Aalto University
School of Economics

IS & Business Strategy Alignment; The Impact on IT Integration In M&A. Case study - Technology Company

Information Systems Science

Master's thesis

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ABSTRACT

Objectives of the Study

This study focuses on the phenomenon of Mergers & Acquisitions and ponders whether alignment between the business strategy and the IT strategy has an impact on IT integration efforts within a case company. The study is facilitated by asking the research question; Does the level of strategic alignment between IT and business strategy have an impact on how IT is integrated in a merger?

Academic background and methodology

The topic of M&A straddles a broad selection of academic disciplines, some of which have received more focus than others. As the role of IT has grown in importance and is becoming ingrained in the way companies do business Previous literature consisted of studies on IT integration in a post-merger context, in addition to theory on IT & business strategy alignment. Based on the review of previous literature a theoretical framework was formulated. This framework was then used to evaluate the process of IS integration in M&A. Empirical data for the study was collected through interviews and also collecting documentation pertaining to the case companies approach to strategy and M&A.

Findings and conclusions

The study found the case company has strong ties between the business strategy and IT strategy with IT in some cases driving the business strategy. IT integration was straight forward from an IT perspective as the company possesses a mature platform and integration team which facilitate the consolidation of the acquired companies IT and processes. The key factors which impacted Integration success in the case company were deemed to be communication and the impact of resource constraints, in addition to the expectations of the synergies and how they are managed.

Keywords

Merger, Acquisition, Integration, IS Strategy, Synergy, IT, Alignment, Constraints

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1. INTRODUCTION

1.1 Motivation for the study

In recent years there has been substantial focus on both how mergers & acquisitions (M&A) are efficiently implemented in addition to studies on the true value which they generate for the shareholder (Jensen & Ruback, 1983).

Through the years 1998 to 2000 the global M&As market was worth an estimated $4 trillion USD (Jespersen, 2002), this amount reflects a higher value than the total worth of mergers during the preceding 30 years and demonstrates the growing importance of this phenomenon. (BusinessWeek, October 2002)

With the M&A market hitting $4.02 USD trillion in 2007 (Figure 1) and companies currently contemplating how they can spend the $3 Trillion USD (McCracken, 2010) worth of cash that they are currently in possession of, the importance of this field of study and the impact which it has on the wider economy is considerable.
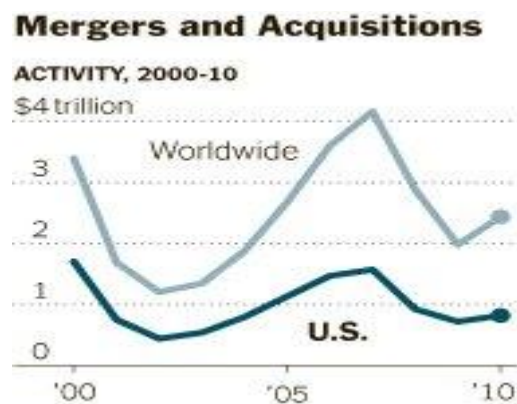
Figure 1 Mergers & Acquisition activity 2000 - 2010 USD

Interest in Mergers and acquisitions however is not only limited to the financial size of the market and economic implications. The topic has drawn focus from various corners of the

academic community as the phenomenon of M&A reaches through a range of disciplines extending from economics & finance to law, business strategy and Human resource management to name a few.

The terms merger and acquisition themselves technically mean two different things. Simply stated a merger is when two companies chose to go forward as one new company, whereas an acquisition is where one company acquires another and the acquired company then ceases to legally exist.

 The result of both courses is effectively the same as what were previously two companies that previously operated independently carry on operations as one entity. Bearing this in mind for the purpose of this study there will be no distinction between the two terms, and they will be used interchangeably as from a practical perspective the challenge with regard to the focus of this study remains the same.

1.2 Criticism of M&A

Given the sheer size of the market in both dollar volume and number of transactions, it is surprising that one common criticism leveled at M&As is that they do not realize the benefits which are highlighted when the intent to execute the transaction is announced. Particularly since the benefits are often exclusively financial in nature and are the primary motivation for the merger in the first place. One study by (Andrade, Et al. 2001 Spring) shows that M&A deals often generate considerable benefit for the shareholders that have a stake in the target company, however the value they deliver to the acquiring company's shareholders is often not so great.

This would appear to go against the basic logic of the motivations for acquiring a company as the aim is to maximize shareholder return, thus it is difficult to imagine that a decision to enter into an M&A transaction would be made if there were no clear benefits for the acquiring company's shareholders. Bearing this in mind there is a plethora of research which has been conducted looking in to the factors which contribute to an unsuccessful merger and to the true long term benefits that they generate for stakeholders (Jespersen, 2002).

In these studies no one element to success becomes apparent, but with IS acting as one of the cornerstones of many a companies' operations and in many cases acting as a strategic enabler, its contribution to a successful merger can be of considerable importance.

In this study the terms information technology (IT) and information systems (IS) are used interchangeably, while it is widely accepted that Information technology refers to the actual technology involved, Information systems encapsulates frameworks, processes and exchange of data in addition to the actual technology utilized. For the purposes of this study no distinction will be made between the two.

Levinson (1994) state that information systems are "a key factor in strategic and tactical management" which goes to highlight the influence that IS systems now exert on businesses. While it is recognized that IT is a key element in strategic and tactical management a common challenge which plagues businesses is their inability to realize the full benefits of IT investments.

This inability to recognize the full benefit of IT investments is highlighted by Henderson & Venkatraman, (1993) as they argue that a company's inability to realize value from IT investments is partly the result of the lack of alignment between the business and IT strategies, and propose a strategic alignment model which outlines the importance of IT and how it can act as a strategic enabler. Considering this Wijnhoven et al. (2005) utilize this model to create a framework from a merger perspective to determine what IT integration strategy fits in the context of post-merger situations.

Wijnhoven et al (2005) investigate what is the best strategy for IT integration in a post-merger situation based on the business objectives of the merger, and research by Mehta & Hirchheim (2004) assesses IT integration decision making in M&A. In this study they state that more research is needed on developing new theories as to how, when and why IT integration decisions are made during the M&A process however while many studies have looked at what is an effective and most efficient model for integrating IT in the aftermath of an M&A, thus acting in a reactive manner. However there is very little material investigating whether the level of alignment between IT & business strategy can act as a hurdle or an inhibitor in realizing the benefits of a potential M&A transaction at the outset, with the current models just assuming that such a relationship exists in all cases.

This masters thesis seeks to add to the discussion on IT integration in M&As and investigate if the degree to which IT and business strategy are aligned could inhibit the realization of value which is promised to investors at the inception of an M&A transaction and whether certain factors could keep potential value locked up in IT systems that cannot be effectively integrated. Thus providing a platform for evaluation and taking a more proactive view to ensure that IT does not have a detrimental impact to the transactions immediate and mid-term success.

1.3 Research problem & Questions

The main problem encountered is that the benefit of M&As for an acquiring companies shareholders often falls short of what is envisioned when the deal is announced. As M&A is a complex phenomenon, demonstrated by the plethora of academic research from various academic disciplines this Masters thesis seeks focus on a more specific area of M&A. This area investigates whether the alignment of business strategy & Information systems strategy can have an impact on the integration in M&A.

The contents of this study aim at examining and discussing the factors which have an impact on the integration of information systems in an M&A transaction to ascertain whether there are factors that could inhibit the realization of the benefits. This study will be facilitated through seeking to answer the following research question;

1. Does the level of strategic alignment between IT and business strategy have an impact on how IT is integrated in a merger?

1.4 Structure of thesis

This thesis is structured in the following manner. The second chapter seeks to review previous literature on the subject of strategy, business strategy and IT strategy in order to select lenses through which the phenomena of IT and business strategy alignment can be viewed. On the basis of this it is then possible to review in more depth the link between this phenomena and how it impacts M&A decisions.

The third chapter then builds a framework by utilizing the theories and material outlined in the literature review. The framework forms the basis on which the case company can be evaluated

In the fourth chapter the chosen research methods and the approach that has taken is outlined, along with the justification.

The fifth chapter dives into the case study itself, and provides the findings of the research.

In chapter six the findings that were generated as a result of the case study are presented and discussed. These results are then viewed against the framework presented in the third chapter to validate the assumptions.

Finally the conclusions from the study are drawn and the managerial implications of this study are presented before outlining the limitations of the study and suggesting potential areas for further research in this field.

2. LITERATURE REVIEW

The theoretical review of this study first examines literature on the subject of mergers and acquisitions to identify what are the main drivers of this phenomenon. Then the topics of strategy and the concepts of business & IT strategies are covered as this forms the platform to investigate the links and importance between IT strategy and business strategy and how they should be aligned. This is in order to identify if there are any implications with regard to the subject of M&A.

Having reviewed this, the literature will concentrate on reviewing research on the models of IS systems integration in mergers. It is in this section that the question of implications for the bidding company not diligently analyzing the IS systems and their level of integration into the business strategy will be considered.

The model which is used in this study is founded on previous literature and seeks to combine the theoretical models and concepts of both strategic alignment between business and IT strategy with those on IT systems integration in mergers. This is performed in order to provide a framework to analyze factors which lead to successful IT integrations in a post merger situation and whether certain factors can flag a risk of an unsuccessful merger through the lens of IT integration.

2.1 Motivations for Mergers & Acquisitions

Companies can enter into M&A transactions as the result of a wide range of different motivations. This is reflected academically through the number of various studies which span the boundaries of several disciplines.

Ravenscraft (1987) identified 15 possible motivations which range from financial to strategic. Angwin (2007) adds support to this broad view citing that the motives for M&A

"can be ascribed to the fields of finance, economics and strategy"

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According to Angwin financial motivations can range from improving stock market metrics, borrowing against the cash of a target company, reducing tax liabilities and asset stripping. Angwin goes on to note that some of these financial motivations can be one off gains.

Economic benefits are highlighted as being more long term and are more or less centered on the theories of economies of scope and scale which have their roots in traditional economic theory. Finally the strategic motivations are centered on the positioning of the company in its industry in addition to acquiring new resources and capabilities.

These three fields that encapsulate the motivations for M&A activity are echoed by Sytlianou et. Al. (1996) as they propose that that organizations use M&A to quickly achieve goals of: rapid growth in size and strength; increased market share; acquisition of market share; acquisition of new patents, technologies, talent and/or geographical territories and also help to achieve economies and efficiencies on a large scale.

Weber & Pliskin (1996 p83) take a slightly different view as they state that *one of the main reasons for companies to engage in M&A is to gain synergies between the two entities* thus increase the competitive advantage. This would align with the strategic and economic factors outlined in Angwins (1997) taxonomy.

The lack of any one driver for M&A activity highlights the fact that there are many possible motivations for why an M&A transaction might take place and it is unlikely that there is one soul impetus that acts as the underlying vehicle for justifying an M&A transaction. This is a view shared by Angwin (2007) as they emphasize the point that broad sweeping categories are used and that they fail to capture the complex motivations behind M&A and as a result make it difficult to identify the success factors behind successful M&A transactions.

While it is not the purpose of this study to isolate or identify the exact motivations for M&A activity, it is important to highlight that there are a plethora of drivers that direct M&A action and that there are hidden complexities which have not necessarily been considered in traditional research of the motivations behind M&A activity as demonstrated by Angwin (2007). This is of particular importance as while IS systems and their benefits are unlikely to act as a sole motivation for M&A activity the degree to which they are ingrained in a business can have an

impact on the success of M&A as they deliver benefits within companies which are judged to be economic, strategic or financial.

