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# Post-Merger Technology Integration: Influential Organizational and Information Systems Factors

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## ABSTRACT

This research investigates the role that four organizational and six information system factors, managed by leadership teams, play in predicting the success of post-merger information systems (IS) integration between two companies. Data were gathered using a self-administered, mail and online survey instrument from senior IS executives at firms that have experienced a U.S. public merger greater than \$25 million between 2004 and 2007. The results support the research hypotheses that quality of merger planning, quality of communication of merger activities to IS, quality of IS integration planning, degree of end-user involvement in IS integration activities, and quality of technical support to users during the IS integration each have a significant influence on post-merger IS integration success. In addition, based on a supplemental path model analysis, four additional hypotheses are indirectly supported. Although constrained by some limitations, this research contributes to the body of knowledge that identifies sources of IS integration performance, thus further explaining sources of overall merger performance.

## Keywords

Mergers, IS integration, Organizational factors, Information systems factors

## INTRODUCTION

Every year, thousands of companies, large and small, public and private, join forces through a merger or acquisition (M&A), hoping to accomplish together what they could not accomplish separately (Lajoux, 2006). The term *M&A integration* refers primarily to the art of combining two or more companies after they have come under common ownership. *M&A* refers to the merger or acquisition transaction that leads to the combination, and *integration* refers to the combining of elements that will enable the two companies to function as one (Lajoux, 2006). Post-merger IS integration refers to the combining of IS components that will enable the two companies to function as one. Identifying controllable factors that influence the success of a post-merger IS integration between two companies is the main topic of this research.

Historically, M&As have been a primary tool of corporate strategy (Sirower, 2003). Mergers have many motives or drivers, including horizontal and vertical integration, market power gains, efficiency gains, geographic expansion, resource sharing, empire building, and diversification (Steiner, 1975; Trautwein, 1990; Vermeulen and Barkema, 2001). The desire to obtain valuable resources, including technologies, know-how, and capabilities has also driven merger activity (Chaudhuri and Tabrizi, 1999; Ahuja and Katila, 2001). But despite their popularity, many mergers have been unsuccessful, suggesting that they are generally not well understood in practice (Jemison, 1988; Hitt, Hoskisson, Ireland, and Harrison, 1991; Porter, 1985). Success refers to the ability to reach the intended goals of the merger, based on the merger motives. A merger is also considered successful if it achieves the synergies it promised at the time of the announcement of the deal, and its share price and revenue growth rate increases post-merger (Mehta and Hirschheim, 2004). A 1987 McKinsey & Co. study of 116 acquisitions shows that at least 61% failed to earn back equity capital invested within three years of the merger. Others believe that anywhere from 65% to 80% of mergers never deliver a real return on investment (Worthen, 2007). The lack of good merger performance indicates that much research is still needed in this area to help us understand what factors affect the success of a merger.

Few analysts have examined the problems of integrating firms after the merger has been consummated and the impact of this lack of integration on performance (Chakrabarti, 1990). Some IS and merger researchers have identified frameworks to classify different types of integrations (Buono and Bowditch, 1989; Hambrick and Cannella, 1993; Schweizer, 2005). However, few have specifically investigated how the IS functions of the two merging firms are integrated (Mehta and Hirschheim, 2004). Giacomazzi, Panella, Pernici, and Sansoni (1997) and Weber and Pliskin (1996) explored information Technology (IT) integration levels and IT infrastructure strategies and the effect of organizational culture on mergers, while Brown, Clancy, and Scholer (2003) provided details of the post-merger integration process and identified several critical success factors and lessons learned. The scarcity of empirical studies on the topic of post-merger IS integration and the connection found in the literature between a successful integration and effective merger performance substantiates the need for additional research in this area, thus making this research relevant.

