Facilitating the Merger of Multinational Companies: A Case Study of the Global Virtual Enterprise

William Y. C. Wang, Auckland University of Technology, Auckland, New Zealand
David J. Pauleen, Massey University, Auckland, New Zealand
Hing Kai Chan, University of East Anglia, Norfolk, UK

ABSTRACT
This paper reports on case research investigating the challenges presented by a newly formed supply chain after a merger and acquisition (M&A) and the subsequent solution – the enactment of a global virtual enterprise (GVE). Adaptive Structuration Theory (AST) is used as a lens to view and understand the transformational effects that occurred after the merger and the adoption of the GVE. A case study approach was adopted with empirical data collected from corporate web sites, direct participation in the project, and in-depth interviews with the two merged multinational supply networks set in Asia (the sub-ordinates are based in China, Taiwan, Thailand, and Vietnam) and North America (sites in Canada and the U.S.). The major problems encountered in the M&A process in the supply chain included incompatible product codes, redundant business processes, no unified ERP platforms, conflict of interests of supply chain entities, etc. The findings show the GVE approach improved the efficiency and effectiveness of this global acquisition through the re-alignment of organizational structures and personnel. Implications for practice and the further application of AST to the study of global supply chains and M&A are raised.

Keywords: Adaptive Structuration Theory, Case Study, Global Virtual Enterprise, Mergers and Acquisitions, Supply Chain Integration

INTRODUCTION
Strategic supply chain integration via Mergers and Acquisitions (M&A) provides a number of potential benefits for companies, including: economies of scale, increased revenue or market share, tax benefits, geographical, product or market diversification, resource transfer, and various kinds of knowledge and management synergies (King, Slotegraaf, & Kesner, 2008). M&A in the manufacturing industry may require the integration and reformation of at least two supply chains and the associated information systems (IS), and have formed a critical part of the business landscape due to increasing numbers of transactions encouraged by deregulation, market liberalization, technological change, and
globalization (Very & Schweiger, 2001). They take place regardless of economic conditions: in economic upturns, companies may respond by expanding their supply networks, while in downturns, one company’s loss may provide another company the opportunity to increase share in a current market or to enter new markets.

M&A for supply chain integration are when two enterprises form one larger supply network and are usually done voluntarily as it is seen to be in the best interests of both parties. M&A should ideally result in better productivity and economies of scale and stronger strategic positions in the market. Often stock swaps are involved and an aura of cooperation is instilled. M&A are not always friendly affairs and can be risky. Datta (1991) indicates that such integration with two different management styles can result in conflicts, hindered operational synergies, decreased market share and reduced corporate value.

When two multinational enterprises become one as the result of M&A, a whole host of problems arise in every step of the supply chain integration processes. The new group of supply chain ‘entities’ must integrate at all levels—from leadership to line workers, from combining different organizational structures to harmonizing the supply chain (Very & Schweiger, 2001) as well as the integration of the IS governance structure from function modules to global scaled information systems (Markus, Sia, & Soh, 2012). Global boardrooms and academic halls are replete with stories of M&A that have gone badly wrong as issues of differing cultures, knowledge, IS integration, and operations cut down the very best of economic reasoning and corporate good intentions (Aralanta, 2005). In fact, the literature has shown a high failure rate of 40-80% for M&A (Kaplan & Weisbach, 1992; Meyer, 2001; Schoenberg, 2006) and they can be particularly difficult when crossing national boundaries because of the different languages, cultures, laws, socio-economic conditions, and particularly the gaps created by incompatible enterprise systems previously established by the two companies. Recent cases of Daimler-Chrysler and BenQ-Siemens are typical examples of failures. Though the reasoning for each M&A was sound with regard to corporate visions and supply chain synergies, these ‘marriages’ both resulted in continuing operational conflicts and problems in the integration processes that eventually ended in ‘divorce.’

In the case presented here, we look at the problems that arose when an Asian textile manufacturer vertically extended its supply chain with the intention of internalizing the distribution channel and getting closer to the wholesaler in order to increase supply chain visibility (Francis, 2008) through an M&A with a North American brand manufacturer. The case focuses on how these issues were resolved through the establishment of a global virtual enterprise (GVE) (Kim, Son, Kim, & Kim, 2008). While the GVE approach has been shown in the literature to improve the efficiency and effectiveness of managing international businesses and addressing global markets (e.g., Moshowitz, 1997; Speier, Harvey, & Palmer, 1998), only rarely is it applied as a mechanism for establishing a global information system for M&A along the two originally independent supply chains, particularly in cross-border deals. In order to further the literature, in this study, we report on the two focal companies involved—i.e., the leading companies who have the ownership of the two supply chains (Trond, 2009)—and the reasons for the M&A. We then analyze the problems encountered and how these problems were successfully addressed using the GVE architecture along with the ensuing benefits.

This paper reports on a case study of multinational supply chain integration via M&A. Specifically, it (1) identifies the supply chain integration problems as a result of M&A from an information management perspective, (2), suggests an IS technique, the GVE, for re-organizing the resources of the integrated supply chain,(3) discusses the associated implementation issues and benefits of forming the GVE, and (4) uses adaptive structuration theory (AST) to analyze changes in organizational structure and processes brought on by the implementation of the GVE.
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