This is relevant because IT can be considered to be one of which is how ingrained IT maybe on a companies operations and thus how much of an effort is required to identify what potential M&A benefits are driven by IT as this can be a potential hurdle in realizing post transaction benefits that are promised to stakeholders at the outset of the transaction.

2.2 M&A Performance

As outlined in the previous chapter there can be numerous motivations for a company to enter into M&A and the broad sweeping categories fail to capture the complex motivations behind M&A (Angwin 2007). These various motivations that drive M&A are subsequently rooted in numerous scientific disciplines. Parvinen (2003) states that

"M&A research has conventionally been seen to be organized in more or less well demarcated research streams or schools of thought."

In Larsson & Finkelstein's article "Integrating Strategic, Organizational, and Human Resource Perspectives on Mergers and Acquistions: A Case Survey of Synergy Realization" (1999) The authors seek to understand M&A success by creating a conceptual framework that incorperates theoretical perspectives from the fields of economics, finance, organization theory, human resource management & strategy, thus attempting to capture a full understanding of M&A success.

The model that is proposed by Larsson & Finkelstein's describes;

How synergy realization is a function of the similarity and complementarity of the two merging businesses (combination potential), the extent of interaction and coordination during the organizational integration process, and the lack of employee resistance to the combined entity.

The graphic representation of which can be found in figure 2.
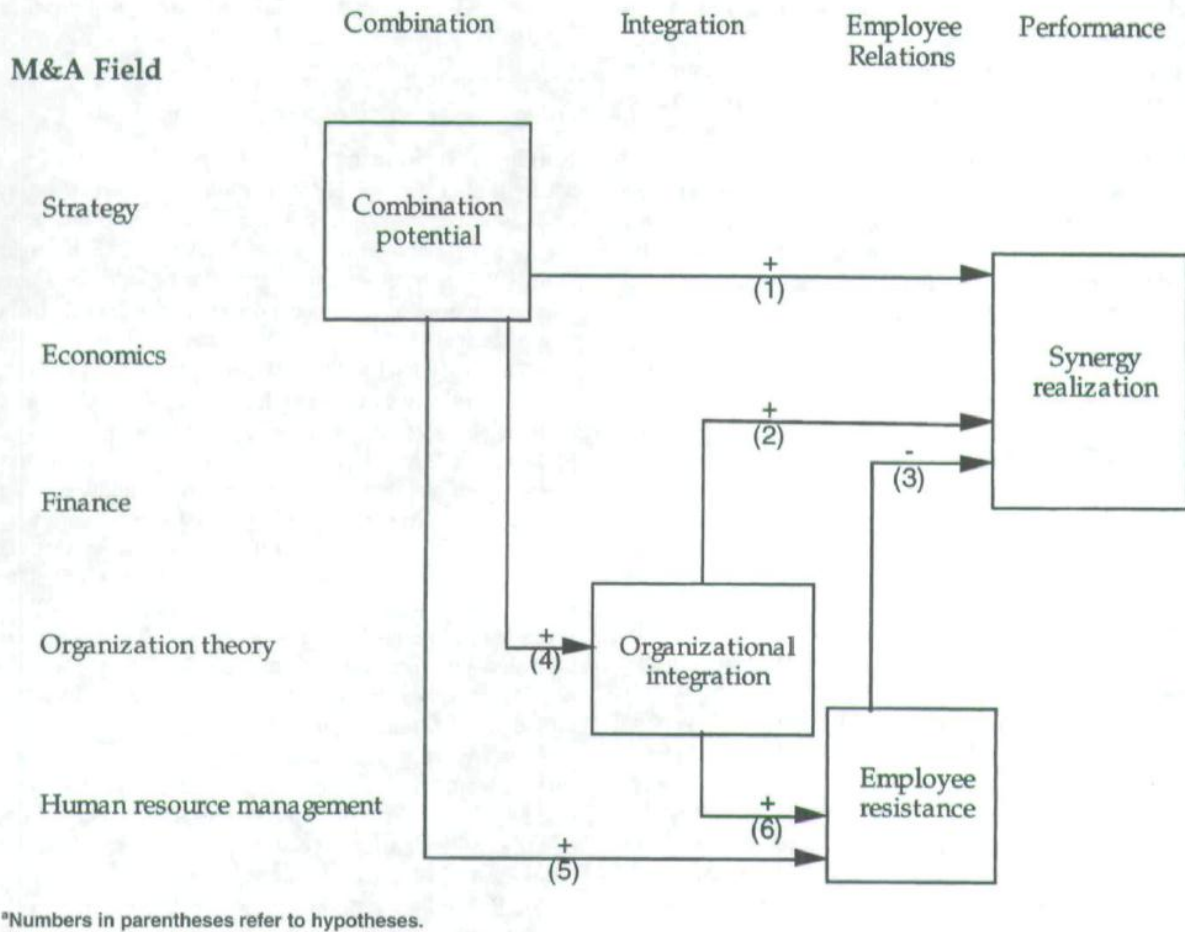
Figure 2 An integrative Merger and Acquisition model (Larsson & Finkelstein, 1999)

The 3 main factors Combination potential, Organizational Integration & Employee resistance outlined by Larsson & Finkelstein contain subsets of factors which can be analyzed in more detail.

The first factor combination potential has its roots in the theory that value in M&A is created through efficiency gains which are the result of synergies between the two entities which is a view supported by Weber & Pliskin (1996) The synergies proposed by Larsson & Finkelstein include;

- Operational synergies
- Collusive synergies
- Managerial synergies

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- Financial synergies

Operational synergies refer to the benefits achieved through the economies of scale and efficiency in the areas of R&D, marketing, production. This is a view supported by Stylianou et al. (1996) as they propose that organizations can use M&A to help achieve economies and efficiencies on a large a scale.

Collusive synergies refer to the benefits gained from market and purchasing power these are closely related to operational benefits but focus on the increased buying power of the new entity.

The third topic of managerial synergies covers being able to replace incompetent management or applying complementary practices which is a view complimented by Ravenscraft (1987) as they state that one motivation for M&A can be "replacement of inefficient management" or "retirement of senior management"

The fourth topic of financial synergies relates to the diversification of risk in the new entity and co-insurance, which again is supported by the observation by Ravenscraft that a motivation for entering into M&A can be "Diversification in order to reduce risk"

The second factor that impacts synergy realization relates to organizational integration (operationalization) This outlines the theory that strategic combination potentials are not automatically realized in an M&A transaction and that the degree to which they are realized is dependent on how the new organization is managed after the M&A transaction has been closed. Larsson & Finkelstein propose that the organizational integration can be divided into two subsections. The first being the degree of interaction between the joining firms through material flows and restructuring and the second the extent of the coordinated effort to improve the quality of the integration through the use of special integrators, transition teams and preplanning.

The third and final factor refers to employee resistance, which approaches the topic from a human resource management perspective & organizational psychology perspective and investigates the reactions of employees on both an individual & collective level.

2.3 Strategy

To fully understand and in order to be able to define the exact meaning of IT & Business strategy it is imperative to clearly define what exactly is inferred by the use of the word strategy. Mintzberg (1987) states that;

"Strategy can be used in many interchangeable contexts"

This is why for the purpose of this study strategy will be considered using Mintzbergs 5 P's model ; Plan, Plot, Pattern, Position & perspective. This encapsulates the wide reach of the definition of strategy while still providing the foundations to identify what is a strategy. Mintzberg (1987) states that by using these five definitions of strategy it is possible to remove confusion that is the result of ill-defined and contradictory uses of the word and thus enrich the ability to understand and manage the process by which strategies are formed.

1. Strategy is a plan, a "how," a means of getting from here to there.
2. Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy.
3. Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets.
4. Strategy is perspective, that is, vision and direction.

2.3.1 IS Strategy

Having established a definition of strategy it is imperative to clarify what exactly is meant by the term IS strategy. Using Mintzbergs 5Ps model to set the context, IS strategy can encapsulate the following 3 main elements; The infrastructure that IT environments are based on, the systems which are used to support the needs of the users comprising of middleware and applications and finally the services which are provided to the users. When considered exclusively these elements could be considered gross generalizations, and when considered on their own they provide little

indication of what an companies IT strategy might be. This changes when they are combined with Mintzbergs 5Ps model. At this point they provide a framework which can provide clarification on the form and the structure of a company IS strategy.

2.3.2 Business Strategy

Unlike IT strategy, business strategy can encompass a great deal more areas and there is confusion about what can and cannot be considered a business strategy (Watkins 2007) This is also a view with credence given by Mintzberg (1993) as in his model he strives to:

"Remove confusion that is the result of ill-defined and contradictory uses of the word and thus enrich the ability to understand and manage the process by which strategies are formed."

As the concept of what can be considered a business strategy is an expansive topic in itself, for the purpose of the study business strategy has been defined according to Watkins (2007):

"A business strategy is a set of guiding principles that, when communicated and adopted in the organization, generates a desired pattern of decision making"

This definition is supported by Porter (2008) and the three generic strategies he proposes in the five forces model, as implementing one of the three generic strategies explicitly guides the decision making psyche of the organization.

2.3.3 IT and business strategy alignment

Henderson & Venkatraman, (1993) argue that many companies inability to realize value from IT investments is a result of the lack of alignment of business strategies and IT strategies. This dictates that the need for a strong link between the two is necessary in order to be able to fully realize the true value of IT and investments.

The call for the need of a strong link between IT strategy and business strategy is further strengthened by Hirscheim and Sabherwal in their paper "Detours in the path toward strategic information systems alignment". In this paper the authors state that

"As business strategy changes IS strategy must change in parallel"

This strong reference between the two means that we can assume that IT and the IT strategy used need to be closely linked to what the overall business strategies are, putting IT in a core position in terms of importance to a company. This becomes even more relevant and pronounced in the case of companies that are based on internet service driven ideas, such as social networking sites, IT service provides (system & service integrators) and online sales agents (estate agents etc) to name a few. This is a view that is also shared by Cane, 2010 in his article covering the topic of succesful mergers.

Reich & Benebast consider business alignment to be the degree that information technology plans and targets are supported and support the overall mission and objectives of the business. This is in effect is an IT centric view but ultimately infers that IT & business strategy are closely aligned.

In their study on strategic alignment Henderson & Venkatraman, (1993) outline their "strategic alignment model" This model is based on two main building blocks which are strategic fit and functional integration. A graphic representation of the model can be found in figure 3.

Strategic fit addresses both external domains, which is the strategy component of the business and IT, and internal domains which refer to the structures and processes. The link between these is the "strategic fit"

External domains in this sense relate to the business environment that the business operates in, and internal relating to the organizational infrastructure and processes of the company.

More specifically in the external components of IT strategy the organization has three different sets of choices, which are outlined below.

1. IT scope refers to the specific technologies which support business strategy initiatives. This element is equivalent to the business scope which concerns the product offering of the business to the market.

2. Systemic competencies refer to the competencies which contribute to new business strategy or support existing strategy. This is mapped to the distinctive competencies of the business which offer advantage over competitors.

3. IT governance refers to the mechanisms by which the competencies outlined in systematic competencies are gained, and map to the business governance element which is concerned with make vs. buy decisions in business strategy.

