



A Study on Mergers and Acquisitions in IT Industry

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Abstract: Today's corporate world is abuzz with talk about mergers and acquisitions. Mergers are becoming more common as a result of globalization. Mergers and acquisitions, as well as other forms of business restructuring, are affected by economic conditions in every region. As a result, the country's political structure, company culture, and current government policies all have a role. For mergers to occur, several variables must be favorable. In India, delays in MA transactions can have a significant influence on both the timing and the mechanics of the transaction. It is the goal of this research to discover and analyze the driving forces behind IT company mergers and acquisitions, as well as to evaluate the current legal framework controlling these transactions in the country's IT sector.

Keywords: Mergers, acquisitions, IT industry, corporate and economic conditions

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INTRODUCTION

There has been a long history of mergers and acquisitions. Since then, mergers and acquisitions, as well as corporate restructuring, have evolved. The majority of the mergers that occurred at the period were not flawless and often failed. A wave of mergers rocked the IT industry following World War II, which accelerated merger activity. The increased frequency of mergers is also a result of globalization. Mergers and acquisitions, as well as other forms of business restructuring, are affected by economic conditions in every region. The country's political system, its cultural profile, and the actions of the current administration are among the most important factors. For mergers to occur, several variables must be favorable. The telecommunications finance, and pharmaceutical industries saw a large number of mergers. Most of them were fueled by the stock market. 'Large investors favored long-term gains above short-term gains in mergers in order to attain profitability. Positive economic trends, large business investments, and aggressive government initiatives have accelerated large corporate investments. The Companies Act of 1956, which has been replaced by the Companies Act of 2013, governs most mergers and acquisitions, although some aspects of the new legislation have not yet been put into effect. Types of corporate mergers include the following:¹

- **Horizontal Merger:** merging of two firms that compete in the same market for the production of the same product.
- **Conglomeration Merger:** Competitors from different industries get together to accomplish a shared goal.
- **Product-Extension Merger:** Companies sell different products of related categories.

- **Market-Extension Merger:** Companies sell same products in different markets

This can be done by purchasing assets, purchasing common stock, exchanging common stock for common stock, or exchanging common stock for assets.

Advent of mergers and acquisition

As far back as 1897, the monopoly-holding firms began to merge and acquire one other. It would be mainly a merger of the heavy industries. A horizontal merger was involved. The vast majority of mergers that took happened during this time period were doomed from the start or failed miserably. In addition, the recession in the economy had a role in the demise of the mergers. Many mergers were place after 1897, but none were successful. After 2000, globalization, the stock market boom, and deregulation spurred mergers to accelerate. The pharmaceutical business was the first to integrate since 2000. Many large pharmaceutical firms have begun to consolidate, and many airlines have done the same recently; some of these mergers have been a disaster. To encourage more international mergers, the rules have been loosened. Companies merge for a variety of reasons, one of which being corporate development. The corporation could seek a merger in order to broaden its worldwide reach.² A second reason for mergers is a lack of resources or knowledge. The merging firms might both gain and lose by working together with other businesses. Inflation, currency devaluation, the budget deficit, and other factors have all contributed to a recent slowdown in merger activity.

The government has been lax in enforcing economic rules because of the rise in mergers. Investors are encouraged to participate in the firm by offering incentives and other perks. Developing countries are particularly vulnerable to this. In order to get access to these nations' markets, companies often engage in cross-border mergers and acquisitions. However, for emerging nations, international mergers and acquisition provides unrestricted access to technological know-how and more productive operational methods.. International mergers and acquisitions have their drawbacks, but they're not all bad. Regulations differ from one country to the next. Foreign investment is forbidden in particular industries in various nations. Certain requirements must be met in various other industries. Foreign investment rules in China, for example, are quite restrictive. Cross-border mergers in the UK are subject to the same strict regulations as those in the US. Eyefluence acquired Virtual Reality Interaction in the United States and Clever Sense acquired Mobile applications in the United States as examples of cross-border mergers.³

