems also present daunting challenges. For example, the Delta-Northwest Airline merger in 2008, which has been widely viewed as successful (Schnurman, 2013), required consolidating about 1,200 computer systems to about 600, including integrating a reservation system originally installed in 1966 (Mouawad, 2011).

Often the difficulties encountered when merging IT systems create both short- and long-term performance problems. When Bank One merged with First Chicago NFD in 2000, top management failed to integrate IT systems for over 2 years, resulting in customer satisfaction scores declining 6% and a net loss of 200,000 customers in 2001. New Comcast billing systems installed following its acquisitions of other companies have resulted in customers not receiving credit for paying cable bills, consequently hurting the company's customer satisfaction scores (Thornton, Arndt, & Weber, 2004). In 2012, 2 years after United joined with Continental Airlines to create the world's largest airline, the merged company's reservation system failed twice, shutting down its website, disabling airport kiosks, and delaying or canceling flights (Mouawad, 2012).

These cases illustrate that IT integration issues remain one of the top difficulties when merging companies. In fact, one study found that only 30% of managers involved in mergers believed that the combined companies had successfully integrated their IT systems (Accenture, 2006). These results are discouraging because up to half of the benefits from a merger may be IT related (Sarrazin & West, 2011). To help address these challenges, we next highlight important issues that managers involved in M&As must consider. These issues are accompanied by best practices that can help managers improve the odds of successful IT integration.

2. Critical IT integration issues within mergers and acquisitions

IT's important role in companies' overall competitiveness translates into a corresponding need to successfully integrate these systems as part of the M&A process. Given this importance, how can managers successfully integrate IT systems, which often serve as a stumbling block in many mergers? Recent research can provide some answers to this question, and in the following sections, we discuss four of the most critical issues, which we summarize in Table 1.

2.1. Before the merger: Involve the CIOs

When top managers consider M&As, they often first focus on financial, legal, and product line issues. As a result, they may only consider IT integration issues once the merger is underway. Research has shown, however, that when considering a merger, managers must first consider IT's importance to a firm's competitive advantage and then involve people knowledgeable about these systems early in the process to increase chances of success (Stylianou, Jeffries, & Robbins, 1996).

Evidence suggests that managers should consider IT issues as part of the initial motivation for an M&A (Buck-Lew, Wardle, & Pliskin, 1992). Just as managers evaluate potential partners based on whether merging could cut costs or enhance marketing, research, or international capabilities, they also need to consider whether a union could leverage IT systems to enhance the combined company's competitive advantage. Failing to assess a potential partner's IT systems could result in missed opportunities to exploit potential advantages. It could also increase difficulties in integrating the systems if, for example, one company has outdated computer hardware or customized software that is difficult to combine with another IT system. More generally, much of the financial and operational information used when deciding whether or not to merge with another company is supplied by each company's IT system, so managers need to evaluate the quality of these systems to assess the quality of the resulting information (Shaffer & Schrock, 2012). Research has shown that top management commitment to IT integration during a merger can improve subsequent reliability of these systems and, in turn, enhance company post-merger performance (Robbins & Stylianou, 1999).

People knowledgeable about IT, such as each firm's chief information officer (CIO), should be included as part of the M&A process from the beginning. Giving these experts a seat at the table, beginning with the search for potential merger partners and continuing through the M&A process, can help managers pick better merger candidates. Having these experts on board also allows managers to conduct in-depth IT audits, which can help avoid unexpected M&A costs that arise from trying to integrate with partners

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