## THE FACTORS

As previously categorized by Stylianou, Jeffries, and Robbins (1996), this research particularly examines four *organizational* and six *information systems* factors that can be shaped by the IS leadership teams, with the goal of targeting those that affect post-merger IS integration performance. By focusing on factors that can be managed, the study findings can propose to the leadership teams ways in which those teams could manage the significant factors, facilitating effective post-merger IS integration, impacting merger integration performance, and ultimately impacting overall merger effectiveness. Although other factors have been found to be associated with post-merger IS integration performance, because leadership teams cannot directly manage how the factors are manifested in the post-merger environment, those factors are excluded from the study. For example, factors such as *company merger experience* (Haleblian and Finkelstein, 1999; Bruton, Oviatt and White, 1994), *similarity of merged firms' application portfolios* (Brown et al., 2003), and *level of data sharing* (Stylianou et al. 1996), to name a few, were excluded. Following a thorough review of the literature, each of the ten factors were selected based on the ability of management teams to shape them, their prominence across various information systems contexts, and their relevance to a post-merger IS integration (Baro, Chakrabarti and Deek, 2008).

### Organizational Factors

Executive (non-IS) management support  
 Quality of merger planning  
 Quality of communication of merger activities to IS  
 Degree of IS participation in merger planning

### Information Systems Factors

Quality of IS integration planning  
 Quality of communication of IS integration activities to user areas  
 Degree of end-user involvement in IS integration activities  
 Quality of technical support to users during the IS integration  
 Provision for end-user training due to the integration  
 Provision for addressing IS employee morale

## HYPOTHESES

Table 1 illustrates the research hypotheses and summarizes the study findings.

## METHODOLOGY

To assess the influence of the ten organizational and IS factors on post-merger IS integration success, a cross-sectional survey design was employed, relying on a self-administered paper and online survey assessment instrument. The data required was being captured as of a certain point in time from senior IS executives in companies which completed a merger or acquisition. Due to the nature of this target population, one that is difficult to reach and whose time constraints are high, the data had to be collected in an expedient and effective manner from a sample that is large enough to make the findings generalizable to the target population. The survey instrument was developed in two stages. First, a preliminary questionnaire was developed using a subset of validated scales and questions applied by Stylianou et al. (1996) and Robbins and Stylianou (1999) to measure the organizational and IS factors and post-merger IS integration success. Second, the instrument was improved upon based on feedback from dissertation committee members and a pilot conducted with IS management team members, which tested the study data collection procedures, helped to remove ambiguity and improve the instrument's readability.

Specifically, the target population and sampling units for this study were senior IS executives at organizations that had completed a U.S. public merger greater than 25 Million, as identified in the *Mergers & Acquisitions: The Dealermaker's Journal* and Lexis Nexis' Hoover's company records. 1,010 IS executives identified within companies that completed a merger during the time period from 2005 to 2006 were selected to be included in the sample. After a four-month data collection period that spanned from the end of January 2008 to the end of May 2008, a four-step mail survey data collection generated 42 responses and the online survey generated 60 responses, for a total of 102 responses. The number of responses

is equivalent to a 17% response rate, after adjusting the sample size to 600 based on undeliverable surveys and mail correspondence indicating that the addressee was not involved in the post-merger integration, preferred not to answer, could not answer based on company policy prohibiting participation in surveys, or was no longer with the company.

The data were statistically analyzed using Statistical Package for the Social Sciences, SPSS version 16.0, and Analysis of Moment Structures, AMOS 16.0, used only in the supplemental path model analyses. Descriptive statistics, confirmatory principal component factor analysis, composite scores, Chronbach's alpha scores, Pearson's r correlations, and multivariate analysis of variance (MANOVA) were applied in this study. To test the study hypotheses, standard multiple regression and forward stepwise regression analyses were conducted. A supplemental path model analysis was conducted to identify the relationship among the factors.

