A Review on Mergers and Acquisitions in IT industry

Author Details
Author 1:
Name of Scholar: S. PAVAN KUMAR
Scholar ID: 2012551012 , KLH Global Business School,
Koneru Lakshmaiah Education Foundation Deemed to be University, off campus, Hyderabad.
Email ID: pavankumar_3@klh.edu.in , Ph. No: 9966801733
Author 2:
Name- Dr. P. HIMA JAGATHI
Designation - Associate Professor ,KLH Global Business School, Department of MBA,
Koneru Lakshmaiah Education Foundation Deemed to be University, off campus, Hyderabad.
Email ID: himajagathi@klh.edu.in

ABSTRACT
Mergers and Acquisitions (M&As) are essential components of strategic management.Operations that were previously regarded as unusual business development choices have become normal due to the spectacular wave of M&As in recent years. M&As have left their stakeholders with a mixed bag of outcomes, leading to substantial economics debate, albeit without a systemic perspective.The M&A actions of businesses often result in innovation-driven M&As, and the acquiring firm's business strategy has received a great deal of attention. They are a technique for businesses to grow faster than through the usual growing phases. They can also be a way for businesses to improve their competitiveness and solidify their place in the world market. M&Asare one of the strategic options in corporate restructuring that can give organizations (Org.) more access to better income, having a control on the market share, and developing their businesses to compete in the unstoppable global market.The IT industry is most lucrative due to its ever-changing technologies. This paper has its focus on the M&As in IT industry. The systematic review of literature is to be used in this paper as a means to achieve its objective of analysing how M&As in IT. The different ways in which M&As lead to CD has been studied and analysed in detail through this paper.

Keywords: *Mergers and Acquisitions, IT industry*

I. INTRODUCTION

In contrast to organic growth, M&As are a type of organizational expansion that enables businesses to grow quickly. The distinction between M&As may be difficult to draw, therefore the phrases "merger," "acquisition (acq.)," and M&As are used interchangeably in the current literature. In a merger, two businesses are combined into one, integrating debt and equity. Contrarily, an acq. is the taking control of a company by another, either amicably when stakeholders agree the transaction or hostilely when the acquiring company buys some other company on the stock exchange.[1].
However, for PR purposes, financial considerations, or even the pride of senior management teams, certain takeovers may be referred to as mergers. In a word, a merger is the coming together of two or more businesses to form a new org. or business. While an acq. is the taking over of a business by another for the mutual benefit of both parties. Mergers can succeed or fail depending on their nature. The nineteenth century is when mergers and acq.s first became popular. Since then, both corporate restructuring efforts and mergers and acq.s in particular have changed. In today's business environment, mergers and acq.s have become a buzzword. Due to a number of changes, including globalization, the stock market boom, and the deregulation of government laws in many nations, M&As have gained speed. Major mergers occurred in the banking, telecommunications, and pharmaceutical industries. Large investors preferred mergers to generate long-term profitability above short-term benefits, and the majority of them were driven by equities. Huge business investments

accelerated due to favorable economic trends, massive corporate investments, and pro-active government measures. The Companies Act of 1956, which has been replaced by the Companies Act of 2013, still has several provisions that have yet to be put into effect, although it governs the majority of M&As. The Indian economy is marked by the prominence of the Indian IT sector.The main objective of this research to understand the various aspects of M&As in the IT industry. The next section discusses the research methodology to be used in this research.

II. LITERATURE REVIEW

Corporate M&As have long been a popular area of economic research. The objective of M&As is to expand the acquiring firm's market share, influence in the industry, and financial rewards[2],[3]. The majority of literature in this research focuses on analysing the various perspectives on which M&As take place and what derives these M&As. Research on M&As was introduced into the strategic management framework in the middle to late 1980s. The essential element in the strategic school's analysis of how mergers and acq.s affect particular Org.s is how correlation or strategic matching affects merger and acq. performance.

Multiple views have contributed to the existing research on M&As [4]. The four basic angles from which M&As research can be categorize are organizational behaviour, the management of the strategic process, M&As actual process, and finance and economics[4]. Another aspect to be discussed here is the Business Strategic M&As and Innovation based M&As. Finally some of the IT industry M&As are to be seen. The upcoming sections discuss these in detail.