Studies have shown that the fit between external positioning and internal arrangement is critical in maximizing economic performance. Henderson and Venkatraman argue that this is just as valid for the IT domain, going even further to state that IT strategy should be concerned with the external domain i.e. How the company is positioned in the IT marketplace, and the IS infrastructure and management thereof for this purpose is the internal domain.

In relation to these two domains, 3 components must be addressed for effective alignment. Externally they focus on technology, structure of governance and competency. Internally they consist of architecture, processes and skills. It is the alignment and focus of these two sets that is paramount to success in aligning the overall IT strategy and business strategy.
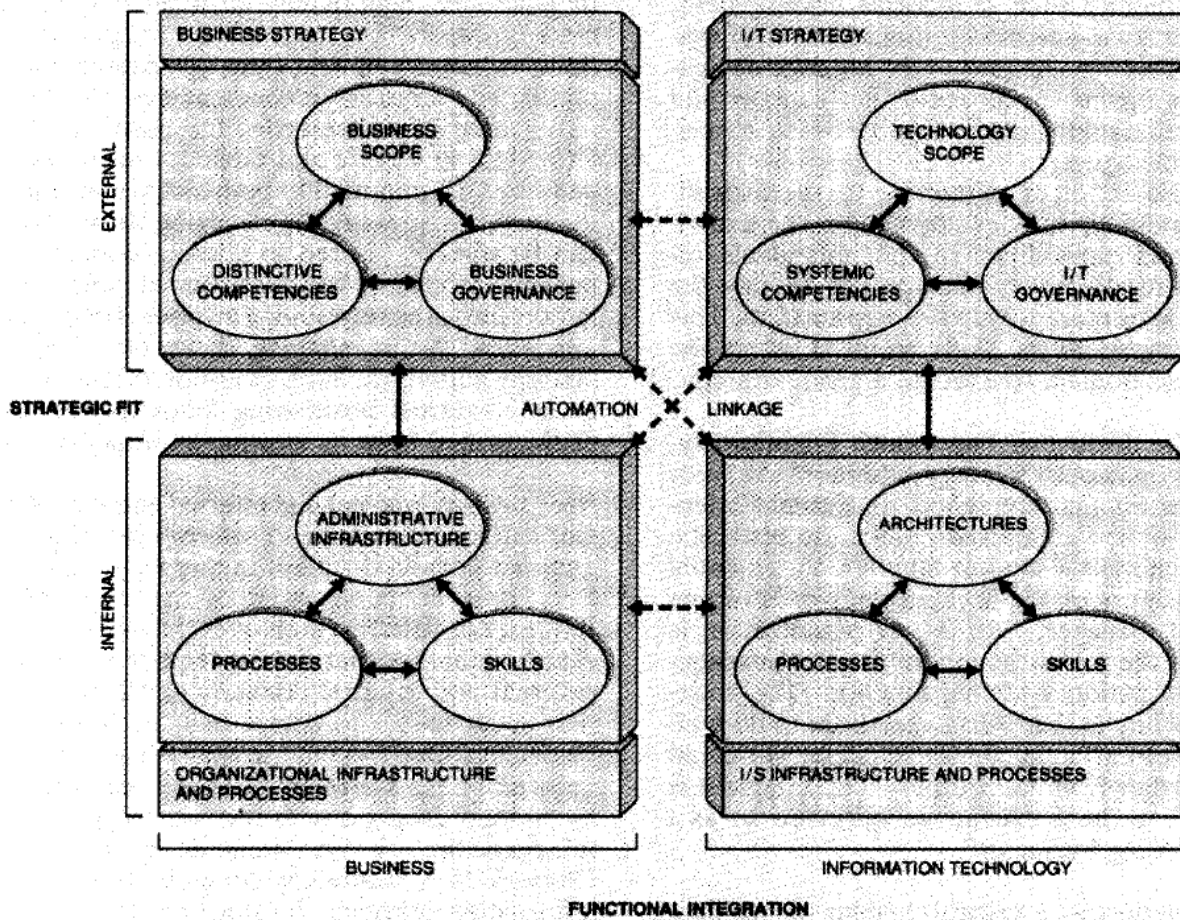
Figure 3 Strategic Alignment model (Henderson & Venkatraman, 1993)

The implications for the business is that there is a need to make sure that the decisions on either IT strategy or business strategy need to mirror each other, and they need to consider factors in all domains, internal and external in both the business strategy and IT strategy.

Henderson and Venkatraman state that the framework provided cannot be a used as a definitive guide to formulating a strategy, but rather as starting point to make sure that business and IT strategies are supportive of each other. This is extremely important especially in today's business environment where a strategy is often very dynamic, requiring the process that support it and help implement it are also well established and flexible.

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Their study outlines four dominant alignment perspectives, split into two categories as outlined in table 1.

Table 1 Alignment perspectives. (Henderson & Venkatraman, 1993)

Business Strategy Driven	I/T Strategy as the Enabler
Strategy execution	*Competitive potential*
Technology transformation	*Service level*

The strategy execution perspective is where business strategy defines both the design of the companies organizational infrastructure and the IS infrastructure. This is considered as a classic hierarchical view of strategic management where the onus is management to formulate strategy. Performance on IT in this case is very much focused on a financial basis.

Technology transformation is where IT strategy supports the business strategy and execute on this by implementing appropriate infrastructure and processes. This perspective is not constrained by the organizational structure of the organization, rather the best possible IT competencies to support the business are sought.

Under the competitive potential perspective IT is exploited to deliver capabilities which have an impact on the products and services. Under this model IT can influence the business strategy via capabilities which are gained. The IT strategy also seeks to align with the organizational infrastructure through the business strategy.

The last perspective is that of the service level. This focuses on building a world class IS organization. Under this model business strategy has the least influence and is mostly concerned with stimulating customer demand. This perspective is considered a necessity to ensure the most effective use of IT.

Having established that IT is now central to the operations of many companies and a key business and strategic enabler its potential to contribute to a successful merger or acquisition is considerable. The phenomenon is one that has been covered by many researchers through the lens of what integration and IT strategies should be used in a post-merger environment. However

this represents a more reactive approach when it comes to the challenges of integration, with very few studies available focusing on the IT due diligence and its importance in the early stages of planning M&A activity.

2.4 IS Integration strategy

The following chapter seeks to investigate the phenomenon of IS integration in M&A and looks to review previous literature on both the goals of IS integration in addition to then looking towards the drivers of IS integration decisions. It is in the second part that 3 models are presented that seek to outline the factors that drive IS integration decisions.

2.4.1. IS integration in mergers

With the considerable size of the M&A market, dollar value of transactions and number of transactions the field has received interest especially on studying the effectiveness of the integration efforts. IS integration has previously been overlooked from this field both from a due diligence and integration model framework, with a call to study by (source) This chapter seeks to look at previous studies of the impact of IS on M&A to identify the key factors which are considered in the the process of integration post-merger.

IS integration on its own is a broad term and when talking about the integration of multiple IS it is imperative to understand the definition of integration, which can mean a mix or an amalgamation or incorporation. By definition it does not necessarily mean that one element takes prevalence. Giacomozzi et al 1997 point this out in their research on Information systems integration in mergers and acquisitions. Stating that:

"Integration of the two IS does not necessarily imply that a single system, a software environment and architecture are chosen, but that exchange of data and organizational processes, according to the merged organization needs are possible and efficient."

This is perfectly logical given that the same is true for companies as a whole in the event of M&A where it is not necessarily the case that the acquirer's processes, strategy and business take prevalence.

Bearing this in mind and returning to Giacomozzi et al's statement it is clear that the ultimate goal of IS integrations is that the exchange of data & organizational processes are as efficient as possible and fulfill the organization's needs. This is given credence by (Ross & Beath, 2006) In their study on sustainable outsourcing success they state that;

> *"Firms design enterprise architecture with the intent of identifying key technology, data and system components that must be shared across multiple parts of the firm."*

Thus it is logical that a company in the process of M&A integration would be aiming at the same goals that companies do internally when designing & planning IS structure.

The ultimate success of this goal of sharing data and organizational processes efficiently prior to the M&A will heavily depend on the level of maturity that both companies posses with regard to their enterprise architecture. (Ross & Beath, 2006) This would also imply that the more maturity around IS and architecture the more IS is deemed to be a competitive enabler as the strategic business value grows. In fact Ross & Beath state that their enterprise architecture maturity stages model offers a powerful lens for understanding the way in which a company uses IT strategically. They use examples of both CEMEX a Mexican cement company and 7-Eleven Japan which both utilize standardized technologies and business processes to enable them to quickly integrate acquired companies fully.

Both CEMEX & 7 Eleven are well documented examples of companies that have close ties between IS and business strategy. Mehta & Hirscheim (2007) point out that IS integration literature stresses alignment as a key factor in M&A integration. In fact they go so far as to stress that there is a clear assumption that business and IS alignment leads to improvements in organizational performance and that M&A literature supports the belief that alignment is a key component of integration decisions. (Giacomazzi, et Al. 1997) (Wijnhoven et Al. 2006)
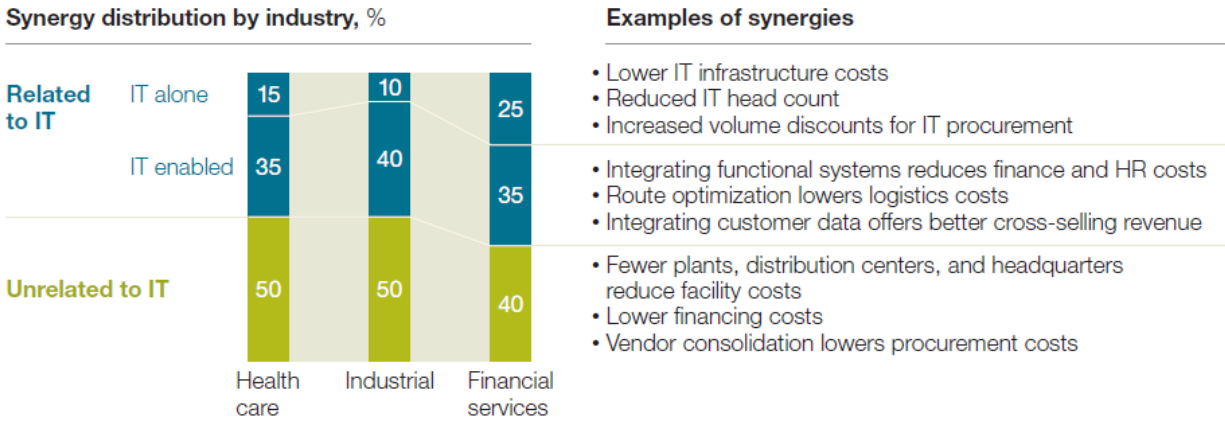
Figure 4 Synergy Distribution by industry (Sarrazin & West, 2011)

In a study by strategy consultants McKinsey on the subject of Understanding the strategic value

of IT in M&A Authors Sarrazin & West (p1. 2011) state that;

"a company with flexible, streamlined IT—one where executives rationalize systems and make disciplined decisions about integration—can wield this knowledge as a powerful tool in choosing which deals are most attractive. Conceivably, acquirers might even be able to bid higher, since they are better prepared to capture the 10 to 15 percent cost savings that successful IT integrations deliver."

In their study they go on to state that often over 50% of the synergies that are available in M&A have a strong relationship to IT. (Figure 4) Further to this they outline that companies should take a strategic approach to M&A and build an information architecture that is well suited to acquisitions, and that by doing so companies can save in operational costs while more importantly creating a platform that supports an M&A strategy.