H 1: <i>Executive (non-IS) management support</i> for IS integration activities influences post-merger IS integration success measures, such that greater executive (non-IS) management support for IS integration activities results in greater post-merger IS integration success measures.	Indirectly Supported*
H 2: <i>Quality of merger planning</i> influences post-merger IS integration success measures, such that greater quality of merger planning results in greater post-merger IS integration success measures.	Supported
H 3: <i>Quality of communication of merger activities to IS</i> influences post-merger IS integration success measures, such that greater quality of communication of merger activities to IS results in greater post-merger IS integration success measures.	Supported
H 4: <i>Degree of IS participation in merger planning</i> influences post-merger IS integration success measures, such that greater degree of IS participation in merger planning results in greater post-merger IS integration success measures.	Indirectly Supported*
H 5: <i>Quality of IS integration planning</i> influences post-merger IS integration success measures, such that greater quality of IS integration planning results in greater post-merger IS integration success measures.	Supported
H 6: <i>Quality of communication of IS integration activities to user areas</i> influences post-merger IS integration success measures, such that greater quality of communication of IS integration activities to user areas results in greater post-merger IS integration success measures.	Indirectly Supported*
H 7: <i>Degree of end-user involvement in IS integration activities</i> influences post-merger IS integration success measures, such that greater degree of end-user involvement in IS integration activities results in greater post-merger IS integration success measures.	Supported
H 8: <i>Quality of technical support to users during the IS integration</i> influences post-merger IS integration success measures, such that greater quality of technical support to users during the IS integration results in greater post-merger IS integration success measures.	Supported
H 9: <i>Provisions for training due to integration</i> influence post-merger IS integration success measures, such that greater provisions for training due to integration result in greater post-merger IS integration success measures.	Indirectly Supported*
H 10: <i>Provisions for addressing IS employee morale</i> influence post-merger IS integration success measures, such that greater provisions to address IS employee morale result in greater post-merger IS integration success measures.	Not Supported

\* Supported based on supplemental path model analysis

**Table 1. Research Hypotheses and Findings**

## RESULTS AND DISCUSSION

Regarding the respondents' demographics, 85.3% have a Technology title that includes Vice President, Director, Chief Technology Officer, Chief Information Officer, Senior VP, Executive VP, IT Leader, or President. The remaining titles were also technology related, with the exception of one Chairman and CEO. On average, the respondents were experienced with IS management ( $M=18.77$ ,  $SD=7.86$ ), IS integrations ( $M=12.92$ ,  $SD=7.97$ ), and mergers ( $M=8.26$ ,  $SD=7.86$ ). The primary business areas for the companies involved in the merger ran the gamut, including but not exclusive to IT, financial services, banking, business services, telecommunication, title insurance, and healthcare. 89.1% of respondents represented the acquiring company and the remaining 10.9% represented the target firm.

The multi-dimensional construct to measure IS integration success was operationalized by Stylinou et al. (1996) and Robbins and Stylinou (1996), using five measures, which were enhanced in this study by applying a seven point Likert-type scale, rather than the original five point Likert-type scale. To ensure that the measures for post-merger IS integration success were actually measuring the indicated underlying dimensions, and before the main-effect hypotheses were tested using the five measures as dependent variables, a principal components factor analysis was conducted. The results indicate that indeed the five measures consolidate into two underlying dimensions, termed IS Capability and IS Performance in all subsequent analyses. The two dimensions were named based on the questionnaire items that loaded the highest on each (Table 2).

To examine respondent bias, and identify if the survey participants were primarily involved in successful mergers, two Pearson  $r$  correlations were conducted between success measures IS Capability and IS Performance, and the independent variable *perceived merger success* (Table 2, Question 5). A significant relationship would indicate the influence of *perceived merger success* on the success measures, and would require that *perceived merger success* be treated as a control variable in subsequent analyses. The results of the Pearson  $r$  correlation between IS Capability and *perceived merger success* was significant,  $r(100) = 0.64$ ,  $p < 0.01$ , as well as the results of the Pearson  $r$  correlation on IS Performance and *perceived merger success*,  $r(100) = 0.70$ ,  $p < 0.01$ . Subsequently, *perceived merger success* was included in the remaining analyses as a covariate, or control variable.

Based on multiple regression analyses (Table 3 and Table 4), five hypotheses are supported (Table 1). The first model predicting IS Capability includes three IS factors, namely *quality of IS integration planning*, *degree of end-user involvement in IS integration activities*, and *quality of technical support to users during the IS integration* (Table 3). This model is significant and explains 66.1% of the variability in IS Capability. In addition to the model being significant, each individual factor within the model significantly contributes to IS Capability. As a result, the three hypotheses that posit that the aforementioned three factors have a positive influence on IS integration success are supported, namely hypotheses H5, H7, and H8.

