Keep, Replace, Dispose? Managing It-Based Resources In Digital Mergers and Acquisitions

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KEEP, REPLACE, DISPOSE? MANAGING IT-BASED RESOURCES IN DIGITAL MERGERS AND ACQUISITIONS

TREO Paper

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Abstract

Despite the popularity of digital M&A, the majority fails to produce the expected outcomes. While antecedents and moderators of M&A are relatively well studied and quantified, little is known about the underlying decision-making, especially in digital deals. Through the lens of the RBV, this case study uncovers how acquirers assess and manage their target’s IT-based resources post-acquisition, considering technological, organizational, and environmental factors. Analyzing multiple acquisitions of a digital target in a longitudinal study, we show that decision-makers assess IT resources on three separate yet interdependent dimensions: human, tangible, and intangible. Depending on their risk-benefit evaluation, resources are kept, replaced, or disposed. Our paper moves digital M&A research forward, helping practitioners to improve their decision-making in the age of digital transformation.

Keywords: Digital M&A, IT-based Resource Assessment, Digital Strategy-Making

1 Research motivation and objective

Numerous organizations are leveraging mergers and acquisitions (M&A) as a strategic approach to digital transformation. Half of global deals, anticipated to rise again from last year’s USD 3.2 trillion (Henry and Van Oostende, 2024; Levy, 2024), target digital companies or assets (Harding et al., 2024). These transactions are known as digital M&A (Hanelt et al., 2021). Despite the popularity of digital deals, their failure is more common than their success. Consequently, extensive research has been devoted to the antecedents and moderators of M&A outcomes, such as characteristics of the firm, deal, management, and market. Most studies are based on quantitative data with few insights on the underlying “cognitive and behavioral decision-making processes” (Haleblian et al., 2009, p. 492). This is especially true from an Information Systems (IS) perspective, where we have focused on the importance of IT integration strategies for M&A success, but only marginally on the foundational act of strategy-making (Baker and Niederman, 2014). Also, the focus on IT has emphasized a technical over a sociotechnical view (Sarker et al., 2019).

Contrasting, management literature has stressed the social complexity of knowledge-based resources in technology acquisitions (Graebner, 2004). Hence, a more holistic view is needed to understand the assessment of tangible, human, and intangible IT-based resources (Bharadwaj, 2000). Resources are assets “tied semi-permanently to the firm” (Wernerfelt, 1984, p. 172). If they are valuable, rare, imperfectly imitable, and non-substitutable, they should provide a firm with above-normal returns. Organizations differ due to possessing unique bundles of resources and capabilities, according to the Resource-Based View. To access them, M&A has proven a controversial, yet extremely popular vehicle. Hence, goals of M&A include creating or capturing value through synergies and closing capability or resource gaps. For a long time, creating cost-based synergies through the consolidation of IT infrastructures was the focus of IS research (Benitez et al., 2018). However, the exchange of resources
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is often neither easy nor costless (Tanriverdi and Uysal, 2015). Focusing on the acquirer side, it has been found that a lack of absorptive capacity or a high IT distance (Lee et al., 2022) may hinder the realization of deal value. In the meantime, IT has permeated all business areas. Complemented with human and intangible IT-based resources, they can provide organizations with a competitive advantage. Via the access to these resources, digital M&A aims at unlocking revenue-based synergies (Hanelt et al., 2021). However, prominent examples show that post-acquisition resource management strategies may also include the disposal of certain IT-based resources. Only if we understand the underlying decisions form, we can aim to improve the impact factors, and hence, the outcomes of M&A.

This case study addresses calls to further illuminate digital M&A (Hanelt et al., 2021), include the target perspective (Hedman and Sarker, 2015), and take a sociotechnical perspective through a focus on the actors’ strategy-making (Sarker et al., 2019). As the focal company was involved in multiple acquisitions, this is a unique setting to research “the processes that acquirers use to seize value” (Haleblian et al., 2009, p. 490) from their deals. Consequently, we will improve our understanding of acquisition outcomes. Taking a resource-based view, we find that a target’s IT-based resources are evaluated separately in three dimensions, following a risk-benefit logic. We create a framework that considers the technological and organizational impact factors on both the acquirer and target side, as well as the environmental factors (TOE factors) (Baker, 2011), impacting the strategies of keeping, replacing, or disposing the resources. Hence, this study illuminates: How do acquirers form their management strategies for IT-based resources in different digital M&A contexts?

2 Method
The focal organization of this study is DigitalCo, an online fashion retailer founded in 2005. The company has been the target of M&A activities three times since 2018, with each deal exhibiting different features, contexts, and emergent strategies for the management of IT-based resources. Qualitative case studies are ideal to keep up with relationships in constant flux (Monteiro et al., 2022). While employing multiple data sources, the heart of our study form 25 interviews with stakeholders in DigitalCo, the acquirers PhysicalCo, and involved consultancies since January 2023. While the research project is still ongoing, we are amidst the analysis of our rich data, following the Gioia method to draw transferable insights from our case (Gioia, 2021).

3 Preliminary findings and contributions

![Framework of IT-based Resource Management in M&A](image)

Figure 1. Framework of IT-based Resource Management in M&A

First findings have been integrated into a framework (see Figure 1). We integrate the understudied role of humans in IS research, from both an acquirer and target perspective: For the former, we focus on the
decision-makers who perceive, assess, and manage the IT-based resources of their digital target. For the latter, we consider the target’s human IT-based resources as a decisive factor. Acquirers assess their target’s resources in three dimensions: human resources (e.g., programmers of key IT), tangible systems (e.g., the target’s proprietary software), and intangible assets (e.g., existing relationships with platforms). While each dimension is evaluated separately, following a risk versus benefit logic, their interdependencies are acknowledged as well. For example, DigitalCo’s founder developed the proprietary, highly efficient IT system single-handedly. Hence, both the human and tangible IT-based resources were evaluated as high risk, high benefit. Considering that, the acquirers went either for keeping or replacing these resources, a final decision dependent on their respective M&A context.

These contextual impact factors were found on a technological, organizational, and environmental level, and they all had an impact on both the assessment of IT-based resources and their management. For example, considering the IT system (tangible resource), a number of factors would entail keeping the resource despite its high-risk evaluation: A high IT distance of the acquirer or no availability of IT system substitutes on the market (technological factor), the target’s company structure (organizational factor), or the strategy of diversification by a physical acquirer (environmental factor). Hence, the TOE framework, originally developed to understand innovation within one company (Baker, 2011), could be adapted to illuminate the M&A context.

This research answers calls to further illuminate digital M&A (Hanelt et al., 2021). We agree with prior findings that, considering the technological and organizational factors, digital deals are challenged by internal differences in IT systems, culture, and knowledge (Lee et al., 2022; Uhlenbruck et al., 2006). We found that these circumstances have an impact on how strategy forms. In addition, we identified environmental factors (e.g., deal strategy, deal type) as impacting strategy-making. While digital strategy and strategizing have been stressed as an essential component of DT (Bharadwaj et al., 2013; Matt et al., 2015), research has devoted little attention to the act of strategy making thus far (Chanias et al., 2019). Hence, this study contributes to research on digital M&A by uncovering the complex assessment and management of IT-based resources, and related impact factors. These insights will help studying the proposed relationships, and lead practitioners towards a more informed decision- and deal-making.

References


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