Chapter 8

Effective Use of Information Systems/Technologies in the Mergers and Acquisitions Environment: A Resource-Based Theory Perspective

Hung W. Chu
Manhattan College, USA

Minh Q. Huynh
Southeastern Louisiana University, USA

ABSTRACT

In this study, the authors examine the effects of information systems/technologies (IS/T) on the performance of firms engaged in growth strategies based on mergers and acquisitions (M&A). A model derived from a resource-based theory of the firm is developed to predict the influence of IS/T on performance of firms. Data on the financial performance of 133 firms are used to gauge the impact of IS/T on various M&A objectives. The results suggest that IS/Ts implement M&A objectives that seek to increase overall efficiency better than those that seek to introduce new products or efforts to increase sales. Future studies to examine the process of introducing new products from resource-based theory are suggested.

DOI: 10.4018/978-1-4666-0158-1.ch008
I INTRODUCTION

Mergers and acquisitions (M&A) are commonly used by large and small companies to enhance their competitive positions. Since the 1980s, the number of high profile M&A has increased—as expected—as the economy grew. Even during economic contractions, M&A announcements still capture the public’s attention. For instance, Bear Sterns and Washington Mutual were acquired by JPMorgan Chase in 2008, Merrill Lynch was acquired by Bank of America in 2009, and on June 10, 2009, Fiat has completed the acquisition of Chrysler.

Nevertheless, with a few notable exceptions (JPMorgan Chase, Cisco, ExxonMobil, and GE), most companies engaged in M&A transactions fail to reap their expected benefits. The high profile merger of America Online and Time Warner in 1999 is perhaps the most notorious example in recent years. In addition, Alcatel’s acquisition of Lucent Technologies in 2006 did not improve its financial position. Further, six months after Bank of America’s acquisition of Merrill Lynch in 2009, the CEO of Bank of America conceded that acquiring Merrill Lynch might have been a mistake. Others, such as News Corp.’s acquisition of Dow Jones in 2007, have had mixed reviews.

From a strategic perspective, M&A are supposed to deliver a distinct competitive advantage. The acquiring party will gain talent, technologies and techniques from the acquired firm, possibly leading to the development of new products, better services, or more efficient operating systems. Successful M&A require firms to integrate their operations, personnel, cultures, and information systems to gain strategic capabilities. Thus, integration is the source of value creation in M&A (Chu & Hartman, 2009; Giacomazzi, Panella, Pernici, & Sansoni, 1997; Haspeslagh & Jemison, 1991). Because information systems/technologies (IS/T) play an important role in the operation of business, an M&A often fails when these enterprise systems are not integrated appropriately and create potential counter-synergies (Alaranta, 2005).

The resource-based theory (RBT) is a frequently used theoretical lens in strategic management and it is well suited to apply in this analysis. The RBT suggests that a company is made up of a collection of resources that the company will use to generate value. If a company is engaged in an M&A activity, the company will obtain new resources, such as IS/T, and if the combined firm improves its use of its new collection of resources, the RBT would indicate that the merger makes sense.

Whereas the track records of M&A have been much investigated in academic journals, only a few studies have examined the influence of IS/T on those track records. In strategic management literature, IS/T is often examined as a resource that needs to be aligned with other functional activities or goals. The results have suggested that IS/T be deployed in ways that allow it to interact with other resources in order for companies to obtain competitive advantage (Mata, Fuerst, & Barney, 1995). Thus, RBT is used as a conceptual framework to examine the relationship between IS/T and M&A performance. Specifically, this study focuses on the following key questions: Does the use of IS/T resources in the process of implementing M&A objectives yield a competitive advantage? If so, what is the relationship between IS/T performance and M&A performance?

This study is important in several respects: First, the understanding of IS/T factors in relation to M&A can provide critical information for the planning of the transition and integration of IS/T resources between the target and acquirer. Second, identifying and recognizing the importance of alignment between IS/T usage-contribution and strategic objectives can improve IS/T’s effectiveness and efficiency. Finally, an insight into the assessment of how IS/T is used as a resource to develop competitive advantage in an M&A deal is a valuable tool for the corporate planner. The results from this study can be used not only dur-
Related Content

Auto-Associative Neural Networks to Improve the Accuracy of Estimation Models
[www.igi-global.com/chapter/auto-associative-neural-networks-improve/36442?camid=4v1a](www.igi-global.com/chapter/auto-associative-neural-networks-improve/36442?camid=4v1a)

Symbol Grounding Problem
[www.igi-global.com/chapter/symbol-grounding-problem/10443?camid=4v1a](www.igi-global.com/chapter/symbol-grounding-problem/10443?camid=4v1a)

Intelligent Recognition of Activities of Daily Living for Assisting Memory and/or Cognitively Impaired Elders in Smart Homes
[www.igi-global.com/article/intelligent-recognition-activities-daily-living/37475?camid=4v1a](www.igi-global.com/article/intelligent-recognition-activities-daily-living/37475?camid=4v1a)

Functional Form, Elasticity and Lexical Richness: Estimates and Implications
[www.igi-global.com/chapterfunctional-form-elasticity-lexical-richness/60875?camid=4v1a](www.igi-global.com/chapterfunctional-form-elasticity-lexical-richness/60875?camid=4v1a)