Strategic Alliances – A Sectoral Perspective

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Abstract:
According to the text book definition, a merger occurs when two companies come together by merging their individual resources into one entity, or when one company purchases the other company of its interest. An acquisition is an activity when one company acquires the other company. According to, Andrade, Mitchell and Stafford, who have studied M & A activities in the nineties indicate that the deregulation and opening of the economy and the various technological changes and improvement act as shocks and as initiatives leading to mergers.(Andrade, Mitchell, and Stafford, 2001).

Research Gaps: 1) Research on Mergers and Acquisitions has been very extensive, but most of the studies do not emphasize the strategic objectives/reasons (stated vs. actual) and alignment/satisfaction of these from the vision and mission of the organization.(Srinivasan, and Mishra, 2007), Beena, (1998). 2) It is, therefore eminent that there is a need to analyze the secondary sources and matching of these statements with the actual reasons was needed, with respect to sectors.(Srinivasan and Mishra, (2007). The identification and study of the objectives behind these activities was done based on the various theories of mergers and acquisitions. But backing of these study/objectives by any data like secondary data and aligning of these objectives of Mergers and Acquisitions with the mission and vision of the organizations was envisaged with respect to the various sectors.(Jensen and Runback, Srinivasan, and Mishra, 2007). On studying the above research gaps the following statement of purpose was identified.

Statement of purpose: To identify and analyze the strategic objectives behind the recent M & A, activities of companies in the various sectors considered. The following section consists with the case wise analysis of the various deals considered. Owing to the limited sample size it may be noted that we were unable to place any deals in particular statements.

Statement 1: The companies which are leaders in that particular industry use M and A to gain more market share. This statement is based on the Market Power Theory, which advocates that, these moves of mergers and acquisitions help companies to add to their market power by increasing their share in the market, thereby giving them a control and limit competition entry.(www. 8questions.wordpress.com,). We were unable to place any of the deals of information technology sector under this statement.

Statement 2: The companies which are not market leaders but have excess resources and good vision uses these moves to improve and strengthen their vision. This statement is based on the thought that the mergers and acquisitions which are undertaken by resource rich companies and companies with good vision help these companies to strengthen their positions. (Porter, Srinivasan and Mishra, (2007). The next section presents the analysis of the deals in the I. T sector.

Deal: Silverline Technologies Limited and SeraNova, Inc. Silverline is a very renowned software development and software integration services firm. The strategy and mission of Silverline is to focus on clients in various industries by delivering its vast set of services via a strategic network of software development centres present all across the globe. (www.crn.com). SeraNova is a globally renowned Internet professional services provider company, which focuses primarily on 5 industry verticals telecommunication, healthcare, automotive, technology and financial markets. This deal as per the company sources would enable SeraNova to come out of the financial crisis it was in. (www.financialexpress.com) By this merger, both the companies aimed to posses a service portfolio including strategy consulting, design, project implementation, legacy systems transformation, and ongoing application management and also to have extensive operations throughout the U.S., North America, Europe and Asia/Pacific countries. (www.financialexpress.com) (www.silverlinetech.com). Looking at the details of the deal, this deal was signed in March 2001, for
99 million U.S. dollars. This deal was a success as it created one of the largest global service companies which were operating with similar offshore delivery model and which could provide software, IT services and e-business solutions to customers spread across U.S., North America, Europe and Asia/Pacific countries, which satisfied the strategic objective of Silverline to focus on clients in varied industries like automotive, manufacturing, financial services, discrete manufacturing, technology, telecommunication etc. This deal also enabled SeraNova to come out of the financial crisis it was in, which satisfied the strategic objectives of both the entities which is in line with the statement.(www.silverlinetech.com).