Meaning of merger and acquisition

In a word, a merger is the creation of a new firm or organization when two or more companies unite. Acquisition, on the other hand, refers to the taking over of another firm by a third party for the mutual advantage of both parties. Mergers can be a success or a failure, depending on the circumstances. A merger or consolidation of assets is what it is all about. In most cases, the term "acquisition" refers to a larger company purchasing a smaller one. In spite of this, the smaller business will retain control over the larger one and the name of the new company will bear the name of the larger one. Reverse takeovers are what they sound like. A takeover may be both amicable and hostile, depending on the circumstances. While the target firm cooperates in a friendly takeover, its shareholders refuse to do so in a hostile takeover. To boost their financial health and increase their business network, corporate players combine. Merging two

businesses generates greater value than any company could have done on its own.

Mergers and acquisitions in the IT sector

Human resources (HR) departments have a larger role in service-oriented businesses. Due to the fact that a company's primary competitive edge is its human capital. Service sector firms, such as those in the finance and technological industries, are considered to have a higher brand value because of their intellectual capital. In other words, the brand value of these organizations is based on the intellectual contributions of the employees they employ. In addition, human resources are the pivot of the service sector's operations, whereas machines are the pivot of the industrial sector's activities. As a result, the HR function in the service industry must guarantee that its employees are properly trained and prepared to realize their full potential. When it comes to RBV, or the Resource Based View, addressing human resources as critical to a company's success is now a need. These conditions necessitate a new approach from the service industry to meet this demand.⁴

Approach to mergers and acquisitions

When it comes to merger and acquisition activity, the United States has traditionally been the most active, but now Britain is following behind. International mergers and acquisitions received a substantial boost from Europe's growth in mergers and acquisitions. An significant consideration is the way in which the firm purchasing the target approaches mergers and acquisitions in general. For example, the bidders get caught up in thinking that they can never go wrong and that their foresight is immaculate, which is why most mergers fail. Hubris is a phrase for this type of thinking. Irrational behavior, such as excessive bidding, might result from those who have a lot of self-confidence. Excessive bidding by the bidding corporation might lead to the collapse of the merger. It is imperative that the firm submitting the bid ensures that it is not overpaying the target company's market value. Management's job is to make good judgments for the company's sake. Because of poor management, the profitability of the firm might be low. The corporation must reorganize its management in order to provide an effective and solid management system. It's possible that poor product quality, rather than ineffective management, is to blame for a company or product's lower potential. The acquisition of a small firm by a larger one might be regarded as an honor in some circles. Combinations may go this route as well.

Merits and De-merits of mergers and acquisitions

The importance of mergers and acquisitions to a company's expansion and success cannot be overstated. The following provide an overview of the advantages and disadvantages of mergers and acquisitions:

- Inflow of funds
- Variegated products
- Synergy
- Tax Benefit
- Price

- Merger Policies

Challenges posed by mergers

Mergers pose the following challenges:

- **Universal thinking:** First and foremost, merging organizations must get out of their antiquated technological mindsets and swiftly adopt new business practices.
- **Pricing and valuations:** One of the most critical steps in a merger or acquisition is determining the price and value. Both the CEO and CFO of the bidding firm and the CEO and CFO of the target company must calculate the entire cost-benefit of the combined company.
- **Abiding by the local government regulations:** Local rules and regulations, merger laws, labor laws, and other laws of the nation in question are always a part of an acquisition. For each country, there are its unique set of laws and regulations. As a result, in the event of a cross-border merger, the firms involved must follow by the laws and regulations of the host nation.
- **Adaptability to change:** If the market is international, companies must be able to adapt or be flexible. You may be able to sell the goods in the home market, but you may not be able to do the same in the international market.
- **Different methods of marketing strategy:** Cross-border acquisitions may need exposure to the target business's particular traits, even if the new organization is incorporated into the parent company after the acquisition. If this is the case, then hiring employees from the area may be advantageous for the business.
- **Corporate social responsibility or CSR:** The Corporation has a duty to the local community and must do its best to uphold its end of the bargain. It is possible for a firm to improve its public image by engaging in corporate social responsibility (CSR) activities such as giving educational opportunities for the less fortunate, protecting the environment, and helping the hungry and homeless.