Having ascertained that a key link exists between both IS & business strategy alignment and M&A success in current literature, it can be further argued that in addition to this the level of maturity in a company's enterprise architecture it is a key contributor to the outcome of the M&A efforts. Combined these elements set certain constraints on what can be achieved with regard to integration efforts, based on the acquirer and the targets classification. Thus acting as a

potential inhibitor in recognizing the envisioned benefits of the M&A effort and keeping value locked up.

2.4.2. IS integration decision making

As the topic of unsuccessful M&A is a widely studied phenomenon (insert source) in IS studies, much focus has been placed on the post-merger IS integration decision making (Giacomazzi et al. 1997) (Stylianou et al. 1996) (Weber & Pliskin, 1996) (Wijnhoven et al. 2006)

These studies on IS integration have looked at processes and decision making models by which IS is integrated in a post-merger environment. In addition to the plethora of academic research that is available on the topic, there is much focus from companies & the media. (Cane A. , 2010) In both research & practice speculation is rife as to what can be keeping M&A value locked up? The question that is often posed is whether it can be the result of incompatible or complex systems which are unable to be merged or efficiently aligned to allow for exchange of data and organizational process.

In their research on Information systems integration in mergers and acquisitions Giacomozzi et al 1997 seek to outline a decision support model which is based on the characteristics of M&A. Part of their model outlined below is a graphical representation of the variables which influence Information systems integration decisions and the relationships between them.
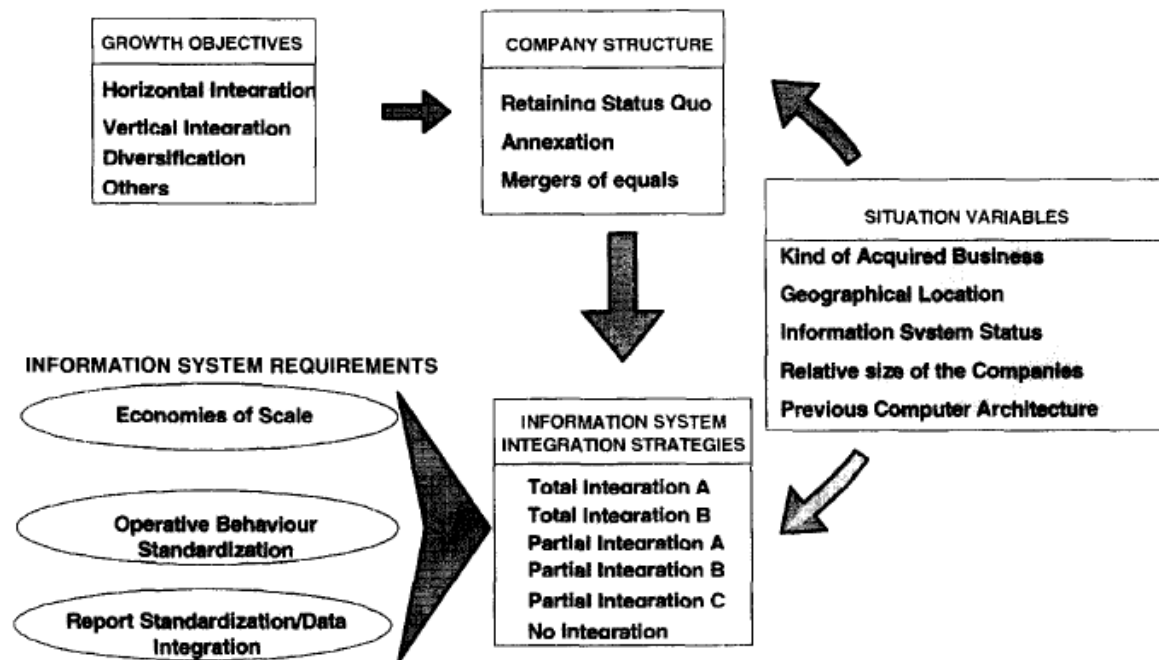
Figure 5 Graphical representation of the influence of variables on the IS integration decision (descriptive mode) (Giacomazzi et al., 1997)

The model of the influence of variables on the IS integration decision outlined in Figure 5. clearly outlines growth objectives, company structure, and situational variables as the key factors that shape IS integration strategy as well as the information systems requirements of the desired future mode of operations (FMO)

The growth objectives pertain to what type of industrial strategy is in place and what sort of organization will emerge from the M&A transaction. While this does not directly affect the type of IS configuration directly, the strength of the link between business & IS strategy will dictate the how strongly the influence is on the type of IS organization that will emerge.

The Situation variables are considered to be constant in the short to mid-term as they refer to the companies structures and they describe what the authors refer to as the border conditions of the M&A i.e. the structure of operations when the M&A was conceived and what factors will have been taken into consideration in the process of due diligence.

In the company structure group of variables the authors seek to outline the future level of business and organizational integration subsequent to the transaction. The three values are retaining the status quo, which pertains to a high level of independence between companies and when there is a low level of integration. Annexation where by the target company becomes a subsidiary and there is a high level of interaction. Finally a merger of equals is when the highest level of interaction & integration occurs and often a new company is formed under a new name.

In the information systems requirements the variables have a direct impact on the IS architecture and configuration. Economies of scale refers to a centralization of IS systems. Operative behavior consolidation seeks to follow similar company culture by promoting standardized business processes. Finally report standardization / data integration refers to the promotion of inter-company integration through the standardization of information management & data representation.

These same factors can be found in Kumar et al. 2002 as measures of information systems success and have been presented in the table 2 with the corresponding factors outlined by Giacomazzi et al. (1997)

Table 2 alignment of factors

Giacomazzi et al. 1997	Kumar et al. 2002
• Economies of scale (centralization of IS)	• Integrated systems
• Operative behavior standardization (standardizing business process	• Integrated business process
• Report standardization / data integration	• Information Quality

Simplifying Giacomazzi et al.s model it is possible to see that IS integration strategy is ultimately shaped by the original motivation for the merger which can be referred to as the growth objective, and the desired FMO of the IS function by way of the information system requirements, thus the business strategy drives integration strategy.

Wijnhoven et als. study on "Post Merger IT integration strategies: An IT alignment perspective " build on the IT & business strategy view stating that the business strategy subsequently drives the integration strategy. In this study the authors build on the graphic representation of Henderson and Venkantramans 1992 alignment model. In this model the business strategy and the objectives of the merger have an influence on the IT integration objectives, which consequently shape the IT integration method. What are referred to as situation variables in Giacomazzi et al.model (figure1) are not explicitly evident in Wijnhoven et al.s representation of Henderson and Venkantramans 1992 alignment model (figure 2) however they can in part be explained by both the pre-merger organizational process & infrastructure and pre-merger IT process & infrastructure elements as well as being found in the business strategy corner of the model.
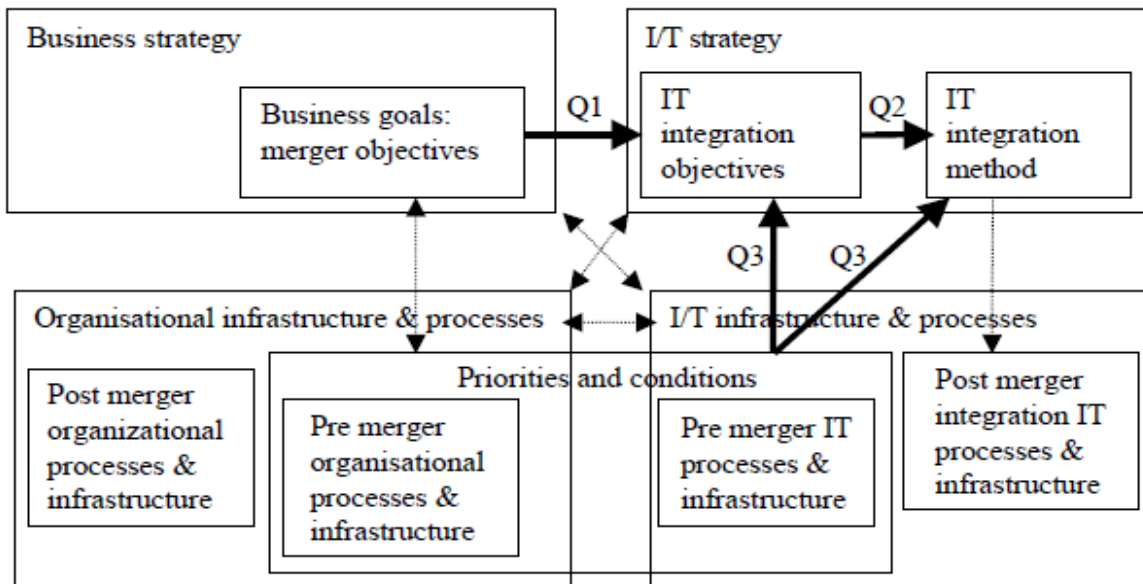
Figure 6 Post-Merger IT Integration alignment model. (Wijnhoven, et al. 2006)

These same elements can once again be found in Mehta & Hirschheims work on Strategic alignment in mergers and acquisitions: Theorizing IS integration decision making. (2004) The study focuses on the IS integration decisions made during M&A through a lens of strategic alignment. Again a key component that is highlighted is the alignment of the IS and Busines.
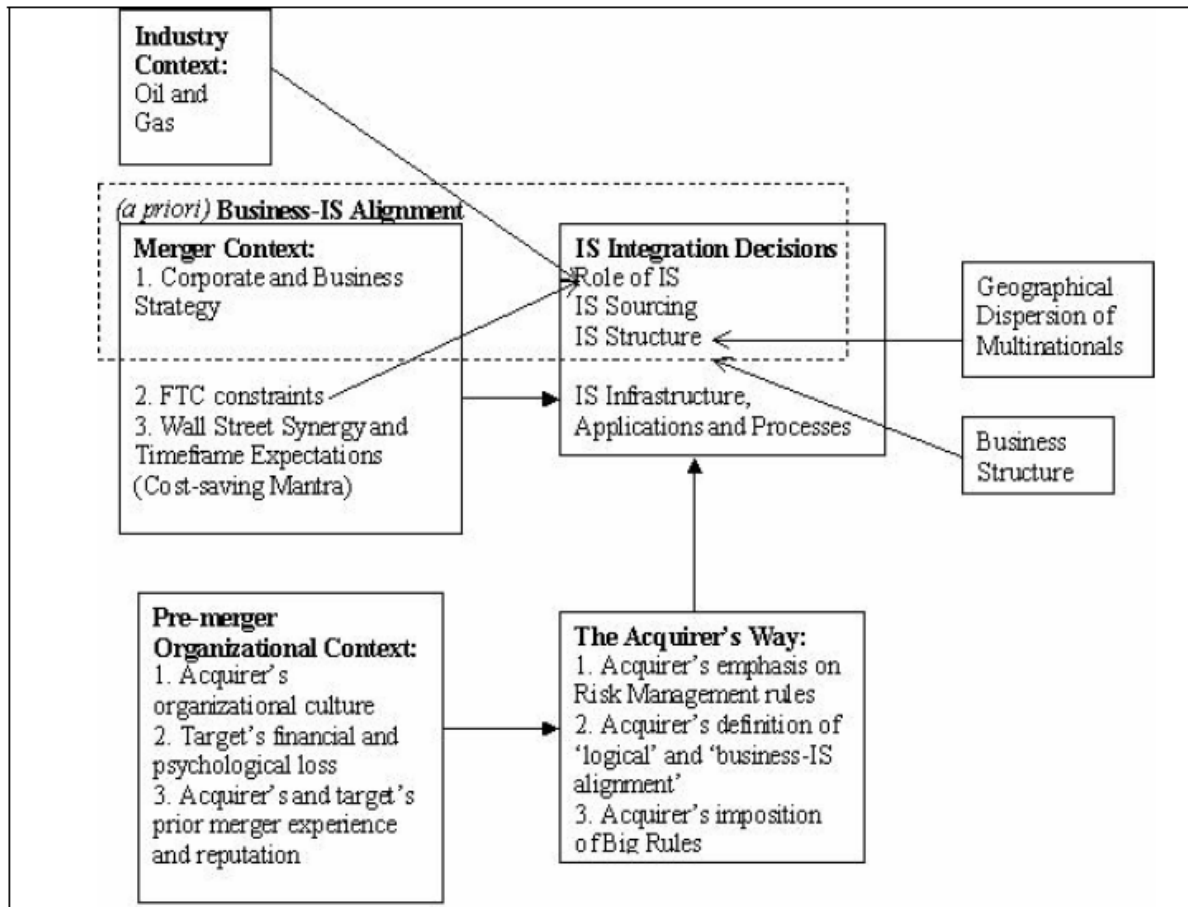
Figure 7 Factors explaining various categories of IS integration decisions during mergers (Mehta & Hirschheim, 2004)

This model provides a more IS centric view on the M&A decisions, however the same themes found in Giacomozzi et al 1997 model (figure 5) can be located with the addition of factors which help explain IS integrations decision. The model also seeks to

These are split into 6 themes.