**Deal: Tech Mahindra- Satyam.** Tech Mahindra a leading provider, providing varied solutions and services to the telecommunications industry, considering Customer first, aiming to respond to customers speedily, courteously and effectively, seeking long term success for all stakeholders without compromising on ethics or transparency and aiming to be the leading global software solution providers to the telecom industry. Tech Mahindra caters to telecom service providers, equipment manufacturers, software vendors and systems integrators worldwide and by the virtue of their proven delivery models; distinctive IT skills and decades of domain expertise enable clients to maximize returns on their IT investment. (www.mahindrasatyam.com). This deal would enable to leverage as per the company sources Tech Mahindra’s expertise in Mobility, System Integration, and delivery of large transformations to Satyam’s diverse set of clients across multiple verticals. This deal would enable the combined expertise in Enterprise Solutions to create a more complete value proposition to be delivered to the clients. (www.mahindrasatyam.com). Satyam founded by Ramalingaraju is a leading global business and information technology services company that leverages deep industry and functional expertise, leading technology practices, and an advanced, global delivery model to help clients transform their highest-value business processes and improve their business performance. Satyam aimed to leverage information knowledge and technology to enhance human endeavor and focus on serving the global customer base across 45 countries using its domain competence. This deal would enable Satyam to get out of deep trouble that it was in and to deliver industry leading performance and also one more opportunity to get its reputation back in global IT industry.

This deal materialized for the amount of Rs. 2800 Crore. This deal proved to be successful because now the combined entity can cater to the varied markets like telecom, manufacturing, technology, media and entertainment, banking etc and this combined entity leveraged the Mahindras expertise across diverse set of clients across various verticals and the merged entity benefited from the operational synergies, economies of scale, sourcing benefits and standardization of business processes, which is in tandem with Mahindras objective of maximizing returns on their IT investment. This merged entity created the sixth largest India based IT services with revenues of $2.4 billion and a market value of over $ 3 billion which satisfied the objectives of both the organizations, which is in line with the statement of strengthening vision. (Merger of Tech Mahindra and Mahindra Satyam announced, 2012). Tech Mahindra was able to use the strengths of Satyam, especially the highly skilled human resources and help Satyam to come out of crisis.

**Deal: WIPRO – infocrossing.** Wipro Technologies one of the largest product engineering and support service providers worldwide provides extensive research and development services, IT solutions and services, including systems integration, Information Systems outsourcing, package implementation, software application development and maintenance services to global clients, in Asia Pacific and Middle East markets. This deal would enable Infocrossing to increase its presence in U.S and as Infocrossing provides integrated and managed infrastructure services in the U.S. and also as the global IT infrastructure management is projected at US dollar 150 billion. This deal was expected to be profitable in the long run. (www.Offshoringtimes.com). Infocrossing Inc. caters to large and medium customers by offering complete infrastructure management solutions and aids clients to concentrate on fulfilling their strategic goals and aims to continuously strive to improve the offerings and solutions. (news.oneindia.in, www.offshoringtimes.com). This deal would enable Infocrossing to improve the margins as this deal would enable Infocrossing to utilize the data centers efficiently with
the aid of Wipro. This deal was able to achieve its strategic objectives as Wipro which was able to leverage its offerings in healthcare, BPO and IT infrastructure services in the U.S. and Infocrossing was able to manage its data centers efficiently according to news online. (news.online) The deals which on the outset which were placed under statement two, which states that organizations which are not market leaders but have excess resources and good vision use these moves to improve and strengthen their vision were, Silverline and SeraNova, Tech Mahindra and Satyam, Wipro and Infocrossing in the I.T. sector. On detailed analysis of the above deals with respect to the vision and the strategic objectives behind these deals it was observed that all were successful in achieving the strategic objectives aimed.

Statement 3. Firms would use these moves to spatially expand their companies and to tap unattended markets. This may include both vertical and horizontal integration. This statement states that, the firms use the moves of mergers and acquisitions to either gain the Market entry in uncatered markets, or to reap the benefits of the cash richness of the other company. (Srinivasan and Mishra, (2007). The following section follows the analysis of the deals in the I.T. sector.

