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Mergers and long term industrial performance A dynamic approach.

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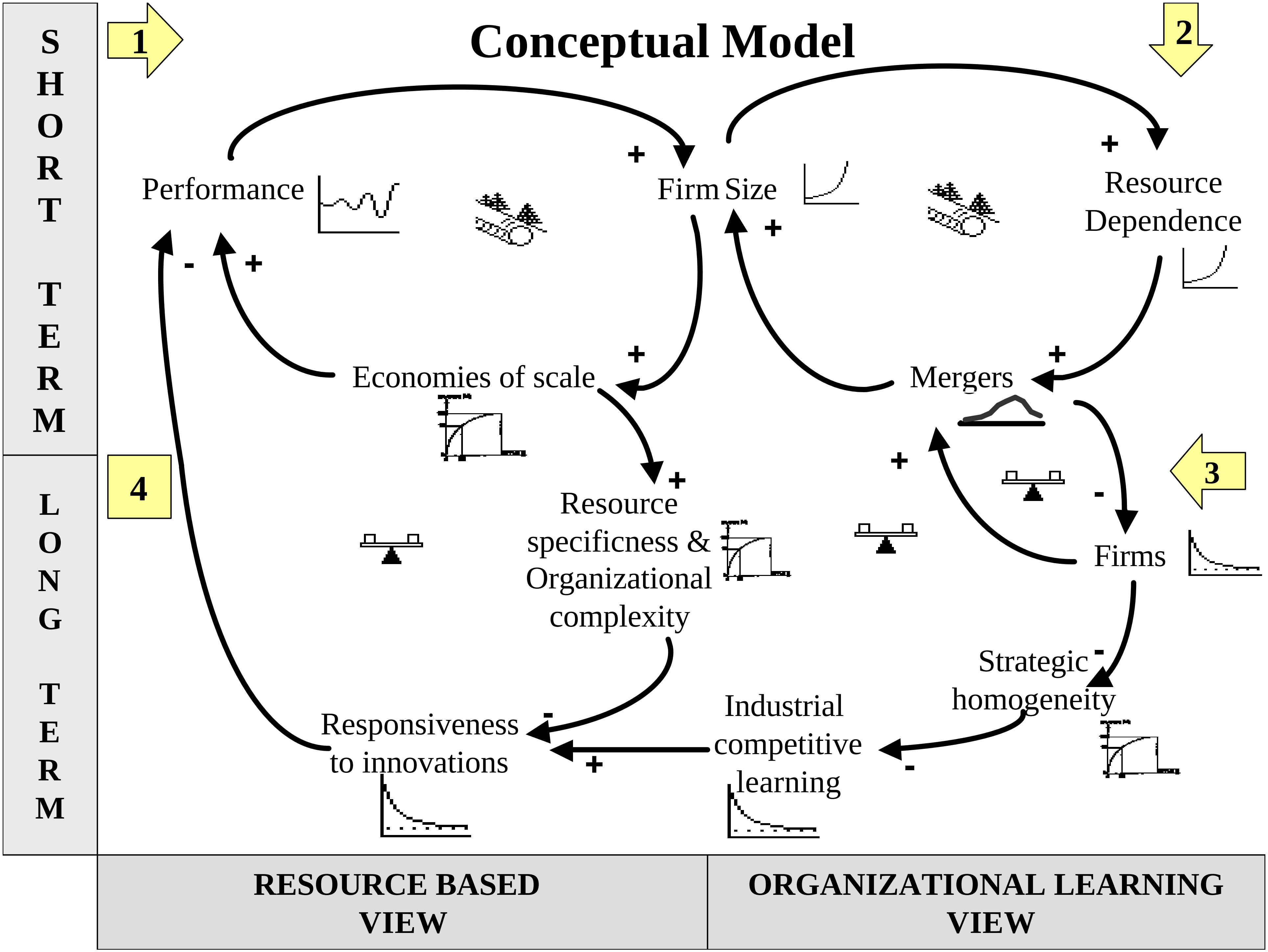
Introduction

Mergers are considered an important strategic option for firms pursuing vertical integration or diversification. Mergers create value for firms, enabling them to exploit competitive opportunities, to reduce costs or increase revenues through economies of scale. But the expected sustainable competitive advantage in the long term may be offset by an industry not able to manage change. The paper address the long term industrial consequences of mergers level using System Dynamics and strategy theories like Resource Based View and Organizational learning process.

Conceptual Model



Conceptual Model

Mergers as a short term strategic action

Mergers are strategic option for firms trying to achieve competitive advantage. Mergers increase firm size achieving economies of scale and reduce the diversity and the number of competitors thereby increasing industry concentration.

But bigger firms in a concentrated industry will have the most to lose from industry constraints (resource and transaction dependence) so they will engage in inter-industry merger with suppliers/buyers to reduce resource dependence.

Long term consequences

As the number of competitors decrease, the diversity in industrial strategies decreases so all firms in the industry finish with similar strategies. Industries also learn from operating and competitive experience. Operating experience contributes to internal efficiency while competitive experience is built from other competitive moves and failures. Few big firms reduce the industrial learning process, thus reducing the responsiveness to innovations.

High specific assets increases complexity and costs due to the need for large investment in time and resources to reconfigure the firms.

Final Considerations and Future Directions

I have just presented an outline of the industrial implications that mergers can produce in the long term.

System Dynamics can be an important tool for Strategy since it helps to structure clear frameworks and explicit theories including important characteristics that theories in strategy may have to address: feedback processes and reference modes for the behavior of the organization.

Morecroft and Sterman (1994) described the use of System Dynamics for structuring frameworks using mapping symbols that can provide building blocks to assemble and connect knowledge, in this case: theories and events, that can be converted into algebra and simulation models.

After presenting the conceptual model of the theory, the next steps in the research will be:

- Build a model to test the dynamic hypotheses.
- Gather empirical data.
- Confirm the dynamic hypothesis.
- Policy Analysis.

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