- Theme 1# What explains the role of IS decisions?

- Theme 2# What explains IS structure decisions?

- Theme 3# What explains IS sourcing decisions?

- Theme 4# Power the Acquirers way

- Theme 5# External factor; Wall Street's synergy and timeframe expectations (cost saving mantra)

- Theme 6# IS Integration Dimension – Applications, Infrastructure, Processes.

The first theme pertains to the role of IS in the companies, in their study most organizations viewed IS as an overhead and in premerger planning the view was that;

"IS would make it happen"

In some the nature of the industry meant that IS was not viewed as a key driver and thus CIOs & their organizations were not included in the pre-merger negotiations as this was viewed as a risk to breaking the FTCs non-disclosure agreements. This is consistent with Giacomazzi et als view that Information system status is one of the situational variables which has a bearing on the type of IS integration strategy.

The second theme covered refers to the structure of the IS function which Mehta & Hirschheim state is influenced by business structure. The original proposal to refer to centralized or de-centralized however was an over simplification as multinationals can have complex reporting and operating structures. This spawned the following 2x2 matrix depicted in table 3 in order to provide a more accurate classification. The impact of business unit control over IS decisions and then the extent of geographic control over IS decisions result in the subsequent classification; Dictatorial (centralized global) Federal (Decentralized global) City states (Centralized local) Tribal (Decentralized local)

Table 3 IS Governance Structure impacted by Business Units and Geographies (Mehta & Hirschheim, 2004)

Impact of Business Units	Decentralized	Tribal	Federal
	Centralized	City-States	Dictatorial
		Local/Regional	Global
		Impact of Geographies	

The third theme as proposed by Mehta & Hirschheim (2004) covers IS sourcing decisions. Within their study IS sourcing decisions were made on the basis of prior sourcing decisions thus pre-merger decisions and the various business justifications for either outsourcing, insourcing or using a mix of the two set the precedent in post M&A integration.

In theme 4 the topic of power was covered with Mehta & Hirscheim stating that the IS role, IS structure and IS sourcing were heavily effected by the acquirers pre-mergers organizational culture, often resulting in most desicisions falling in the acqruirers favour unless a significant factor was outlined.

The fifth theme outlined in the model covers the expectations which are set when an M&A transaction is announced. This "promise to the street" referring to the synergies, cost savings & other benefits of the M&A which are announced to investors, drives all behaviour and is the ultimate goal. This results in the target guiding all behaviour and decisions being based on whether the benefits are realised in full and to the promised timeline, even if this results in cutting corners.

The final theme outlines IS decisions around infastrucuture, process & applications which are influenced by the other factors such as the acquirers way and wall streets expectations. Mehta & Hirscheim propose that these factors can be placed on a simple continuum of either standardized or unique. They also propose that the factors are not taken into account under the alignment framework as a result of lack of measures for IS applications & systems development methodology and IS enabled business process.

These main themes are further organised in to industry, organizational and merger context blocks, which provides a framework of the interractions between the various themes thus

demonstrating that certain factors are influenced by topics not previously focused on in studies of post merger IT integration.

What is common across Mehta & Hirschheim (2004), Giacomozzi et al 1997 & Wijnhoven et al. is the acceptance of the strong link between business and IT strategy, with business objectives guiding the aims and approach for the IT integration and also providing constraints as to what can be feasibly achieved, which are identified in the models as external variables.

In Wijnhoven et als study this alignment between business & IT strategy manifests itself in one of their research questions;

"What IT integration objectives are consistent with what type of merger?"

Table 4 M&A and IT Integration Objectives (Wijnhoven, et al. 2006)

MA and IT integration objectives

MA integration ambition	MA objectives	IT integration objective
High	Absorption	Complete IT integration
Moderate	Symbiosis	Partial IT integration
Low	Preservation	IT co-existence

Effectively the integration objective is a product of the company's strategy and thus the IT approach to the integration objectives should be aligned in order to be able to recognize the synergies that are envisioned, as is depicted in table four.

3. THEORETICAL FRAMEWORK

This section strives to utilize the main concepts and models presented in literature review in Chapter two in order to generate a theoretical framework that can be used to evaluate the process of IS integration in M&A for the target case study.

The Larsson & Finkelstein proposed framework (figure 2) outlined in chapter 2.3.3 states that the degree to which synergies are realized is a function of the similarity and complimentary aspects of the two merging business, combined with the impact of the level of interaction coordination during the integration and a lack of employee resistance in the combined entity.

This model sits at the center of the theoretical framework presented in figure 2. The combination potential element of the model contains sub categories classed as the synergies which are expected to map to the original motivation of the M&A transaction.

Table 5 synergies mapped to M&A motivations

	Operational Synergies	Economies of scale
	Collusive synergies	Purchasing power
Combination	Managerial synergies	replacement of management
potential	Financial synergies	diversification of risk

The two other elements from the Larsson & Finkelstein framework are Employee resistance & Organizational Integration. Under the organizational Integration element factors from Mehta & Hirschheims IS integration decision model & Wijnhoven et al.s Post merger IT integration alignment model are considered.

In Mehta & Hirschheims IS integration decision model these elements manifest themselves in the Pre-merger organizational context and the Acquirers way. While in Wijnhoven et al.s Post merger IT integration alignment model they are outlined in the organisational infrastructre & processes field.

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On the basis of the literature review it has been determined that the combination potential is also impacted by the degree to which business & IT strategies are aligned. This original concept formulated by Henderson & Venkatraman, 1993 is presented in chapter 2.3.3. and is an element that can be explicitly found in two of the three IT integration models which are presented in chapter 2.4.2. (Mehta & Hirschheim, 2004 Wijnhoven et al., 2006) and implicitly in the third. (Giacomazzi et al. 1997) This is represented in the theoretical framework model by the "Business & IT Strategy alignment" element. Under this model it is proposed that the closer the link that exists between the IS strategy and the business strategy the more likely the synergies of the transaction will be realised.
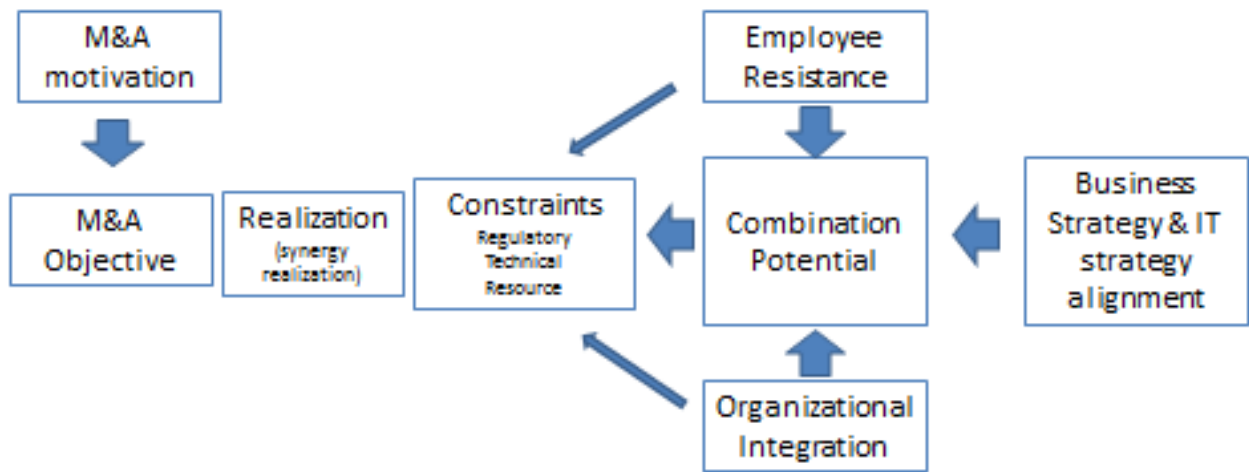
Figure 8 Theoretical Framework

The Constraints element represents factors that act as inhibitors to realizing the combination potential and can represent both internal and external factors. External factors include regulatory

constraints such as reporting and compliance issues which are outlined in Mehta & Hirschheims study which is reviewed in the IS integration decision making section. Internal factors which act as constraints pertain to the technical aspects of the IS function such as IS architecture, setup of the IS organization and also the geographic spread of the organizations, these have their base both Mehta & Hirschheims & Giacomazzi et al.s models on IT integration decision making. In addition to this resource constraints exist, these include lack specialists to work on the integration to a limitation on the amount of time integration teams have to perform their work to integrate the entities as part of the M&A.

The model outlined in figure expects that the M&A motivation have certain objectives which are driven by the organizations strategic business direction. These objectives consequently result in the realization element, which is to say that the motivations for M&A have specific benefits which are expected to be realized.

For the purpose of this study the employee resistance element and theory from the Larsson & Finkelstein framework (1999) are included in the model however they are not covered in the following sections of this thesis as they are out of the scope of study.

4. METHODOLOGY

This chapter discusses the methodology of the thesis and explains it theory base in addition to explaining the data collection and analysis method.

Theories presented in the literature review drove the theoretical framework which seeks to answer the research questions which are outlined in section 1.3 research problem & questions.

This thesis uses a qualitative case study with primary data collected through interviews with stakeholders. This is then combined with material that was provided about how the case company approaches M&A

The thesis will also build on a set of studies which have been conducted on post IT integrations in M&A and seek to identify what factors are key and if they can be built into the due diligence stage of an M&A transaction in order to ensure that there is a lower risk of IT inhibiting the realization of value through other synergies.

4 interviews were used as the basis for the case study and the interview formulation method and write up were performed based on McCracken (1998)

Material from the companies intranet was also used to provide additional insight into the approaches to M&A and integration.

4.1 Case study

This study employs the case research method, which according to Yin (2009) is an empirical inquiry which seeks to investigate a certain phenomenon in its real world context. Multiple sources of evidence are used in this study, such as interviews, company documents and observations. Yin (2009) states that one of the biggest advantages of using a case study is that it has the ability to handle a wide range of materials. This approach does have an impact on the validity of the study as only one observation of the phenomena is considered.