The second model predicting IS Performance involves organizational factors *quality of merger planning* and *quality of communication of merger activities to IS* (Table 4). The model and each of its factors are significant. Thus, the two hypotheses claiming that these two factors have a positive influence on IS integration success are supported, namely hypotheses H2 and H3 (Table 1).

Survey Item	Factor	
	IS Capability	IS Performance
<b>Q1 How would you assess the impact of the IS integration on the ability of the IS function to...?</b>		
Q1a Enhance the organization's competitive position (by market share increase, profit increase, etc., attributable to the IS function)	<b>.758</b>	.255
Q1b Shape or enable critical business strategies	<b>.767</b>	.303
Q1c Integrate IS planning with organizational planning	<b>.788</b>	.238
Q1d Provide integration of related technologies across organizational units	<b>.794</b>	.253
Q1e Provide corporate-wide information accessibility	<b>.716</b>	.394
Q1f Provide good quality information (accurate, useful, timely, etc.)s	<b>.741</b>	.435
Q1g Contribute to overall organizational financial performance (as measured by return on investment, return on assets, etc.)	<b>.805</b>	.287
Q1h Manage its own financial performance (meeting budgets, controlling systems maintenance cost, etc.)	<b>.821</b>	.302
Q1i Operate systems efficiently by ensuring systems availability, reliability and responsiveness	<b>.726</b>	.288
Q1j Develop systems efficiently and effectively (on time, within budget, satisfying requirements, etc.)	<b>.810</b>	.317
Q1k Recruit and maintain a technically and managerially competent staff	<b>.686</b>	.273
Q1l Identify and assimilate new technologies	<b>.566</b>	.311
<b>Q2 What is your assessment of the contribution of the IS integration activities to the following aspects of the overall M&amp;A plan...?</b>		
Q2a M&A schedule	.509	<b>.669</b>
Q2b M&A budget	.485	<b>.655</b>
<b>Q3 How would you assess the efficiency of IS resource utilization during the integration process?</b>		
Q3a Time resources	.222	<b>.806</b>
Q3b Personnel resources	.266	<b>.812</b>
Q3c Financial resources	.164	<b>.813</b>
<b>Q4 What is your assessment of the capabilities of the IS function with regard to...?</b>		
Q4a Exploiting opportunities from the merger or acquisition	<b>.631</b>	.363
Q4b Avoiding problems typically arising from the merger or acquisition	.418	<b>.648</b>
<b>Q5 How successful has this IS integration been? (perceived merger success)</b>	.475	<b>.723</b>

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

a Rotation converged in 3 iterations.

**Table 2. Factor Analysis - Rotated Component Matrix(a)**

Variable	B	SE	$\beta$
(Constant)	1.67	0.26	
Q6 Perceived Merger Success	0.13	0.05	0.21**
Q14 Degree of End-User Involvement in IS Integration	0.22	0.05	0.33**
Q13c Quality Of IS Integration Planning	0.14	0.05	0.23*
Q15 and Q16 Composite Quality of Technical Support to Users During IS Integration	0.20	0.08	0.22*

Note. \*\*  $p < 0.01$  and \*  $p < 0.05$ .

**Table 3. Multiple Linear Forward Stepwise Regression on IS Capability Predicted by Organizational and IS Factors**

Variable	B	SE	$\beta$
(Constant)	0.90	0.22	
Q6 Perceived Merger Success	0.22	0.04	0.32**
Q11b Quality of Communication of Merger Activities to IS	0.39	0.05	0.44**
Q13 Composite A and B Quality of Merger Planning	0.23	0.05	0.29**

Note. \*\*  $p < 0.01$ .