A. Behaviour of the Org. view

The viewpoint related to the behaviours of the company aims to determine both the causes and effects of variables on the Org. level on M&As [4]. The strategy, culture, and Org. related fit with the acquiring company as M&As precursors has been studied by researchers. The notion of strategic fit is the extent to which the acquired company supports or enhances the strategy of the acquiring company, perhaps leading to synergies. However, empirical research does not consistently support any conclusions regarding this and the lack of performance of M&As. Looking into the cultural fit, since there are certain shared values and views, may also plausibly prevent disputes once the M&A deal is done[5]. Researchers have also studied howOrg.al fit between the two Org.s working procedures and employee demographics, affects M&As performance. It is arguable that companies who have engaged in M&As transactions build competencies by reflecting on their past successes and failures in order to perform better in future transactions. The impact of learning on M&As performance has been demonstrated [6]. Some cases have found to have adverse effect and some a positive, giving inconclusive results.

A lot of focus has also been placed on post M&As integration, majorly in regards to challenges with human resources, communication changes, and the level of integration necessary to produce synergies. As the two Org.s integrate the current competencies in a more efficient way, the main focus also rests on how the two companies collaborate and integrate after the M&As. As a result, organizational differences may enable businesses to realize synergies, but they can provide extra difficulties that prevent M&A success[7].

B. **Perspective based on strategic management**:

Companies engage in M&As to add value, develop synergies, and improve performance. According to Ravenscraft and Scherer (1987)[8], companies with complementary resource profiles may merge or be acquired by another company, which would enable them to develop distinctive products, integrate value chains that would result in scale and scope economies, and free up resources for more lucrative uses. Companies can choose targets in related or unrelated industries to buy. Since the blending of linked operations may result in synergies, acq.s in related businesses seem to yield stronger performance than acq.s in unrelated businesses. Research indicates that this effect is not without controversy,studies[9]suggest a curvilinear link whereby when intermediate levels are diverse it will lead to increased performance.In addition to expecting to recover their investment through synergies, acquirer corporations frequently pay significant acq. premiums on the target companies. Firms may perhaps increase their market dominance through M&As transactions and redeploy assets and resources to more beneficial purposes. By combining trademarks and workforces and using concurrent distribution channels, the acquirer of a new company may be able to generate economies of scale and scope, cut costs, and create a competitive advantage. Corporations arguably pay acq. premiums in order to achieve these synergies, assuming that the price does not outweigh the potential synergy. Another element influencing acquisition pricing is the opportunistic behavior of managers who utilize M&As transactions to further their own interests. [1].

C. The Process involved in M&As as a contributing factor:

Looking past the circumstances that drove the purchase and the organizational and tactical fit between the target and acquirer firms, the acquisition process has been extensively researched in M&As research as a factor that affects the result of the M&As deal. Because acq. are not independent, one-off transactions, the process may be one of the most crucial elements in the success of M&As negotiations. Instead, they act as a tool for organizational renewal. The results are determined by the managers' subsequent actions and activities, not by the deal itself. According to academics who take a process view in acquisitions, researchers should concentrate on the decision-making and integrating processes because it is critical to understand the drivers rather than the outcomes of the M&As deal.

As a result, Haspeslagh and Jemison[10] recommended that the focus of research pertaining to M&As be on the entire process rather than just on individual steps. This is because many M&As deal failures are the result of inadequate management of the acq. process. They have also proposed four stages: idea, acq. justification, acq. integration, and results. As a result, some degree of interaction between the phases can be identified, which emphasizes the importance of taking the entire M&As process into account.

D. Finance and Economic Perspective

It is impossible to ignore it when looking at perspectives relating to finance and the economy. It is one of the most active areas of M&As research[4] and has inspired other areas of study, particularly by providing techniques like empirical studies that are applied in research with various theoretical vantage points. In actuality, the performance after the deal, which is determined using share prices, is the main M&As problem for finance and economic analysts.

These are some of the different perspectives on which the M&As can be seen and also as a benchmark for gauging the performance. One final aspect that is there is what the M&As are to be based on. When looking into the IT industry, it can be said that M&As can be based on two major aspects, one can be strategy based business orientations and the M&As based on innovation.

Strategic Business Orientation

The business strategic orientation is precisely categorized by Miles and Snow [11]Org.al strategy model. The model looks at how different strategically oriented Org.s differ in terms of financial reporting violations and whether business strategy may predict whether an audit is necessary given a firm's financial situation. They describe and expound on the prospector, defender, and analyser types of Org.s in light of the relationship between corporate strategy and audit work. The continuum of strategy types has a prospective at one end and a defensivesat the other. While defensive businesses often compete on the basis of product pricing, the quality of the product, and service in order to maintain a steady share value in the market, the prospective businesses aim to be the market leaders in innovation.