Deal: IBM’s and Lenovo. IBM is a global technology oriented company which believes in innovation and continuous progress with operations in over 170 countries. IBM, with its largest market for its PC in North America and Europe was acing saturation and on the other hand, China which is the second largest PC market was becoming an important potential market with its large population and growing per capita income. (www.ibm.com). By entering into this deal IBM, wanted to further consolidate its position in the world’s fastest growing market, with its large population and growing per capita income i.e. China, as Lenovo is Chinas largest PC maker and IBM’s largest PC markets of Europe and North America were saturated. (www.ibm.com). Lenovo brand was established in 2004, became a US $21 billion personal technology company and the world’s second largest PC vendor, serving customers in more than 160 countries and a global fortune 500 company having operations all over the world. Even though Lenovo was the largest PC maker in China, it was facing fierce competition from aggressive foreign rivals such as Dell and HP in the past few years which had put pressures on Lenovo’s margins. Although Lenovo accounted for 27 per cent of China’s PC market, but Dell’s market share in China grew to 48 per cent. In addition to this, the company also suffered financial problems, earlier in the year 2004. Therefore, rather than just continuing to concentrate on the domestic Chinese market, Lenovo decided to go global, which was an absolute necessity for Lenovo at the critical time. As Lenovo’s distribution network was not well adapted to serve the small and medium-sized companies, this deal with IBM would help Lenovo, which had a well developed globalised distribution network. (www.lenovo.com). On December 8, 2004, Lenovo acquired global giant IBM’s PC division, for $1.25 billion, to get a foothold in the market of the global leading brand, and also an avenue to other international markets. Further, the deal made Lenovo the world’s third largest producer of PCs after Dell and Hewlett Packard (HP), with around 8% of the global market share. This deal enabled IBM to enter into a fast growing market of China, and to cater into uncatered markets of servers and consulting deals. This deal was beneficial for Lenovo because it acquired 2nd place as largest PC maker in the world which was 8th before the acquisition. Lenovo was able to expand its market out of China o which was its main objective behind the deal. Both companies benefited in terms of financial and other resources that they would have to spend on research or operational expense if they had to develop themselves, if they had to achieve their objectives, which is in line with the statement. (www ibs cd c org)

Deal: iGATE – PATNI. iGATE provides full-spectrum consulting, technology and business process outsourcing, and product & engineering solutions and consistently delivers effective solutions to over 300 active global clients, including a large number of Fortune 1000 companies. This company aims, to be among the top three in the preferred employers list and want to achieve 30% of its revenue from business outcomes contracts. (www.livemint.com). This acquisition will enable help iGATE to come out of the “small provider” tag and emerge into the mainstream of the Indian IT service provider
arena. The advantage of the increased scale, enhanced talent pool, client base, and breadth of capability would enable the combined entity to qualify for larger deals that were previously out of reach. Patni Computer Systems Ltd. is one of the leading global providers of Information Technology services and business solutions. This deal would enable Patni to cross-sell key solutions to a broader client base, to enhance efficiencies in operations and deliver services and achieve economies of scale from consolidation of shared services. (www.livemint.com). This deal enabled both the organizations to enter into bigger IT deals and to cross sell their products to a broader client base, and the combined entity achieved increased efficiency in operations and became key player in various sectors like banking and finance, insurance, manufacturing, retail, media and entertainment, and to achieve economies of scale from consolidation of shared services which helped them to achieve the stated objectives which is in line with the statement.. (www.everestgrp.com).