4.2 Interview method

To gather data for this study a qualitative approach was used in the form of interviews with stakeholders in the process of M&A. Common challenges pointed out by McCracken (1998) in the gathering of qualitative material in the field of modern societies are that "respondents lead hectic, deeply segmented, and privacy-centered lives" the result of which is a limitation to the amount of time that they are able to provide the investigator with and concerns around privacy.

To overcome these challenges and to ensure that data collection is effective as possible the four step method of inquiry proposed by McCracken was employed. This process is split into four successive steps;

1. Review of analytic categories and interview design
2. Review of cultural categories and interview design
3. Interview procedure and the discovery of cultural categories
4. Interview analysis and the discovery of analytical categories

The first step is concerned with "an exhaustive review of the literature" (McCracken 1988) This pertains to comprehensively reviewing previous literature that is available in order to be able to define problems and asses data. It is noted that the literature review is of special importance as an investigator that is proficient on the previous literature has a pre-defined expectation that the data can defy. While it is stated that preconceptions can be detrimental to qualitative research the benefits of these preconceptions that are based on previous literature are deemed to far outweigh their costs. McCracken also notes that the literature review also aids the construction of the interview questionnaire as it "establishes an inventory of the categories and the relationships that the interview must investigate.

The second step in McCrackens model is concerned with the review of cultural categories which help the investigator classify & appreciate their own personal experiences in a detailed and systematic manner. This step has three purposes, the first of which being to "identify cultural categories and relationships that have not been considered by the scholarly literature" These form the basis of formulating questions. The second purpose is preparing for "rummaging"

whereby the investigator scrutinizes cultural categories and the relationships between them. The logic of this step is to enable the interviewer to identify matches in the interview data. Finally the third purpose is to help the investigator establish a distance to the subject. By understanding the world it is possible to distance ones self from it critically while still maintaining familiarity.

McCrackens third step is concerned with the formulation of the interview questions. The first set of questions allows the investigator to collect simple details of the interviewee's life which later enables faster processing. These questions also act as cues pertaining to the respondent's background from which they are answering the questions.

Subsequent questions should be structured in a general and non-directive manner so as not to supply the terms of the answer it solicits. McCracken refers to these questions as "Grand-tour" questions which allow the interviewee to tell their own story on their own terms. The investigator can then use floating prompts which allow the investigator to be on the lookout for key terms and to then prompt the respondent to elaborate. In cases where the topics identified in the literature review are not ones that emerge spontaneously in the process of the interview the investigator may need to use more proactive prompts to elicit answers. These are referred to by McCracken as planned prompts and enable the interviewee to consider and then discuss phenomena that have been identified by the investigator in the literature review.

Other forms of planned prompts are category questions & contrast prompts. Category questions allow for the investigator to account for all of the formal characteristics of the topic that is being studied. Contrast prompts refer to asking questions along the lines of "what is the difference between subject A & subject B. McCracken state that these planned prompts should not be peppered throughout the interview rather used at the end of each question category should the material the questions are designed to elicit does not surface spontaneously.

Once the questions had been formulated the interview itself was performed. McCracken states that the start of the interview is very important and that the interviewer is benign, and eager to listen to any testimony with interest. They must also be curious but not inquisitive. The interviewee must be comfortable that the risk of a loss of face is low and as a result of feeling

more comfortable they will be more open to answering questions. During the interview the investigator was on the lookout for key terms, and investigated them when needed. They also guided the interviewee in cases where they stray from the subject, all the while however the interviewee was given enough "room to negotiate" within the subject.

The fourth and final step in the process is the analysis of the qualitative data which is when analytic categories are discovered. From a technical standpoint interviews must be recorded on tape and a verbatim transcript of the interview testimony must be created. Once this has been completed it is possible to continue with the analysis. The objective of which was to

"Determine the categories, relationships, and assumptions that informs the respondent's view of the world in general and the topic in particular"

The analysis stage comprised of 5 stages, each of which became more general. Each of them represents a higher level of generality. The first stage is concerned with treating each statement in isolation, ignoring any connection it has to other parts in the text to create an observation. These observations are then developed first in isolation then according to the evidence in the transcript and then finally according to the previous literature and cultural review. This developing of the observations represents the second step.

The third stage then seeks to study the connections between the second level of observations using the literature and cultural review to form a backdrop. The result of this is that the focus of attention is moved away from the actual transcript and more towards the observations. The reference is only now used to check ideas that are revealed through the process of comparison.

The fourth stage takes all of the observations and subjects them to collective scrutiny; the aim of this stage is to determine the "Patterns of intertheme consistency and contradiction"

The fifth and final stage takes these patterns of observations and seeks to compare them to the other interviews that have taken place. These themes that appear in the interviews are then brought into the thesis acting as a general representation of the group under study, this serves to shift the focus away from an individual level and more to the general phenomenon under study.

The overall aim of this 5 step process of analysis is to move from the granular detail of the interview through to the key topics while all the while creating a process of reflection and analysis in which the investigator is engaged which provides a key reliability check.

5. CASE COMPANY FINDINGS

This chapter first briefly introduces the case company and the industry in which it operates. Following this it covers the company's current approach to M&A and integration and the way in which the IT strategy is aligned with the overall company objectives. Subsequently the main findings of the interviews that were conducted are presented and any patterns of observations and themes are outlined in order to be able to later compare them with the theoretical framework in the discussion section.

5.1 Case company

The case study company is one of the world's largest technology companies with operations spanning the globe. They provide a wide range of IT services and products ranging from infrastructure management and business process outsourcing to consumer IT products.

The company like many of its competitors in the technology sector has pursued a strategy of both organic and external growth over the past decades, with the external growth comprising of acquisitions of a wide range of companies of various sizes which are deemed to fill their product and service portfolio, provide access to valuable intellectual property and offer routes into markets. As a result of this high level of M&A the company has sought to create mature processes with regard to the evaluation of target companies through to the tools and frameworks for integrating a company into operations.

In addition to this approach to M&A the company also has a strong link between business & IS strategy with IS supporting many parts of the strategy and in others acting as a driver of the strategy.

5.2 Approach to M&A

The case company has a well-defined approach to M&A and has practical experience of over 50 transactions ranging from 100 million USD to multi-billion USD (figures not corrected for inflation) between the years 2000 & 2012.

This mature approach is the result of engaging in multiple large M&A transactions. The lessons learned and practical experience of the complex transaction was structured into a specific framework and standardized approach to evaluating, planning and executing on M&A which has since served as the standard approach to the phenomena of M&A.

The company has a dedicated "Integration Office (IO)" which is formed to develop and lead pan-company capabilities and improve the execution of mergers & acquisitions. It built on the capabilities and learning's from one of the large mergers and incorporates the best practices from other companies recognized for their expertise. The IO in the company has condensed their Mission, Objectives and strategy into the following points;

Mission   Drive M&A predictable performance and accelerated value creation by focusing
            on integration excellence with quicker decision making, clear GTM alignment and
            talent retention

Objectives   Improve Deal performance predictability
            Accelerate Value Creation
            Avoid negative short term Business performance impact
            Accelerate Horizontals integration and cost elimination
            Improve integration budget accuracy and deliver integration at best cost
            Define, launch, execute the new M&A integration capability/discipline

Strategies   Create, execute, and lead a best-in-class M&A integration model across all

businesses, functions and regions

Create a community of experts via a Center of Expertise, comprised of team members from every function, business and region

Lead integration strategy and planning from business case development to execution and review of deal value creation

The case company has split M&A in to two separate elements that interact with each other, one being business development and the second being the integration stream. The logic of this according to the M&A integration manager is to enable the company and team learn from the practical experiences during integration and be able to utilize those in the business development part

.

Figure 9 Case company lifecycle phases model.

5.2.1 Business Development

The business development component of the overall framework is concerned with the following elements; M&A strategy, Target selection, deals evaluation, transaction & M&A roadmap.

The M&A Strategy component is formulated in conjunction with the wider business unit (BU) strategy. The BU strategy is in turn guided by the overall corporate strategy that is in place. Once this has been formulated then an M&A Roadmap is produced based on the strategic direction, with the final output being and M&A watch list which is followed.

With target selection the company seeks to further refine the targets that fit the overall BU strategy.

If a target is identified as fitting in to the strategy then the deal evaluation stage is in place where the potential transaction is put under more scrutiny and the benefits of the transaction are outlined, quantified and the necessary due diligence is performed.

Finally the transaction stage is where the deal is signed with the target, announced to the necessary stakeholders in the company, before the transaction component is formally closed.

5.2.2. Integration

The second component of the overall M&A approach is the Integration Framework this framework is designed to support, drive and assures value creation for the identified business group and business unit in the execution of the M&A transaction. An integration planning and strategy team formulates the basic approach to the transactions after which a more in detail integration strategy, plan and budget that assures the full value of the transaction is recognized is created by a dedicated team of specialists, they also strive to make sure that any risk that is assumed in the model is mitigated.

At this point the work of the integration team commences in the interim phase. The objective at this stage is to deliver on the Day-1 Onboarding plan and to ensure that there is minimal disruption to target company's business objectives.

Once the onboarding phase is complete the transition phase can commence. In this phase a 90 day integration plan in executed with the goal of capturing horizontal cost synergies and then embedding the synergies plans into BU operations. This plan has already started to be formed for the specific transaction when the deal is closed and is based on a standard M&A framework. The synergy plans that are often the drivers of the transaction are based on the perceived benefits outlined in the business development stage.

During interviews it was apparent that the first 90 days of the transaction were important and that this was a critical time for the integration. One interviewee commented on the framework and timelines that are in place by stating that

> *"it has really developed over the years and lately I think before Company X integration it, the organization, was setup in a more structured way, and they have really developed the processes. I think they had even the target at the time of Former CEO that they would close a merger in 3 months."*

In response to being asked a subsequent question on the driver of integration behavior the respondent stated that

> *"I think there is very goal orientated, so there is like usually a pretty tight deadline, so that is driving and then time to time I think that there are those, they are unrealistic, and then it might actually, the outcome might be that nothing is then completed because those original deadlines were unrealistic and they are like stuck, like stuck with the whole process"*

Finally there is the last part of the integration framework which is the more long term stage of transformation and where Operations commences. This stage can last from ninety days up to multiple years based on the complexity and size of the transaction. The ultimate aim of this stage is to drive long term value creation through BU growth and by capturing the longer term synergies that have originally been envisioned in the business development phase. One interviewee commented with regard to a previous complex M&A transaction that was closed in 2008 that;

> *"that (2008 transaction) worked pretty well with the controllership process, but I think that we have not yet done those business finance process, or that not fully done"*

In addition to the integration office, the company has specific frameworks and teams which reside within the shared functions or business units. These teams and approaches provide the main M&A team with specific competence across various fields, with subject matter experts being involved in the transactions often in the early stages. In the process of the interviews the

topic of subject matter experts being assigned to the projects on a local level came up. In this context it was commented that

> *"They (subject matter experts) need to have enough knowledge, regarding company processes but also then generally about the finance accounting matters and taxation"*

In these specific subject matter fields exact instructions exist on how consolidation should occur, typically these guidelines are built around functions or processes that are governed either by strict internal controls, or are required by law and regulatory authorities. Examples of these would be in the accounting and finance function detailed guidelines on how balance sheets should be consolidated and in the tax function how to;

> *"Facilitate the integration of tax activities of acquired entities into the group of legal entities and processes"*

Feedback through the interviews provided the following insight into how these two functions were viewed from a country perspective;

With regard to integration of accounting;

> *"Generally what I think has worked pretty well has been the integration of those basic accounting processes like GL processes or accounts payable"*

With regard to tax integration;

> *"Usually coordinated at the regional level"*

It should be noted that while it was commented that the tax issues were coordinated at a regional level one respondent from the local organization commented that

> *"I think we need to be on a country level really conscious that we follow the local legislation, because no one else will do that on behalf of us."*

The processes and instructions that reside within the specific business units and global functions align with the overall integration framework that is utilized by the central M&A team and that forms the core of both M&A business development and integration. This ensures alignment across all parties that are involved in the transaction. The importance of this point was

highlighted as a factor of success by the country finance manager, as they stated that the high level principles need to be clearly stated and communicated between the business units & functions in order to ensure success.

