

MISQ Archivist

Corporate Strategy Changes and Information Technology Control Effectiveness in Multibusiness Firms

Hüseyin Tanriverdi and Kui Du

Abstract

We develop a theory to explain why, how, and under what conditions, corporate strategy changes negatively affect a multibusiness firm's ability to design and effectively operate IT controls, and lead to the emergence of IT control material weaknesses (IT MW). Corporate strategy changes such as diversification, mergers and acquisitions (M&A), and divestitures alter a firm's complicatedness by adding or removing business units. These changes can also affect the firm's complexity by altering the degree of interrelatedness among the firm's businesses. We hypothesize that corporate strategy changes that affect the firm's complexity are more likely to increase IT MW than those that only affect the firm's complicatedness. Complexity-altering corporate strategy changes are likely to disrupt all three types of IT controls: IT controls over technology, IT controls over business processes, and IT controls over people's behaviors. We hypothesize that the changes are likely to disrupt the IT controls over people much more than IT controls over technology or business processes. Complexity-altering corporate strategy changes are also likely to affect the design effectiveness of the IT controls much more than the operating effectiveness of the IT controls. We find support for these ideas in a longitudinal study of 2,477 publicly traded U.S. firms. Results also indicate that the internal control material weaknesses (IC MW) that emerge following corporate strategy changes are primarily due to IT MW rather than non-IT MW. The proposed theory and the findings have important implications for research and practice.

Keywords: IT control effectiveness, corporate strategy, diversification, mergers and acquisitions, divestitures, complexity, complicatedness, Sarbanes–Oxley Act (SOX)