**Deal : Wipro – Sareware.** Wipro which was established in 1945, as a vegetable oil manufacturer diversified into soaps and later on into other consumer care products. Wipro provides comprehensive research and development services, IT solutions and services, including systems integration, Information Systems outsourcing, package implementation, software application development and maintenance services to corporations globally. In the Indian market, Wipro is a leader in providing IT solutions and services for the corporate segment in India offering system integration, network integration, software solutions and IT services. Wipro also has profitable presence in niche market segments of consumer products and lighting. In the Asia Pacific and Middle East markets, Wipro provides IT solutions and services for global corporations. Wipro aims to aggressively develop the R & D services by focusing on the high growth markets and consciously focusing on increasing the revenue contribution from higher end products and services and it also focuses in creating competitive advantage by understanding the industry and delivering the right combination of products and services, and also in aims at reducing IT costs by developing and implementing cost effective solutions at scale. (articles.economictimes.com). This deal with Saraware would provide Wipro an opportunity to expand its customer base in the telecom segment and also provide it with cross selling opportunities. This deal would also enable Wipro to gear itself for the 3G evolution. This deal would also enable Wipro to penetrate into high growth segments like secure communications and would give it an advantage and capability to handle complete outsourcing deals in the evolving telecom market and also enable it to access the market in Finland. (www.slideshare.net). Saraware, which is 21 year old company, is a leading provider of Design and Engineering services to Telecom companies. It aims to provide the best design and engineering services to telecom companies. (www.scribd.com). This deal would add expert domain competencies in the areas of Radio Networks and Secure Mobile platforms and with this deal Wipro would add scale and global access to Saraware domain competencies and this deal would enable them to establish themselves as leaders in the Wireless Networks and secure Mobile platforms globally. (articles.economictimes.indiatimes.com). This deal was successful one as this gave an opportunity to expand the customer base in the telecom segment and this deal opened a new opportunity for Saraware employees to work with a global company and this deal also helped them to penetrate into the high growth segments like secure communications and gave them the competitive advantage to handle complete outsourcing deals in the changing telecom market. This deal enabled Wipro not only additional customer base but also access to development centers in places like Austria, Portugal and Brazil, which satisfied its strategic objectives in line with the statement. (articles.economictimes.indiatimes.com). On analyzing the deal mentioned above, all the deals mentioned above were able to achieve the strategic objectives. Looking at the Lenovo – IBM deal, the deal enabled IBM to enter the fast growing market of China and Lenovo benifited by becoming the world’s third largest Pc producer. With respect to the deal of iGate and Patni, both the organizations were able to cater to bigger deals and the combined entity was able to achieve efficiency in operations.

**Statement 4. The deal amount transacted is governed by the growth of the particular sector.** This statement states that, internationally, spatially differentiated companies do not hesitate to pay higher amounts, for the deals, in particular sectors which are growing in the emerging economies as they
value the market access into growing sectors as valuable in emerging economies, and realize the fact that self building of all the infrastructure in these economies in the growing sectors is a very costly and time consuming affair. (Luibatkin, (1983) Chatterjee,(1986), Porter, Srinivasan and Mishra,(2007).

On analysis of the deals in the information technology sector, it was observed that, none of the deals from the information technology sector considered fall under the above mentioned statement.

Statement 5. The success of the mergers and acquisitions depend upon the matching of the visions / objectives of both the companies. This statement states that, when two companies opt for mergers and acquisitions, the long term vision of both the companies should match with one another, that means to say that if one of the companies is opting for this type of inorganic growth it is having a long term plan/ strategy of growth by huge investments. If the other company is having a long term strategy of growth by getting rid of non-performing assets, then, the success of merger and acquisitions will be very difficult to achieve.(Copeland and Weston., Srinivasan and Mishra (2007).

On analysing the deals prima faci and at the outset, looking at the visions of both the organisations involved, and on also observing the objectives of both the organisations to enter into the deal, it was observed that, none of the deals from the information technology sector fall under the above mentioned statement.

Conclusion : On analysis of the various deals of the information technology sector the following conclusion was reached and summarized like achieving technological synergy, increasing market penetration were the main strategic objectives behind the merger and acquisitions in the I.T. sector. On detailed case wise analysis, it was observed that all the deals achieved their strategic objectives they intended to achieve. These findings are in line with In line with the studies by Evans and Schmalensec, (2001) which advocates that industries which are technological driven and which constantly innovate and the industry which is ever changing and dynamic and which is very competitive and thrives on the player making the first and fast entry into the market, and is not governed by the price competitiveness are characterized by the short run market power. As the industry is technology obsolete, and as a result the organizations will have reduced market power and hence it can be concluded that achieving market power will not be a motive driving the horizontal mergers in these particular industries.

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