Integrating Mergers and Acquisitions with Enterprise Systems: Towards an Explanation.

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Abstract: *Given that many organizations seek to create value through inorganic growth, Mergers and Acquisition (M&A) initiatives are becoming increasingly important. On the other hand, the potential of Information Systems to create value by enabling Mergers and Acquisitions for adopting organizations is emerging as a popular area of investigation. Hence, a study was conducted to understand the role of Enterprise Systems, a very popular variant of Information Systems, in Mergers and Acquisitions initiatives. This paper is a research in progress that first explores the literature available, and subsequently explains that Enterprise Systems, through their ability to 'integrate' data, processes and systems, can greatly facilitate Mergers and Acquisitions. The contribution of this paper is that it (a) confirms that Mergers and Acquisitions can be made easier if the organizations concerned have Enterprise Systems in place, and (b) further explains how this can be so. The intention is to further test the phenomenon proposed with empirical data from a number of case studies.*

Keywords: ***Mergers and Acquisitions, Integration, Enterprise Systems, ERP, Business Value, Strategic Value, Inorganic Growth***

Introduction

Investments are made only if the expected business value created, as measured by the above techniques, justifies the expenditure, i.e., the 'Business Case' for the investment is approved. Information Technology investments are no exceptions. In the past few decades, a variant of Information Technology, called 'Enterprise Systems', has become widely popular**.** Enterprise Systems (ES) can be defined as large-scale, packaged, application software systems that can be used to streamline and integrate the business processes of an organization, and considerably improve information and knowledge levels within the organization as well as with its customers and suppliers (Davenport, 2000). Enterprise Systems, when implemented effectively, have been reported to create value by enabling operational benefits like error reduction, faster transaction processing, and improved productivity for the adopting organizations (Davenport 2000; Markus and Tanis 2000). However, all organizations who have already implemented Enterprise Systems or are planning to do so seek to get more business value out of these systems than just improving operational efficiency (Holland and Light 2001; Teo et. al. 2006).

Mergers and Acquisitions (M&A) are increasingly becoming an important mechanism through which organizations seek to create business value. Merging organizations can reduce unit costs in different aspects like production, marketing, inventory holding, and distribution integrating similar departments (Datta 1991). According to Cartwright and Schoenberg (2006), 30,000 acquisitions were completed globally, equating to one transaction every 18 minutes. The combined value of these acquisitions was USD$1,900 billion, exceeding the GDP of several large countries. High profile M&A initiatives like those of Cadbury-Schweppes, Exxon-Mobil, Disney-Pixar and many others have shown the value such initiatives can bring to organizations. Also, an extensive review of the literature on Mergers and Acquisitions by Birkinshaw et al (2000) shows that many studies found emphasis on the importance of M&A initiatives in creating value.

With Enterprise Systems being adopted as the preferred IT platform by many organizations globally, large, multinational, 'consulting' organizations such as Accenture, Deloitte, and IBM are now claiming to implement and harness these systems to assist in M&A initiatives for their clients. But despite these claims by consultants, there is very limited empirical research that explores the potential of Enterprise Systems, in particular, in enabling Mergers and Acquisitions. This leads to the research question:

How can Enterprise Systems create value through Mergers and Acquisitions for adopting organizations?

1 A literature review of Enterprise Systems-enabled Mergers and Acquisitions

Mergers and Acquisitions (M&A) deal with the buying, selling, dividing and combining of different organizations and similar entities that help a business entity grow rapidly in either a) its sector or location of origin, or b) a new field or new location. The distinction between a 'merger' and an 'acquisition' is becoming increasingly blurred. The primary objective in post-acquisition integration of operations is to utilize existing capabilities more effectively. Merging organizations can reduce unit costs in different aspects like production, marketing, inventory holding, and distribution integrating similar departments (Datta 1991). Mergers and Acquisitions have been dealt with in different streams of management studies, from economics to business strategy. Birkinshaw et al. (2000) did a useful review of the literature in the area of merger and acquisitions.