Prospective businesses are dedicated to investigating new markets and creating new goods, and they have strong development and research capabilities and a variety of technologies. Companies using prospective strategies try to create new technology (Tech.) and provide new services in quest of innovation and market opportunities. According to Walker and his colleagues [12]Org.sthat haveplans for long haul should improve product engineering and the research team. The higher a company invests in developmental research, the better its profits will be. Therefore, businesses using a prospective approach will be more likely to engage in innovation-driven M&As, increase their innovation skills, and raise the bar for their research and development. Defensive enterprises, on the other hand, prefer to minimize risks and continually work to keep their reasonably secure market position and stable product position.To maintain their market position, they frequently turn to consistent and dependable methods including effective manufacturing and stringent control.

Safi and colleagues [13] examined the business strategies of Chinese companies listed on the Shenzhen and Shanghai stock exchanges between 2006 and 2019 using the categories of the business strategic orientation from Miles and Snow [11] and Bentley and colleagues[14]. They discovered that prospectors are more susceptible to the risk of a share price collapse.

Liu & Kong [15] investigated how corporate strategy affects sustainability. They discovered that prospectors behave in business far less sustainably than defenders. The impact of a firm's business strategy on audit report lag was also investigated. They discovered that the level of business strategy conservatism was adversely linked with audit report lag while the level of business strategy aggressiveness was positively associated with audit report lag. The aforementioned research distinguishes empirically between defensive and offensive strategies based on audit report, risk-taking, and innovation-inspiring factors.

M&As Driven by Innovation

The Based on Knowledge and Tech.M&As strategy, which was previously explored in the academic community, can be used to understand the innovation based M&As as a novel idea. A Tech.-driven acq., is one in which the target company's new knowledge and Tech. are ultimately purchased from the target company after the company's business is taken control of through the purchase of all or the majority of its shares. This idea has been referenced by numerous academics in their studies related to innovation and M&As [16]. M&As are intended to increase innovation, get new expertise and Tech., and give businesses access to outside funding. Large IT corporations all over the world are currently using this type of M&A extensively. It is one of the most crucial methods for businesses to purchase outside technologies. Corporations frequently engage in M&As with the aim of obtaining expertise and Tech.. According to Ahuja & Katila [17], after purchasing core tech. from several companies, the acq. firm develops a new outlook on research and development, which significantly boosts its capacity for technical innovation.

Innovation-driven M&As are those that have as their primary goal the acq. of cutting-edge new goods, Tech., and manufacturing procedures. The investment in research and development to advance production Tech. and the technological caliber of the product can be an internal source of innovation for a company. The purchase of new tech and goods from the company through M&As can also result in innovation. Innovation capital, is an intangible asset that has a major impact on a company's growth and greatly affects future earnings. These are some of the aspects pertaining to M&As.

III. RESEARCH METHODOLOGY

A systematic review of Literature is the process that is to be employed in this research to attain its objectives. A thorough analysis of data is done as the basis for IT industry relatedresearch on M&As is carried out. The keywords Merger and Acq.s, IT Industry were used in various combinations to study relevant literature. The materials chosen for the study were in the form of Journal Publications, articles, books, news articles, empirical research data and other relevant sources were taken for the purpose of this research. The Literature obtained were analysed for its relevancy and the main aspects found are discussed in the next sections towards achieving the objective of this research.

IV. CONCLUSION

Tech firms are having large amounts of cash. Alphabet, Amazon, Apple, and Microsoft all have market caps over $1 trillion. And one thing that tech behemoths enjoy doing with their money is snatching up rival firms in massive M&As transactions. Billions of cash exchange hands every year in support of corporate consolidation. The list begins with transactions worth just a few billion dollars and progresses through the largest tech based M&As to date[18], such as Cisco's transition over the past several years from hardware to software and services. With its $3.7 billion purchase of AppDynamics in 2017, the corporate tech behemoth gained a dominant position in the infrastructure monitoring and application performance management (APM) markets. Cisco purchased AppDynamics for about $100 million just one day before the business was scheduled to go public, which added some drama to the acq.. In a different instance, Marketo's $4.75 billion acq. by Adobe(Opens in a new window) was finalized in October 2018. Marketo was established in 2006; and in 2013 was made open to public; and in 2016, Vista Equity Partners purchased it for Dollar 1.8 billion. The acq. gave Adobe the lead management, marketing, and revenue skills it needed to compete with companies like Salesforce. Oracle outbid IBM for Sun Microsystems in 2009, gaining control of the Java programming language in one of the huge tech acq.s of the time. The agreement has had long-lasting repercussions on the developer community, but perhaps its most enduring legacy is the nearly 10 year legal dispute between Google and Oracle over Java copyrights in the Android OS. Oracle lost that conflict in 2021.