Status of M&A activity in India

As a result of a generally good business and economic climate in India, M&A activity has increased significantly since 2015. This progress has been aided by a slowdown in rival economies, like as China, as well as easier access to global financing. According to data from the first half of 2015, there were many high-profile domestic M&A agreements, most of which were in the information technology and information services (ITS) sector. Many more start-ups earned massive cash at great valuations thanks to investments in start-ups like Flipkart India, Paytm Mobile Solutions, and Jasper Infotech in 2015. In 2015, some of the most significant M&A deals included:⁵

- This acquisition of a 51 percent share in Viom Networks for USD 1.2 billion by American Tower Corporation is the first of its kind.
- The acquisition of Gavis Pharmaceuticals and Novel Laboratories by Lupin for USD 880 million was completed.

- Mylan NV paid USD 800 million for Famy Care's women's healthcare operations.
- The commercial real estate projects of Larsen & Toubro were purchased by Carnival Group for USD 267 million.
- One Web's minority ownership was purchased by Bharti Enterprises for USD 500 million.

First quarter 2016 M&A agreements saw a 27% increase in value and a 15% increase in volume when compared to the same period last year, according to reports. According to Venture Intelligence, private equity companies in India made 144 investments totaling USD 3.6 billion. After IT and IT-enabled services, banking and finance, infrastructure, telecom, pharmaceuticals, healthcare and biotechnology made up the rest of the M&A and private equity acquisitions in the first quarter of 2016.

LITERATURE REVIEW

Sonia Sharma (2016)⁶ Measured the post-merger output of the BSE metal industry companies during the 2009-2010 era and noticed that the ratios of liquidity and solvency were slightly, though not dramatically increased, whereas the profitability ratios were markedly declining following the merger.

Sudip Ghosh, Christine Harrington and Christopher J. Marquette (2015)⁷ In the case of immediately closed takeover transactions between 1980 and 2008, the bidder's returns have been analyzed. It was noticed that the return on announcements was influenced by a range of variables, including the duration, payment method, and form of business ownership. It was noticed that small buyers, cash transactions and private goals produced more than big purchasers, stock transactions and public targets. However, it has been observed that large returns are more probable to be concluded, rather than owing to certain intrinsic characteristics. To eliminate any ambiguity, only the agreements declared and concluded the same day have been concluded. It was noticed that the small business impact continued while the effect of payment form and sort of target ownership went away.

Neha Verma and Rahul Sharma (2014)⁸ Analyzed the effect on Indian telecommunications industry's efficiency by analyzing financial and organizational variables before and after mergers from 2001-02 to 2007-08. The study showed, though, that the synergies generated by the merger or acquisition could be leveraged in companies, but that they could not improve their financial and operational performance. M&A's actions may have been motivated by the desire to establish an empire, consolidate its business or acquire greater scope that contributed to deteriorating results.

Muhammad Ahmed and Zahid Ahmed (2014)⁹ the acquisition banks in Pakistan were analyzed for the post-mergence financial results in 2006-2010. The study showed that the financial results of fusion banks increased just insignificantly during the post-fusion era. The performance of the post-merging companies increased significantly and liquidity improved, while capital debt significantly deteriorated as an asset metric.

Boukari Moutar and Chen Xiaofang (2014)¹⁰ the effect on the success of West African banks of mergers and acquisitions has been investigated. As a case study, two classes of banks were used: the first

category consisting of two merging banks, Access bank plc. Nigeria and the BOA Niger Company as control banks are Ghana and the second group. In liquidity, profitability and investment assessment measures, the study examined both groups. The output of the two classes of banks was contrasted with the outcome of the merger or any other element in their performance. The Banks, which were merged, had a (in short term) detrimental effect on profitability and investment value metrics, which had a favorable influence (in the long term).

Jawahar Lal and Sunil Kumar (2013)¹¹ Measured the success post-merger of 55 Indian M&A firms from 2000-01 to 2004-05, The study revealed that businesses have not produced additional profits to cover business investment, allocate it to shareholders and maintain certain benefit for more development and growth. The operational and financial efficiency of operating cash flow, return and solvency ratios are declining.