Haspeslagh and Jemison (1991) suggested a process of undertaking mergers and acquisitions. This involves the generation of the idea of merger or acquisition, the justification for the acquisition, the acquisition itself and finally the post-acquisition integration. Mehta and Hirschheim (2007) synthesised a process for mergers consisting of three broad phases: pre-merger, merger and post-merger. The pre-merger phase consists of: strategic planning, due diligence analysis, negotiations and announcement to media. The merger phase typically consists of the shareholders approving the deal and the two entities closing their deal and legally becoming one single entity. The post-merger phase begins on 'day one' and continues until the new entity settles down. An extended and more detailed description of the process of undertaking mergers and acquisitions is in the work of Galpin and Herndon (2007), who identified the steps of M&A as follows: formulating M&A strategy, locating and selecting target firm(s), investigating the various aspects of the organizations including financial, legal, cultural, operational etc., negotiating the terms and closing the deal, integrating people, process and systems, and finally motivate for long term alignment of the organizations.

On the other hand, though Enterprise Systems are being claimed to facilitate M&A initiatives by vendors and consultants, there is limited empirical research to support such claims. However, there are a few studies suggesting this. Studies by Gupta (2000), Grainger (2007), Mehta and Hirschheim (2007), Weill and Ross (2009), Motiwalla and Thomson (2009) suggested that ERP systems were considered instrumental in assisting integration in the post-merger phase of organizations, thus helping inorganic growth of such organizations. However, there is not much insight into the mechanism through which such systems can enable M&A initiatives.

It is evident from the above that Enterprise Systems may have a potential to enable M&A in adopting organizations. However, there is limited empirical research to support these claims. To the best of the authors' knowledge, there is little insight into the mechanism by which Enterprise Systems enable Mergers and Acquisitions. In other words, an opportunity for research was established to explain the mechanism through which Enterprise Systems enable M&A initiatives in adopting organizations

2 Towards an explanation: how Enterprise Systems enable Mergers and Acquisitions

2.1 Integration with Enterprise Systems: Organization, Processes, Systems

Overall, in the literature about Enterprise Systems, the integration of data, processes and systems has been identified as an important organizational capability that is enabled by Enterprise Systems. One of the key value propositions of Enterprise Systems is integration. Enterprise Systems promise to enable integration by centralizing operational information in a single place so that it can be shared by different application systems of the organization. In addition, Enterprise Systems frequently also propose standardizing the different business processes across different geographical areas i.e. different locations of the organization (Davenport 2000; Markus 2000; Al-Mashari 2003; Grant 2003; Spathis and Constantinides 2003; Gattiker and Goodhue 2004; Puschmann and Alt 2004; Volkoff et al. 2005; Karimi et al. 2007).

Firstly, it is argued that Enterprise Systems enable an 'integrated' organization. One of the key value propositions of Enterprise Systems is integration. Enterprise Systems promise to enable integration by centralizing operational information in a single place so that it can be shared by different application systems of the organization. So in other words, the organization, as a whole is 'integrated' as one organization with the Enterprise System (Davenport 2000; Gattiker and Goodhue 2004). This organization wide – integration comes in two forms:

Back-End Integration: This involves sharing of data across different applications like accounting, sales, and payroll applications. This can be through a common database, enterprise application integration, data warehousing using Extract-Transform-Load tools and the conventional batch updates.

Front-End Integration: This means a common consistent user interface and user processes. This can be achieved through common user interface standards and 'look and feel' portals to display information from different sources in one screen as well as standardized consistent processes to support it.

Secondly, it is argued that Enterprise Systems enable integration of processes in an organization. One of the reasons that Enterprise Systems became popular was the concept of having a unified set of business processes; these systems have the so-called 'best practice' processes built into them. These processes are meant to be optimised and can be fitted to run the processes of the organization in an efficient manner. As a result, the entire organization, runs the same set of processes in different branches, business units and locations (Davenport 2000; Al-Mashari 2003; Spathis and Constantinides 2003; Siau and Messersmith 2003; Botta-Genoulaz and Millet 2005).