Specific instructions at the functional level are structured around the following categories for each phase that is defined in the integration plan.

1. Activities and deliverables
2. Objectives
3. Roles and Responsibilities
4. Dependencies
5. Success Factors
6. Governance

In addition to these specific instructions, are more general procedures and considerations that need to be considered by the functional teams. These include following pre-defined steps both prior to the announcement has been made public and post announcement. At the due diligence stage there are lots of data requests to the central M&A team, these are mostly structured around detailed templates and questionnaires. These inputs are requested in order to be able to identify non-standard integration plans in advance.

At this stage the functional level teams also request information pertaining to the Business motivations and acquisition integration goals. It is stated that these should be shared with the functional lead as soon as feasible during the due diligence or post-announcement period.

One overall factor of success defined across the functional level in guidelines is that;

> *"Ongoing and timely communication between Integration functional leads, M&A team, function team, regarding integration status, integration step-plans, and information gathering and distribution"*

In the interviews the topic of communication was brought up with one respondent replying to a question asking how they felt communication was handled as part of the integration

"Actually pretty well for example with the (2008 transaction) I think the challenge that EMEA has faced was the latest one which was the 2012 BU sale to company X. So there I think the challenge was the thing was implemented totally at a worldwide level, so even on an EMEA level it was difficult to get information and facts. So there we had some challenges in communications then."

With regard to the 2008 transaction it was also noted that the local country level organizations were more active in the communication of issues and that working across the BUs there was a conscious decision to improve the communication between the various BUs. One interviewee commented that communication between these BU's is a key to the success or perceived success of a transaction and that it is currently an area where improvements could be made.

The IT function possesses a more specialized team which works in close cooperation with the Integration Office in the process of M&A. The mission statement of the dedicated IT function team is

"Accelerate time to deal value by executing rapid, cost-effective integrations for acquisitions"

This team in addition to working as part of the extended cross-functional Mergers and Acquisitions teams provides support and resources to the services business unit of the business. This helps both M&A transaction and the outsourcing deals to

"Coordinate and ensure end-to-end IT engagement and delivery throughout the deal lifecycle."

The members of the team have varied backgrounds ranging from project management roles to technical specialists in certain technologies and solutions. Most members of the team possess in excess of fifteen years in their fields of specialization.

5.3 Approach to IT & Strategy

With regard to the companies IT, the architecture is heavily standardized and the company has a very strict policy which is in place to avoid the problem of "shadow IT". This standardized

approach is formulated to compliment the company's strategic direction, while also providing the company with platform support for the various global functions. All IT initiatives run through the CIO office in order to avoid any miss alignment between the overall IT strategy and the business strategy.

In addition to this alignment of strategy the IT budget is centrally governed and dictated by the company's executive board as part of the yearly budgeting process. Spending on IT outside of this budget plan that is handed down is strictly against company & IT policy.

Two of the companies six priorities that are outlined for the fiscal year 2012 which support the company strategy are directly linked to the IS function. In these cases the IS function and the success of executing on the priorities acts as an enabler of the execution of the overall company strategy.

Looking back historically through the fiscal years 2009 till 2011 the IT strategy has been very closely linked to and focused around the overall company strategy. Each element of the wider strategy was tied to specific IT initiatives, which were broken down into smaller objectives and had well defined metrics by which their success could be measured.

With regard to the IT infrastructure and processes the company has an IT Enterprise architecture which is managed by the global IT function. In addition to detailed guidelines & policies around IS there are 16 principles that are at the core of the enterprise architecture.

These guiding principles while focused on IT also tie explicitly into the companies broader strategy and guide the decisions that are made with regard to the enterprise architecture framework and general direction of the IT function within the company

Four examples of these sixteen IT principles include;

1. Core business processes, models and their metrics will be maintained end-to-end as a company-wide asset

2. A single process will be used where business outcomes are essentially the same

3. Data is a corporate asset

4. The company will achieve Industry leadership as an Adaptive Enterprise by executing the design principles of simplification, standardization, modularity and integration across the enterprise

5.3.1 Leveraging Integration Experience

In the chapter 5.2.2 on Integration it was highlighted that the specialist IT integration team that works on M&A transactions also work closely with the services business unit of the company which provide a broad range of business process outsourcing to infrastructure outsourcing services to customers of the company.

The services business unit of the company has the opportunity to engage the specialist IT M&A team which

> *"Provides technology services for outsourcing engagements to the Business Transition teams"*

Members of the M&A team are available to work with the services business unit throughout the whole project lifecycle of pre-planning through to transition & transformation and implementation. There is a broad range of resources available from project managers to subject matter experts. The work they perform is then internally billable to the respective customer engagement and their services are priced into the overall cost of the contract to the end customer by the services unit planning teams.

There is a strict engagement model and process with regard to how these resources interact with the services business unit. There is a standardized framework that matches to the sales and engagement model of the services business unit, this ensures close alignment and governance between the two parts of the business. It is also stated that these specialist IT M&A resources are only available internally through the services business unit and customers do not have the ability to procure the services of these resources directly on a standalone basis.

6. DISCUSSION

This section seeks to critically review the findings from the case study material that were outlined in chapter five and provide commentary which has its background in the theoretical framework which is outlined in chapter three. Through this structured approach it will be possible to evaluate the findings against the theoretical background.

6.1 Business Strategy & IT strategy alignment

Within the case study company it was apparent that a very strong link exists between the overall business strategy and that of the IT strategy. Under Henderson & Venkatramans taxonomy for IT & business strategy alignment (1993) outlined in section 2.3.3. the case company's alignment could be considered to be that of "competitive potential alignment". Under this role emerging IT capabilities impact new products and services, influence key attributes of business strategy and develop new forms of relationships. This alignment allows for the adaption of business strategy via emerging IT capabilities.

Overall in the case study company the business strategy set the framework within which the IT strategy was formulated. Some components of the IT strategy where in their own right direct drivers of the business strategy, while others supported the business or strategy through more generic benefits such as minimizing cost through standardized platforms.

As the company pursues M&A to support the business strategy the company has also seen fit to develop the competence of M&A planning and integration. This is consistent with the systemic competencies within the external IT strategy domain. This supports the distinctive competencies which are part of the overall company structure. Within the case study this is evident as they utilize and leveraged the Integration office and the competence of the gathered teams in the specialist functions in the services business units on customer engagements in the services business unit.

Within the case company the IT function is set out to support the overall business strategy, which includes many M&A transactions. This immediately places them in a more advantageous

position to actively drive the outcomes of the M&A transaction and ensure that the synergies are realized. As the company also partake in a large amount of M&A transactions as part of its strategy the IT function have sought to establish as specialist team focused on the integration efforts.

The focus of these integrations efforts are more rooted in realizing the synergies of the transaction which are derived from the business strategy of the company. The IT function in turn structures their IT strategy to support the overall business strategy and either act as a key enabler in certain strategic directions, or as a supporter of the strategy.

6.2 Approach to M&A Integration

Through the experience gathered from pursuing multiple M&A transactions the company has built a specific team, mature framework and operating guidelines with the aim of driving predictable performance and accelerated value creation by focusing on integration and alignment with the companies go to market model. Through this setup the company has been able to maximize the realization of synergies that are outlined as part of the M&A motivation. This team and process server to act as a catalyst to realizing the synergies and is a key part of Larsson & Finkelsteins (1999) model manifesting itself in the "Organizational Integration" element.

This is divided into two parts the first of which being the interaction between the two joining firms through material flows and restructuring. In the case company this is demonstrated through their use of specialist integration teams which seek to integrate core financial systems and processes for the purposes of reporting within the first weeks of the transaction. This is made simple by the fact that the company has a heavily standardized platform as part of the standardized enterprise architecture. As per Giacomazzi et al. (1997) taxonomy the information system requirements drive the integration strategy, which in this case is one of total integration, in all but the most exceptional of cases.

The second part of the organizational element in Larsson & Finkelsteins (1999) model is the extent of the coordinated effort to improve the quality of the integration through the use of specialist teams and preplanning. Within the case company this manifests itself in the fact that an extremely detailed approach to M&A & integration exist in the shape of integration framework and the integration office. The teams that work as part of the integration office not only gain experience through M&A transactions, but also share their competence with other parts of the business where it can be put to use on customer projects through the services business unit. This serves to both develop their skills and competence within the field, but also allows the company to allocate these resources to projects generating revenue when they are no working on M&A integration.

Overall the companies approach to M&A was viewed by interviewees as being structured and mature which is directly the result of many large transactions over the years and the focus on maintaining a team of specialists that are focused on that particular area.

6.4 Constraints

The constraints represented in the theoretical framework which inhibit the full realization of the M&A synergies, revealed themselves in the shape of three main categories which were regulatory, technical & resource related.

The regulatory topics were mainly based around legislative requirements and the complexity of reporting, with the tax function being highlighted as a clear technical concept that had an impact in the process of M&A. It is worth noting that in the case company while tax integration efforts are

> *"Usually coordinated at the regional level "*

There were specific local challenges that required the involvement of the local organizations as they were concerned that;

> *"Country wishes have not been taken into account unless we are very loud, and escalate it"*

These country wishes were in term of the actual reporting requirements that are put in place.

Other such constraints were centered on the availability of resources to work in the integration, this element was closely linked to the technical complexity of the integration, with more complex environments requiring more resources. In one extreme case where one transaction did not follow the standard integration framework, there was a mix of entities being integrated into the case company, while in others a "reverse migration" was used. In the case of such a transaction it was noted that even with specialists working

> *"we had this reversed entity in the UK, there was plenty of specialists there in the UK and they didn't realize that not all those business models that they are applying can be done in the country like in Finland where we had like Y company merging to X company so, it created some confusion. "*

This increase of specialists seemingly created added complexity and an issue around the communication flows between the teams.

In addition to the constraints outlined above, communication was a common theme that was raised by respondents within the case company as being a key to ensuring successful integration. In most cases this was handled well by the project teams and the Integration office, but what appeared to happen was that a lot of the communication was contained within the business units, with little information being shared across the business units.

> *"Communication rules from the region, in legal and controllership there might be linkages, but then businesses is out of that loop, and I think that is one challenge there"*

When viewed in isolation this communication problem may seem to be an awkward one, however the company operates in a manner in which the business units are almost autonomous and coordination across the business units can be challenging. In the case of integration the reporting of progress by the integration team members will be up through the management of the integration effort and not across the business units at a country or even regional level. The integration functions are managed at a regional level which is why in some cases communication does not flow to country management.