These just go to show how significant M&As are towards technological advancements. The study here has highlighted various aspects on M&As in the IT industry, the various perspectives it can be based on and what drives these M&As. This information will be useful for future research when in—depth research is carried out into M&As like the transfer of knowledge involved, the gaps, ways to bridge them and so on.

V. REFERENCES

[1]. Hitt, M., King, D., Krishnan, H., Makri, M., Schijven, M., Shimizu, K., & Zhu, H. (2012). Creating value through mergers and acquisitions: Challenges and opportunities. In D. Faulkner, S. Teerikangas, & R. Joseph (Eds), Handbook of Mergers and Acquisitions (pp. 72-114). Oxford: Oxford University Press.

[2]. Battisti, E., Christofi, M., Vrontis, D., &Nirino, N. (2021). Past, present, and future of mergers and acquisitions in the MENA region: a systematic review and integrative framework. *International Studies of Management and Organization*, *51*(3), 276–296. https://doi.org/10.1080/00208825.2021.1959876

[3]. Chui, A. B. S., & Ip, W. H. (2017). Improving merger and acquisition decision-making using fuzzy logic and simulation. *International Journal of Engineering Business Management*, *9*, 184797901771152. https://doi.org/10.1177/1847979017711521

[4]. Bauer, F., &Matzler, K. (2014). Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree and speed of integration. Strategic Management Journal, 35(2), 269-291.

[5]. Cartwright, S., & Schoenberg, R. (2006). Thirty years of mergers and acquisitions research: Recent advances and future opportunities. British Journal of Management, 17(S1), S1-S5.

[6]. Zollo, M., &Reuer, J. (2010). Experience spillovers across corporate development activities. Organization Science, 21(6), 1195-1212.

[7]. Shimizu, K., Hitt, M., Vaidyanath, D., & Pisano, V. (2004). Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future. Journal of International Management, 10(3), 307- 353.

[8]. Ravenscraft, D., & Scherer, F. (1987). Mergers, selloffs, and economic efficiency. Washington: Brookings Institution Press.

[9]. Palich, L., Cardinal, L., & Miller, C. (2000). Curvilinearity in the diversification–performance linkage: An examination of over three decades of research. Strategic Management Journal, 21(2), 155-174.

[10]. Haspeslagh, P., & Jemison, D. (1991). Managing acquisitions: Creating value through corporate renewal. New York: Free Press.

[11]. Miles, R. E., Snow, C. C., Meyer, A. D., & Coleman, H. J., Jr. (1978). Organizational strategy, structure, and process. *Academy of Management Review*, *3*(3), 546–562. https://doi.org/10.2307/257544

[12]. Walker, O. C., Boyd, H., &Larreche, J.-C. (1999). *Marketing Strategy: Planning and Implementation* (3rd ed.). McGraw-Hill Education (ISE Editions).

[13]. Safi, A., Chen, Y., Qayyum, A., & Wahab, S. (2022). Business strategy, market power, and stock price crash risk: Evidence from China. *Risk Management*, *24*(1), 34–54. https://doi.org/10.1057/s41283-021-00080-9

[14]. Bentley, K. A., Omer, T. C., & Sharp, N. Y. (2013). Business strategy, financial reporting irregularities, and audit effort. *Contemporary Accounting Research*, *30*(2), 780–817. https://doi.org/10.1111/j.1911-3846.2012.01174.x

[15]. Liu, C., & Kong, D. (2021). Business strategy and sustainable development: Evidence from China. *Business Strategy and the Environment*, *30*(1), 657–670. https://doi.org/10.1002/bse.2645

[16]. Ensign, P. C., Lin, C. D., Chreim, S., & Persaud, A. (2014). Proximity, knowledge transfer, and innovation in technology-based mergers and acquisitions. *Journal International de La GestionTechnologique [International Journal of Technology Management]*, *66*(1), 1. https://doi.org/10.1504/ijtm.2014.064018

[17]. Ahuja, G., & Katila, R. (2001). Technological acquisitions and the innovation performance of acquiring firms: a longitudinal study. *Strategic Management Journal*, *22*(3), 197–220. https://doi.org/10.1002/smj.157

[18]. *The biggest tech mergers and acquisitions of all time*. (2019, July 9). PCMag. https://www.pcmag.com/news/the-biggest-tech-mergers-and-acquisitions-of-all-time