Thirdly, it is argued that Mergers and Acquisitions are facilitated by employing the ES to integrate different systems used in the organization. Enterprise Systems by definition are integrated systems, i.e. different systems components like finance, HR, operations are logically integrated into a single system. (Davenport 2000; Markus 2000;Puschmann and Alt 2004;Karimi et al. 2007)

2.2 Using Enterprise Systems to 'Integrate' Mergers and Acquisitions

To understand how ES can enable M&A initiatives, it is essential to understand how M&A initiatives are undertaken. The process of undertaking Mergers and Acquisitions (M&A) is elaborated in the work of Galpin and Herndon (2007) who identified the steps of M&A as being formulating M&A strategy, locating and selecting target firm(s), investigating the various aspects of the firms (including financial, legal, cultural, operational and others), negotiating the terms and closing the deal, integrating people, process and systems, and finally motivating for long-term alignment of the firms. This is in line with the work of Haspeslagh and Jemison (1991) and Mehta and Hirschheim (2007). As is evident, integration of organization, processes, people and systems, is a key, and arguably a very difficult phase, in the merger and acquisition process.

In this research, it is proposed that Enterprise Systems can enable Mergers and Acquisitions by supporting the following aspect: **Integration of organization, processes, and systems**.

IT-based systems are a key component in the integration phase of the merger and acquisition process **(**Galpin and Herndon 2007; Mehta and Hirschheim 2007**)**. A major problem in post-acquisition integration of mergers and acquisition is to combine a plethora of isolated systems of the two (or more) organizations. This means that the greater the number of systems in each merging organization, the more difficulty the merged entity would experience in merging systems.

It has been found that integration of disparate systems in an organization is a cumbersome task and the ES should be employed to integrate several systems into one integrated platform. Therefore, having an ES in place usually means that the organization has an integrated system platform already in place.

When an organization undertakes a Mergers and Acquisitions initiative, having integrated systems such as ERP Systems in place helps to smoothen out the process of integrating the systems of the two (or more) organizations, which is one of the most complex, time- consuming, error-prone, and expensive tasks involved in Mergers and Acquisitions. With Enterprise Systems in place, the acquiring organization needs to integrate one or more systems of the acquired organization(s) into the one single system of its own during the 'post-acquisition integration' phase of a merger of two or more organizations. ERP systems adopted by manufacturer firms have been reported to assist in quickly integrating systems following mergers and acquisitions in prior studies (Gupta 2000; Grainger 2007). For example, Danisco, a global food ingredients organization built its 'growth-by- acquisition' strategy based on its SAP ERP and CRM platform, which it used to integrate its acquiring organizations into (Yetton et al. 2013). Furthermore, if the acquired organizations have integrated Enterprise Systems themselves, this may further assist the M&A initiative, given the even lower number of systems to integrate. This can be investigated further in future research.

However, it is not the intention of this paper to suggest that Mergers and Acquisitions cannot be enabled without Enterprise Systems. It is also not suggested that having an Enterprise Systems is sufficient to undertake Mergers and Acquisitions. Instead, this paper proposes that Enterprise Systems 'enable' Mergers and Acquisitions, where 'enable' means facilitate, support or make easier.

Conclusion

This research –in progress paper reports on an investigation on the potential of Enterprise Systems (ES) in enabling Mergers and Acquisitions. The research question asks how such systems can enable Mergers and Acquisitions. It is suggested that investing in Enterprise Systems followed by implementing it with specific attention to 'integration', will lead to integrated organization, processes and systems in the organization which will facilitate their M&A initiatives. This explanation was illustrated using a detailed case study.

The contributions of this paper are two-fold, as discussed below. In the literature, Enterprise Systems have been claimed to enable M&A initiatives in studies by Gupta (2000), Grainger (2007), Mehta and Hirschheim (2007), Weill and Ross (2009), Motiwalla and Thomson (2009). The contribution of this paper is that this paper extends knowledge about using Enterprise Systems to enable Mergers and Acquisitions by presenting an explanation of the mechanism through which Mergers and Acquisitions could be made easier using Enterprise Systems. The intention is to explore and validate the phenomenon in more detail using a number of case studies in the future.

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