**Table 4. Multiple Linear Forward Stepwise Regression on IS Performance Predicted by Organizational and IS Factors**

#### New Hypothesized Models – Future Research

A closer examination of the correlations between the factors (Appendix 1) suggests that a more complex relationship may exist between the five influential factors and the remaining ones, which the literature also supports as influencing post-merger IS integration success. This thought process evoked a supplemental path model analysis. The findings from such analysis can be used to argue that four of the remaining ten factors indirectly influence post-merger IS integration success, thus lending indirect support to four main-effect hypotheses (H1, H4, H6, and H9).

In the supplemental path model analyses, due to lack of a priori theory predicting how the ten factors relate to each other, two hypothesized path models predicting IS Capability and IS Performance are built using a sequential series of regressions and are tested using structural equation modeling. As suspected, between the two hypothesized path models (Figure 1 and Figure 2) all ten factors are reflected as either directly or indirectly influencing IS Capability or IS Performance. Although the model fit analyses for the two hypothesized path models generated mixed results, the two models advance the body of research and provide the basis for future work. The relationships expressed by the hypothesized path models predicting IS Capability and IS Performance are described below.

In the hypothesized path model predicting IS Capability (Figure 1), eight out of ten factors are reflected as having a direct or indirect link to IS Capability. Figure 1 shows a direct influence between IS factors *F5 quality of IS integration planning*, *F7 degree of end-user participation in IS integration activities*, and *F8 quality of technical support to user during the IS integration* and IS Capability, indicating a 58% correlation. The model also shows five exogenous variables having an indirect influence on IS Capability. Those variables reflect these five factors, in order, from top to bottom as they appear on Figure 1: *F9 provisions for training due to the integration*, *F10 provisions for addressing IS employee morale as a result of the merger*, *F2 quality of merger planning*, *F4 degree of IS participation in merger planning*, and *F6 quality of communication of IS integration activities to user areas*.

In the hypothesized path model predicting IS Performance (Figure 2), six out of ten factors are reflected as having a direct or indirect link to IS Performance. Figure 2 shows a direct influence between organizational factors *F2 quality of merger planning* and *F3 quality of communication of merger activities to IS* and IS Performance, indicating 70% correlation. The model also shows four exogenous variables having an indirect influence on IS Capability. The variables reflect these four factors, in order, from top to bottom as they appear on Figure 2: *F1 executive (non-IS management support for IS integration*

activities, F5 quality of IS integration planning, F10 provisions for addressing IS employee morale as a result of the merger, and F6 quality of communication of IS integration activities to user areas.

The hypothesized path models (Figure 1 and Figure 2) support the indirect influence of these factors on **IS Capability and or IS Performance**: F1 executive (non-IS) management support for IS integration activities (H1), F4 degree of IS participation in merger planning (H4), F6 quality of communication of IS integration activities to user areas (H6), and F9 provisions for training due to the integration (H9).

To conclude on the hypothesized path models, first, between the two models, all ten factors are represented, suggesting that all ten factors are important in predicting post-merger IS integration success. However, the lack of significance for the parameters that involve F10 provisions to address IS employee morale as a result of the merger signal that further investigation and analysis is required. Secondly, with the exception of F10 provisions to address IS employee morale as a result of the merger, both models suggests strong relationships between the factors. In fact, in this study, for the hypothesized IS Capability path model (Figure 1), the lowest beta weight is .30 (for the parameter IS Capability ← F7 degree of end-user participation in IS integration activities), while for the hypothesized IS Performance path model (Figure 2), the lowest beta weight is .43 (for the parameter F2 quality of merger planning ← F1 executive (non-IS) management support for IS integration activities). Furthermore, the strong relationships between the endogenous and exogenous factors, as well as the strong correlations among the exogenous factors, suggest that the underlying constructs may merit closer examination in the future, potentially in the form of a factor analysis involving all ten factors.