Finally in addition to the challenges outlined in the paragraphs above around regulatory and communication challenges, there is the issue of timetables for the initial integration. One interviewee commented that one of the previous CEOs set the goal to have a company integrated within 90 days from the transaction being announced. This strict timeline set both internal and external expectations to investors and in effect drove integration behavior. It was noted that the topic of timelines was brought up in the process of the interviews when enquiring about the mentality of integration behavior within the case company. The responses to the question of integration behavior being outlined as *"very goal orientated"* & "*set to unrealistic timetables*" The knock on effect of the tight timetables was also highlighted in the shape of being stuck with the whole process as a result of an over ambitious integration timeline.

The theme of timelines is outlined in the findings of Mehta & Hirschheims study on strategic alignment in M&A (2004) In their study it was noted that there was an overriding focus within the companies to deliver on cost saving synergies promised to Wall street within an exected timeframe. Furthermore Mehta & Hirschheim stated that in their study that;

> *"Instead of treating synergy as a forecast, these organizations viewed it as goal to be achieved at any cost"*

This observation is very similar to the findings from the case study, where it should be noted that the intended synergies to be achieved from the M&A transaction are communicated to integration teams as part of the integration process. This coupled with the tight integration timelines and a goal orientated behavior indicates that there is nothing more important than achieving the near term goals which are laid out.

In the findings of the study one of the proposed constraints in the model, pertaining to technical issues was not brought up in a negative light, and was perceived to be handled in a manner in which it did not have a negative impact on operations. This can in part be explained by the heavily standardized IT model of the case company and the level of IT expertise possessed by the organization.

7. CONCLUSIONS

This chapter seeks to digest the findings and discussion found in previous sections and distills them into a few key factors which on the basis of this study have been found to have an impact on the success of M&A.

It is undeniable that IS plays a key role in the contemporary business environment and it has far reaching implications within companies regardless of whether it is outlined as a core competence or not. Through the phenomena of M&A it is possible to view the level of alignment that exists between business strategy and IT strategy, and it serves to act as a magnifying glass in exposing any disconnect between the two.

M&A is driven by perceived benefits of synergy that are pursued as part of a wider business plan and strategy. The key to succeeding in these transactions is being able to recognize these benefits, which requires that all parts of the business are aligned to the goal of the original transaction.

The study set out to investigate whether alignment between the IS strategy and that of the company's business strategy would impact the integration of IT in M&A transactions. What perhaps was surprising from a IT perspective was the lack of focus within the case company on the technical aspect of systems in M&A. However it would seem that this is the result of the acquiring company possessing a heavily standardized environment that has mature processes wrapped around, meaning the importance of focusing on technical issues is minimal. This in turn enables the integration teams to focus on realizing the synergies of the transaction as this sits at the core of the integration teams focus.

Within the case study there is very little evidence to suggest that the integration of the IS in an M&A is a significant inhibitor to realizing the synergies set out as the motivation of the M&A transaction. The IS function has a tight link between the overall company strategy and supports it through its own strategy. As per the IT & business strategy alignment model by Henderson & Venkatraman (1993) outlined in section 2.3.3. the case company's alignment could be considered to be that of "competitive potential alignment". With the IT function both supporting

the business strategy but also influencing attributes of it and impacting new products and services.

Within the case company much focus and effort is put on the interaction and coordination of the integration process, prior to the M&A there are reviews which seek to ensure that the targets are both a strategic fit and that there are no considerable roadblocks that would impact the integration.

Bearing this in mind it is possible to suggest that any inability to realize the synergies in the case company comes in the form of

1. Poor communication throughout the companies various business units
2. External constraints Regulatory & Time constraints
3. Strategic premise of transaction is flawed
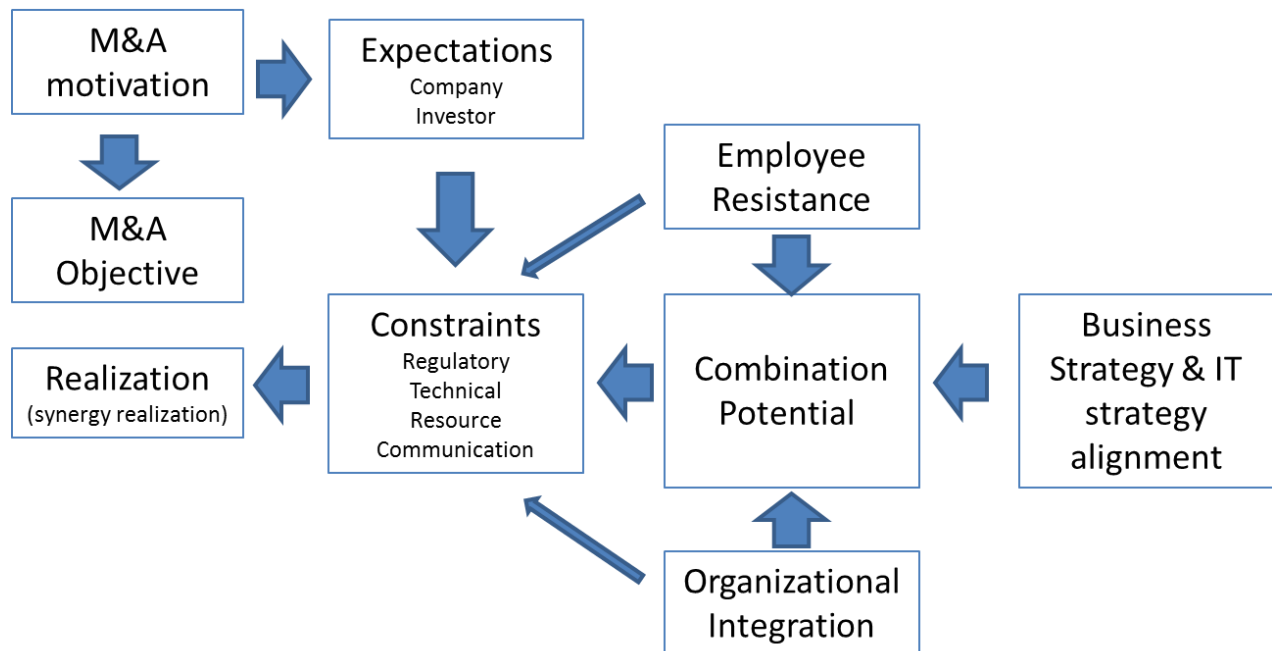
Figure 10 Adjusted Theoretical Framework

As a result of the findings within the case company the original framework was adjusted to include elements which were outlined as constraints in the process of the study. In addition to this a new element was introduced to the model which is depicted in figure 10.

This new element that has been introduced refers to the expectations that are set as part of the M&A motivation. These expectations can have impacts both internally and externally.

Internally they manifest themselves in the form of goal orientation, as the organization strives to achieve the goals (synergies) laid out as part of the M&A motivation. If these expectations are not carefully managed they can be detrimental to the performance of the integration behavior, as the goal becomes a means to an end and little consideration is then given to other aspects of the integration behavior.

Externally these expectations with regard to the M&A motivation also need to be managed with investors in order to avoid having an impact on the integration behavior. The less these expectations are managed by the company the more pressure is put upon delivering the defined synergies, which can lead to cutting corners in the process of the integration as a means to meet targets.

One final question that is raised as a result of this study is whether the logic of the business strategy & M&A motivation can be flawed? In previous studies on the logic of these transactions is not challenged and thus studies are seeking to explain the failure or inability of M&A to deliver on benefits through the actual integration process as a pose to also challenging the strategic logic & motivation.

7.1 Practical implications

The implications of this study from a practical perspective are rooted very much in the strategy element, where those in charge of the IS function need to support the business strategy closely and establish strong links between the strategy and how IT can support and drive these. An upshot of this close alignment is that M&A integration, both with regard to IS and other aspects becomes simpler, and the benefits that are outlined by the M&A motivation are more likely to be

realized. Sarazin & West (2011) also state that by focusing on building an information architecture that copes well with M&A there can be peripheral benefits such as lowering operational costs. As there is a benefit to this alignment even if M&A is not embarked upon, it would be prudent for IS managers to closely align their strategies to those of the overall company as it serves a dual purpose which is beneficial in both scenarios.

Within the case company a focus on the channels used to communicate M&A goals, behavior and progress should be considered, this in turn would improve the overall performance of integration. One potential suggestion would be for to the company to clearly state internally the justification for an M&A transaction and what the potential benefits may be to the entire organization.

Other factors which should be considered are around the management of expectations in M&A. In order to avoid an overly zealous focus on timetables and achieving the synergy benefits, the company should be careful to keep expectations of the transaction at a reasonable level, even potentially playing these down. While much work is performed in the due diligence stage on the actual benefits, it may be wise to discount the synergies as to not overstate them.

7.2 Limitations to study and areas for further research

The limitations of this study are twofold. The first limitation centers on the company and industry specific nature of this study and thus the results cannot be extended to operating outside of the IT industry as this is the domain in which the company operates.

The second limitation centers on the breadth of the topic in itself. Common criticism leveled at M&A studies often refer to the fact that they are focused on one narrow element and academic discipline (Larsson & Finkelstein 1999 Parvinen 2003) but since the topic of M&A is so complex its study should be encompassed from a holistic view. This kind of scope is well beyond the boundaries of this master's thesis and hence a more focused view on the particular are of IS was investigated.

The concepts and phenomena presented in this study represent a high level view of the subject, thus to provide further validation more in depth research would have to be performed in order to comprehensively understand the technical limitations and implications.

Further research might seek to build on this general model and seek to validate the findings in other industries, while another possible route would be to drill down into the more technical aspects and constraints and investigate what are the technical and architectural limitations are and what their potential impact is. The softer aspects of organizational culture and human resource management may also offer more detail on the drivers of success in M&A even within the IT discipline, they were however outside of the scope of this masters thesis. Further research of this topic could include an analysis of the M&A transactions of the case study, delving into the strategic motivation of single transactions and integration success to further understand the factors pertaining to M&A success and integration behavior.

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9. APPENDICES

9.1 Interviewees & roles

- M&A integration manager
- Subject matter expert – clean room participant
- M&A strategy lead
- Country Finance Manager

9.2 Interview Frame questions

M&A integration manager / M&A strategy lead

1. Can you give an introduction to your role within the company
   a. Years of service
   b. Previous positions
2. To what extent does IS influence M&A strategy & target selection
3. Does a standard framework exist on which IS integration is evaluated
4. How are integration decisions made and by whom?
5. Do day one integration decisions differ from those made after the initial transition?
   a. If so do they then shape future integration plans ?
6. Is there an equal focus on both process & systems ?
7. To what extent is the integration framework standardized both generally and for IS?
8. Does the integration framework have an influence on M&A strategy?

Subject matter expert / Finance manager

1. Can you give an introduction to your role within the company
   a. Years of service
   b. Previous positions

2. What are your experiences of M&A
    a. Which side /Active participation or impacted?
    b. How was communication handled?
    c. Were you briefed on the expectations?
        i. Day 1 & longer term
    d. Did a specific framework / roadmap exist for the integration?
    e. Were you able to define requirements for IS / IT systems & tools

3. What challenges have you experienced as a part of M&A behavior?
    a. What do you feel worked well in the process?
    b. What do you feel would need improvement?

4. What in your mind guides M&A Integration behavior?

5. Do you feel the corporate / BU strategy is supported by the IT tools used ?
    a. What do you think is the role of IT in mergers ?

6. Overall from your perspective how would you explain the success of M&A transactions?