Onaolapo Adekunle Abdul-Ramon and Ajala Oladayo Ayorinde (2012)¹² the effect on performance of selected commercial banks in the period 2001-2010 was examined by mergers and acquisitions. The outcome showed an improved financial output determined by an improvement in Nigerian stock exchange's deposit profile, income profitability and gross profit.

Pankaj Sinha and Sushant Gupta (2011)¹³ Studied the impact of mixtures on the Indian Financial Services Sector during 1993-2010, found that mergers had a positive impact on profitability, but the liquidity position deteriorated following mergers and it was noted that, while firms could use the synergies arising from mergers, they could not use these synergies.

Ismail et al. (2011)¹⁴ Operating success reviewed in the building and technology industries by Egyptian firms engaged in mergers and acquisitions in 1996-2003. It was noticed that M&A has not culminated in the Egyptian companies' post-merging stronger operational results. The results indicated that no changes in the post-merger and acquisition performance and cash flow were seen in both industries.

Pulak Mishra and Tamal Chandra (2010)¹⁵ the effect of M&A on Indian Pharmaceutical Industry's financial results has been investigated between 2000-01 and 2007-08. The profitability of a company was found to rely directly on its scale, sale and export and import intensities but inversely on its market share and product demand. Since new companies being launched, M&A's have not seen a long-term major effect on profitability. Conversely, Neena Sinha, K.P.Kaushik,

OBJECTIVES OF THE STUDY

- To investigate the Mergers and Acquisitions (M&A) Key Fostering Influences.
- The aim of this study is to look at the main success and failure factors in mergers and acquisitions.
- To examine the role of consultancy firms in the performance of mergers and acquisitions.
- To explore the effect of respondent populations on key fostering factors for mergers and acquisitions (M&A).

- To evaluate the influence of respondent demographics on major factors influencing mergers and acquisitions progress and failures.

RESEARCH METHODOLOGY

The current study is both an exploratory and a comprehensive investigation into nature. The proof of the fusions and acquisitions is often examined by the literature survey. A descriptive analysis would identify some corporate tactics and pre/post acquisition scenarios. As the analysis reflects on the effect on guiding forces and influencing factors of fusion and procurement of respondents, the questionnaire would be presented in the four demographics to analyze the 23 (12+11) structures or claims. This allows us to truly appreciate this. The usage of main and secondary data is also exploratory and informative through analyses and open-ended interviews.

Sample size

The systemic and basic random sampling methods are used at various levels of data collection to capture the primary data by questionnaires. The survey demographic comprises all staff of fortune 100 IT firms of Madhya Pradesh (as seen on the basis of easy sampling), enterprises and academic personnel, as well as university practitioners.

Data Collection

The statistics are qualitative as well as quantitative. Qualitative of nature would be the data gathered for secondary sources. This will include the study of literature and the introduction to the topic. On the other side, polls and questionnaires gather the Quantitative results. Often quantitative details are considered for observation, interviews and reactions.

Primary Data

To gather data in real time, the IT businesses, contractors, educators and developers can circulate a fun framed questionnaire to consider the consequences of the data collection process. In addition, participants are divided in four demographics: profession type, level of experience, education level and geographical location. The questionnaire is constructed with utmost care in order to show the conclusions and authenticity, taking both the testing goals and questions into consideration. The Skype would also gather the details or face-to-face interviews with advisory partners in consulting companies such as PWC, KPMG, Bains, Boston Consulting Group etc. The questionnaire is often forwarded to senior academics in separate B-schools. The interviews will also be performed with the startup entrepreneurial projects to consider their nurturing factor for Mergers and Acquisitions.

Secondary Data

Substantive data is gathered through the Internet, through visiting chosen organizations and through visiting numerous libraries via books, magazines, documents, research papers, newsagents and organizational databases. The analytical evidence obtained by desk analysis is analyzed in order to address the research question authentically in light of both traditional and the current quantitative strategic methods and any relevant information accessible.

