Chapter 2.32
The Impact of Mergers & Acquisitions on IT Governance Structures:
A Case Study

Pauline O. Chin
Florida Atlantic University, USA

George A. Brown
Technologies Consultant, Jamaica

Qing Hu
Florida Atlantic University, USA

ABSTRACT

Developing information technology (IT) governance structures within an organization has always been challenging. This is particularly the case in organizations that have achieved growth through mergers and acquisitions. When the acquired organizations are geographically located in different regions than the host enterprise, the factors affecting this integration and the choice of IT governance structures are quite different than when this situation does not exist. This study performs an exploratory examination of the factors that affect the choice of IT governance structures in organizations that grow through mergers and acquisitions in developing countries using the results of a case study of an international telecommunications company. We find that in addition to the commonly recognized factors such as government regulation, competition and market stability, organizational culture, and IT competence, top management's predisposition toward a specific business strategy and governance structure can profoundly influence the choice of IT governance in organizations. Managerial implications are discussed.

INTRODUCTION

The business environment has become increasingly complex and competitive due to the rapid advances in technology and globalization of the world economy over the last two decades. In order to survive and to compete on a global scale, organizations have sought to increase their market share through mergers and acquisitions (M&A) both locally and internationally. In a publication by the Bureau of Census (2002) on mergers and acquisitions in over 41 industries for the year 1998, it was reported that there were 3,882 cases of U.S. companies acquiring other U.S. companies. These data also indicated that there were 483 cases of foreign companies' acquisitions of U.S. companies at an estimated value of US $233 billion, and 746 cases of U.S. companies acquiring foreign companies at an estimated value of US $128 billion.

The trend toward mergers and acquisitions has been clearly demonstrated within the telecommunications industry worldwide (Oh, 1996; Ramamurti, 2000; Trillas, 2002; Wilcox et al., 2001). Over the last several years, telecommunications companies in North America, Europe, and Asia have looked toward acquisitions and mergers for their survival and growth. During the last decade there has been an increasing number of local and foreign investments in the industry (Oh, 1996; Ramamurti, 2000), due primarily to the deregulation of the telecommunications markets as well as the move toward total or partial privatization of telecommunications companies within developing regions (Gutierrez & Berg, 2000; Melody, 1999).

Foreign investments in developing countries within Latin America and the Caribbean have increased tremendously over the last 20 years due largely to changes in the regulatory policies within these regions. Historically, companies in Latin America and the Caribbean were owned primarily by the local states. This changed dramatically in the mid-1980s to 1990s as the increasing economic and financial demands on the industry forced companies in the region to look toward foreign investments in order to stay competitive. Gutierrez and Berg (2000) reported that between the mid-1980s to mid-1990s, 14 out of the 24 telecommunications firms in the region privatized their companies. This strategy is also credited with setting into motion the current trend in a majority of the region's telecommunications companies toward increased partial or total privatization (Gutierrez & Berg, 2000; Ramamurti, 2000).

As a consequence of this massive privatization and merger-and-acquisition movement in the telecommunications industry, the role of IT in these organizations has changed significantly over the last decade. The traditional relationship of IT providing support services to individual departments within an organization has evolved into one where IT now plays a broader role in achieving the overall strategic goals of the organization via a focus on global enterprise-wide support that encompasses not only multiple departments, but often different countries and cultures as well. As a result, IT governance in the dynamic and complex business environment has been pushed to the forefront of critical issues facing the management of these organizations, in spite of the fact that little research exists on IT governance that attempts to identify and explain the multiple factors that may affect the choice of IT governance structures in the context of mergers and acquisitions in developing regions. In order to address these issues, this article examines the evolution of a governance structure within a global telecommunications network organization, based on a framework developed from the extant literature on corporate and IT governance theories and practices. The article addresses the general research question: In the process of integrating foreign subsidiaries into the host company, what are the factors that influence the choice of IT governance structure? The primary purpose of the article is to contribute to a broader understanding

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