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MIS Strategies in Corporate Acquisitions

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Abstract

Corporate acquisitions present a particular challenge to managers of information systems. When faced with this situation, IS manager react in a variety of ways. Through a series of case studies and a mailed survey, we identified two MIS acquisition strategies and found some evidence of a third. We also found a marked consistency between the MIS acquisition strategy followed and the overall integration strategy of the firms involved.

Introduction

The environment of changes faced by today's business organizations is to some extent a consequence of advancing information technology. Information technology also enables organizations to cope with this rapidly changing environment. One particular type of organizational change that occurs frequently is a merger or acquisition. When this takes place, there is a potential for information systems to either enable this change or to serve as a roadblock. However, information systems may be the area least likely to receive attention prior to a merger decision (Bohl, 1989).

Studies show that at least half of acquisitions are not successful (Porter, 1987; O'Connell, 1985). These failures constitute an enormous cost to the acquiring firms. There is a clear need for a more complete understanding of the factors which contribute to the success or failure of acquisitions. Information systems is one such factor.

This study addressed the question "What are the different strategies followed by MIS managers of acquiring firms when a corporate acquisition occurs?"

Background

To develop a theory of what MIS acquisition strategies would occur, we first reviewed the management literature concerning acquisitions. Several models were identified that describe how an acquisition is integrated. We also examined existing MIS literature on corporate acquisitions. These consisted mostly of case studies (e.g. Main & Short, 1989; Linder, 1989) and trade journals (e.g. Ball, 1988; Calabrese, 1991; Kubilus, 1991; McNurlin, 1989). Based on this literature, we developed a model of three MIS acquisition strategies, Maintenance, Synthesis, and Replacement.

We first conducted a series of case studies with firms who had made several acquisitions. From this, we developed a questionnaire which was sent to firms making acquisitions in 1992, as reported in quarterly issues of *Mergers & Acquisitions*. The study was limited to transactions reported as "acquisitions" in which U.S.-based firms acquired other U.S.-based firms.

Respondents

We received 82 usable responses to our study. These firms represented all types of companies and all types of industries. The parent firms responding were active in acquisitions. Only 12 firms had not made another acquisition in the three years prior to the acquisition covered in the survey. Most (69 of 82) of the respondents were employed by the parent firm prior to the acquisition. They were highly involved with the acquisition in question (mean=4.9 out of 7).

Characteristics of the Acquisitions

The following table summarizes the acquisitions in our sample. Approximately half were horizontal type acquisitions. There was a strong preference for the "absorption" overall integration strategy. This indicates a heavy preference for consolidating a target firm's operations with the parent firm. Similarly, one-half of the acquisitions had a goal of "domain strengthening" versus "domain extension" and "domain exploring." The relative size of the parent and target firm ranged widely, from less than 1% to 87% of the size of the parent firm. Most of the target firms were less than 10% the size of the parent firms.

Acquisition Type		Overall Integration Strategy		Acquisition Goal		Target in Need of Turnaround	
Horizontal	42	Absorption	46	Domain Strengthening	41	Yes	36
Product Extension	18	Symbiosis	19	Domain Extension	35	No	44
Market Extension	12	Preservation	16	Domain Exploring	5		
Vertical	5						
Unrelated	4						
Missing	1	Missing	1	Missing	1	Missing	2

MIS Acquisition Strategies

We found strong evidence of two MIS acquisition strategies, *replacement* and *maintenance*. In the *replacement* MIS acquisition strategy, the parent firm replaces the target firm's information systems with its own. Changes to systems to accommodate the target firm are minimal.

MIS Acquisition Strategy	Number of Respondents
Maintenance	15
Synthesis	5
Replacement	56
Unknown	6
Total	82

In the *maintenance* MIS acquisition strategy the parent firm keeps the target firm's existing information systems in their current forms. There is not extensive sharing of information systems resources, such as combining of hardware.

There was evidence of a third strategy, *synthesis*, although this MIS acquisition strategy cannot be as clearly identified. It appears to occur when the combined firm develops new, integrated systems to accommodate the needs of both firms.

In the majority of cases (56 of 82 - 68%), parent firms follow a *replacement* MIS acquisition strategy. This suggests that MIS is one area in which the parent firm dominates. In most instances, the parent firms do not appear to have spent time considering the target firm's information systems, but rather went ahead and replaced them with their own. Forty-one of 82 firms (50%) indicated "strongly disagree" to the statement

"We evaluated which administrative information systems were best for the target firm." Only 7 firms (9%) "strongly agreed" that such an evaluation had taken place. One respondent commented:

As I have been involved with several of these acquisitions (from both sides) I have witnessed that the parent company always practices absorption [replacement]. And even with this, the parent has little regard for the target's IT hardware and software. In all cases the parent was [going to] (or did) take over the target's IT functions.

Conclusion

This research built on previous knowledge regarding corporate acquisitions and management information systems. By reviewing previous work in management, MIS and finance, we adapted prior models to develop a model of strategies in the functional area of MIS organizations after an acquisition. The model was tested in a series of case studies and a survey. We found strong evidence of different MIS acquisition strategies. By examining these strategies, we gain additional insight into the acquisition process and the factors which contribute to success.

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