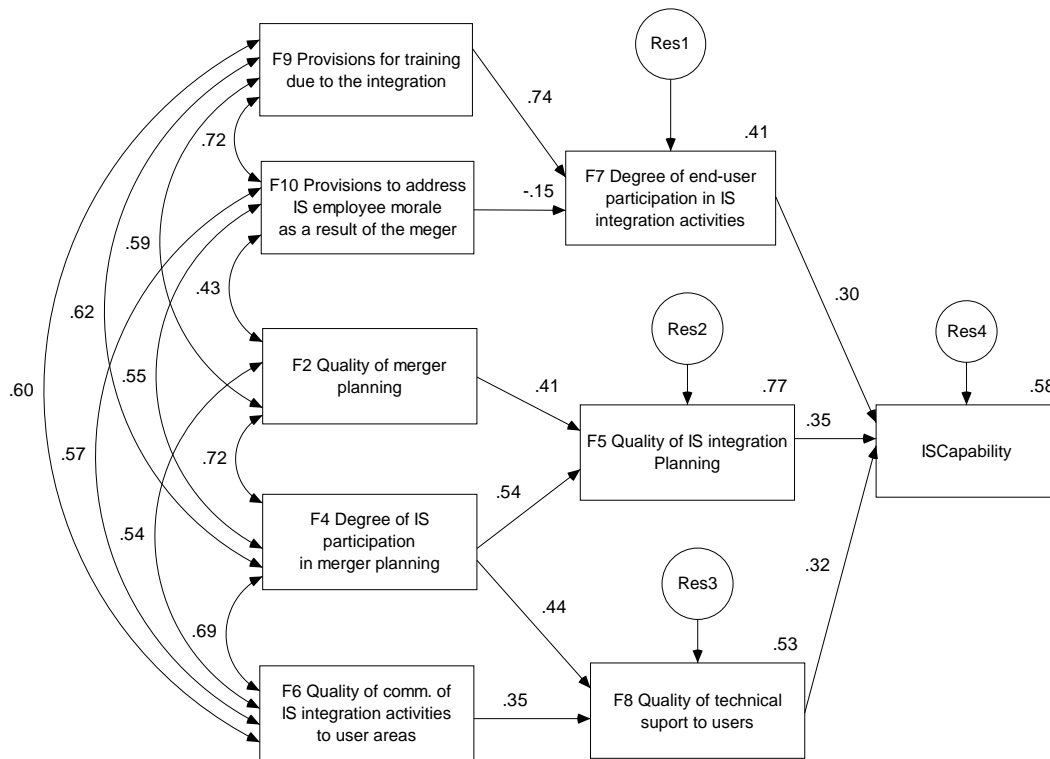


Figure 1. Hypothesized path model predicting IS capability

**LIMITATIONS**

The results of this research must be considered in light of various limitations associated with sample size, the quality of factor measures, self-reported dependent and independent variables, and the generalizability of the findings. First, the final sample size in this study was 102 subjects. Given the ten factors involved in the analyses, the target sample size had been a conservative sample of 130 subjects ( $N > 50 + 8m$ , where  $m$  = number of independent variables) (Tabachnick and Fidell,



2001). The main challenge in achieving the target sample size of 130 cases was the nature of the target sampling unit, particularly very busy IS executives and senior IS managers in organizations.

A second limitation of this study is the nature of the measures for the independent variables—the factors. Out of the ten factors, five factors use single-item measures, and data were captured through surveys, not secondary sources, which would make the data more reliable. A single-item measure can raise questions associated with the reliability of the measure. In this study, the dependent and independent variables are measured using scales previously validated by Stylianou et al. (1996) and Robbins and Stylianou (1999). While single-item measures are not the most desirable, they are often used due to limitations regarding the availability of or difficulty in obtaining data.