RESULTS

The Analysis of the Data collected and interpreting the results. The data which has been analyzed was collected mainly through the questionnaire.

Respondents Profile

In this section the profiles of respondents will be explained in details in terms of the demographics. The respondents have 4 demographic bases i.e. Profession, Location, Education, Experience.

Table 1: Profession wise segmentation of respondents

Profession	Number
Academicians	51
Employee	57
Consultants	51
Entrepreneurs	46
Total	200

Profession Demographic will surely have different responses to the statements because every profession asks for different expertise and encounters different challenges which ultimately end in setting up the different perceptions.

Table 2: Education wise segmentation of respondents

Education	Number
Graduate	59
Post-Graduate	97
< Post-Graduate	44
Total	200

Education Demographic has a significant amount of impact on the responses to the statements because academic education showcases the real time principles on the basis of historical events and hence a highly educated person will have a better lens to view.

Table 3: Mean Spread of Respondents across Key Fostering Factors of Mergers and Acquisitions

S. No	Factors	N	Mean	Std. Deviation
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1	Brand strengthening pushes a company towards Mergers and Acquisitions	200	4.86	.51
2	Kick Growth and Expansion fosters towards Mergers and Acquisitions	200	4.53	.50
3	Technological Advancements is an encouragement for the companies to opt for Mergers & Acquisitions	200	4.83	.55
4	Well Trained Human Resource is a fruitful deal for companies going for Acquisitions	200	4.81	.58
5	Economy of scale and scope promotes companies towards Mergers and Acquisitions	200	4.51	.50
6	Portfolio Enhancement is a fostering factor for Mergers and Acquisitions	200	4.02	.78
7	Value creation promotes the companies to go for Mergers and Acquisitions	200	4.56	.83
8	Cost Competitiveness pushes companies towards the Mergers and Acquisitions	200	4.51	.50
9	Betters processes and operations motivates the companies to acquire other companies	200	3.52	.50
10	Futuristic approach based on market scenarios makes up the mind of companies to think about Mergers and Acquisitions	200	3.44	.49
11	Attaining leadership in market fosters for Mergers and Acquisitions	200	4.00	.83
12	Corporate Restructuring boosts the companies for Mergers and Acquisitions	200	3.95	.85
	Valid N (list wise)	200	4.00	

The above table shows that the mean of the responses across the factors is same i.e. around 4. This means that the respondents across the demographics think alike about the fostering factors for Mergers and Acquisitions.

Factor Analysis of “Key Fostering Factors of Mergers and Acquisitions”

Table 4: KMO and Barlett’s Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.873
Bartlett's Test of Sphericity	Approx. Chi-Square	56.734
	Df	66
	Sig.	.000

The above-mentioned table shows the strength of relationship among the variables. Most important is that the above table which shows the KMO & Bartlett's Test will justify the adequacy of sampling which means that the responses given by the samples are in tune or not.

The KMO value is .889 which means it is far more than the reference value of 0.6. Hence the adequacy of samples for running the test is wonderful. The second value of interest in the above table is Bartlett's Test for sphericity which is used for the co-relations matrices. The Bartlett's Test for sphericity value in the above table is .000 and the reference value should be less than 0.05 which makes it explicit here sphericity of the population for running the test is perfect.

CONCLUSION

The data reveals how important cross-border M&A is to the countries IT sector, In order to better understand why IT companies seek out cross-border mergers and acquisitions, further research is needed. The ecosystem may then be fine-tuned to better accommodate these cross-border mergers and acquisitions once these parameters are known. In addition, the merging firms themselves must determine if their mergers / acquisitions have met their stated objectives. As a result of these realities, a complete examination of the country's regulatory environment is necessary so that the country's IT industry can flourish and prosper to its fullest potential. The researcher felt compelled to conduct this investigation of IT mergers and acquisitions in light of the current situation. IT organizations, in particular, perceive cross-border mergers and acquisitions as a crucial component in their desire to grow and expand internationally. Cross-border mergers and acquisitions are more popular among IT businesses, according to corporate lawyers / practicing company secretaries and practicing finance experts.

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