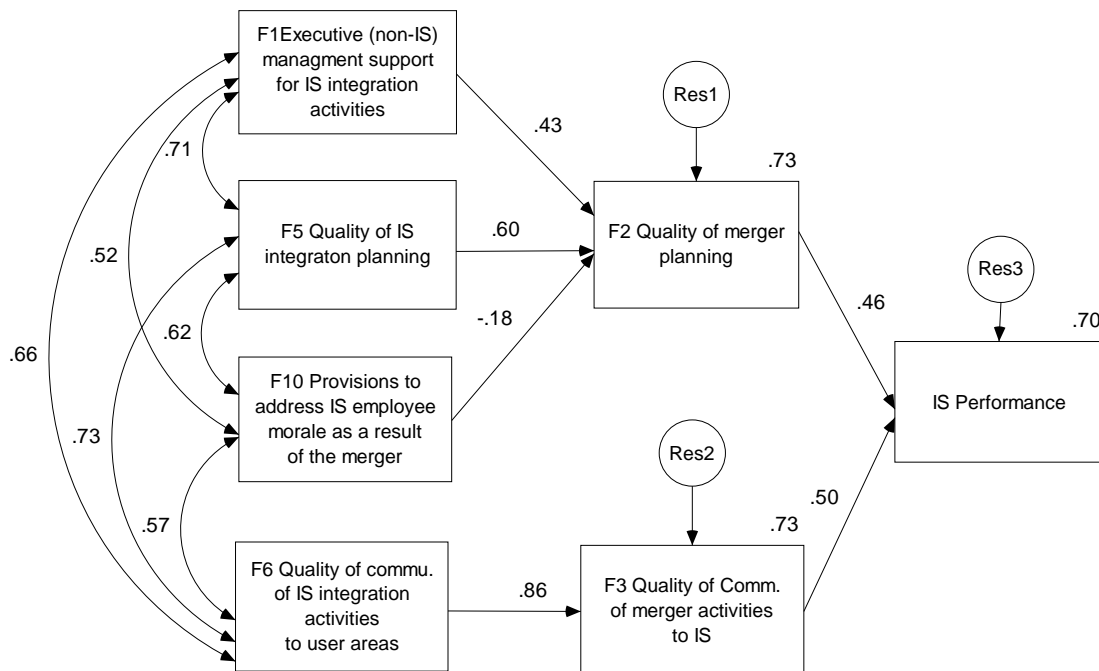


Figure 2. Hypothesized path model predicting IS Performance

A third limitation or concern is that data for the dependent variable, post-merger IS integration success, and the independent variable, the factors, are collected through a survey instrument, which does not have the same objectivity as secondary sources, and from the same respondents at the same time, creating the potential for self-report bias. Unfortunately, because of the type of information being sought by this research, data to assess post-merger IS integration success and the factors in question could not be collected through secondary sources.

Finally, the fourth limitation is related to the generalizability of the findings. The findings of this study are only generalizable to U.S. public merger greater than \$25 million, suggesting that researchers must be careful about applying these results outside of these parameters.

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## APPENDIX 1: CORRELATIONS

	Q6 Perceived Merger Success	IS Performance	IS Capability	F1	F2	F3	F4	F5	F6	F7	F8	F9
IS Performance (DV)	.701**											
IS Capability (DV)	.638**	.751**										
Q10 Exec Mngt Support <b>F1</b>	.582**	.695**	.634**									
Q13ab Quality of Merger Planning <b>F2</b>	.615**	.736**	.667**	.766**								
Q11b Quality of Comm To IS <b>F3</b>	.467**	.754**	.580**	.666**	.576**							
Q12 Degree of IS participation in merger planning <b>F4</b>	.504**	.726**	.660**	.684**	.718**	.702**						
Q13c Quality Of IS Integration Planning <b>F5</b>	.615**	.796**	.707**	.713**	.796**	.745**	.835**					
Q11a Quality Of Comm To Users <b>F6</b>	.474**	.729**	.643**	.651**	.548**	.855**	.698**	.726**				
Q14 End User Involvement in IS integration <b>F7</b>	.443**	.604**	.678**	.496**	.560**	.619**	.599**	.592**	.605**			
Q15andQ16 Quality of Technical Support to Users <b>F8</b>	.632**	.679**	.690**	.671**	.665**	.595**	.683**	.684**	.660**	.536**		
Q18 Provisions for training due to the integration <b>F9</b>	.571**	.620**	.588**	.633**	.597**	.631**	.621**	.694**	.625**	.623**	.553**	
Q17ProvisionsEmployeeMorale <b>F10</b>	.423**	.527**	.511**	.538**	.430**	.575**	.549**	.629**	.579**	.380**	.507**	.721**

Note. \*\* Correlation is significant at the 0.01 level.