

The Impact of Critical Factors on Mergers and Acquisition in Converging ICT Industry

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Abstract

The objective of this research was to find out the impact of critical factors like company strategy, management decisions and cost & timing for merger and acquisition in ICT industry. This research was based on primary data which collected by means of questionnaire from the all level employees of four major companies like warid, LinkdotNet, Mobilink and NSN Networks at Islamabad. The collected data was analyzed for correlation and regression. The correlation tests showed that there is positive significant correlation among all the factors, while the regression test showed that the model is fit for the research and can predict future research results. On the completion of this research and evaluation of data this research is helpful of providing a useful in sight of corporate mergers in the era of fundamental changes and daily changing market scenarios in ICT industry. It will provide us some outlines to make Merger and Acquisitions (M&A) a fruitful outcome and enable company to gain competitive advantage.

Keywords: Merger and acquisition, ICT industry Company strategy, Management decision, cost & timing

Introduction

In the new daily changing marketing scenarios, more competitive global environment going alone is going out of fashion. Strategic alliances, Joint Venter's and acquisitions are booming across all industries and services. As Jim Kelly, former CEO at UPS said, "The old adage if you cannot beat 'em' joins 'em' is being replaced by join 'em' and you cannot be beat" (Ruppel and Harrington, 2000). Mergers and acquisition (M&A) is an important way for organizations to advance quickly, M&A is also the need of competition. More companies are doing M&A at a pace which is not observed ever before. M&A is one of the fastest possible ways of growth.

Collaborative arrangements of companies are an important way of company's strategy to achieve competitive edge in today's fluid business environment, where decisions are changed and made frequently under uncertainties, that's why M&A are in trend from almost last two decades. The trends is especially obvious in high-tech industries, at the end of 1990s more than 80% of the newly made R&D collaborations are witnessed in Pharmaceutical and IT industry (Rao Subba, 2005). In 2006, more than 3.8 trillion dollar transaction was announced in united state alone (Champoux, 2006). M&A are not a rare event for major corporations it is an important integral part of their strategy since 2000, for example Microsoft acquired more than 37 companies, Google has acquired 25 companies, EMC has acquired 17 companies and yahoo has acquired 27 companies (Furnham, 2008).

M&A is good tool to get a competitive advantage there are many reasons to adopt it. M&A facilitate the transfer of new knowledge, systems or technologies which are help full to gain competitive advantages. Moreover many technology leaders have the routine to snap up smaller companies entirely for the promise of new invention may be for future. M&A leads to adapt new technologies and to fulfill the need of managing specific implications needed for technology collaboration. M&A is an important decisive force to contribute in the restructuring of industry and evolution in the structure of market. Although M&A belong to individual enterprise level transaction but the large numbers of M&A at corporate level results in a macro level merger wave.

Financial risks are always there in M&A. Studies revealed that failure rate of M&A is somewhere between 50% and 80%. According to the researchers like Porter (1987), on the "Fortune 500", owing to the unsuccessful integration developed between the two sides of acquisition, more than 70% of companies tried to strip off the enterprises that are totally failed to merge five years later the acquisition. There are certain reasons of failure in M&A while some failure can be caused by a misjudgment in the value of acquired skills and technologies (Schultz, et al. 2003). M&A are more complex in ICT industry. Convergence is a main aspect of M&A in ICT industry. Convergence is a buzz word in business environment and more commonly used in integration of technology in ICT industry. Recent developments in electronics, deregulation in market, digitalization in media and change in consumer needs have led the industry which previously followed separate distinct trajectories to merge and overlap. As a result, technology base of organizations becomes more diverse, numbers of new product features grow, markets are enlarging and products enter in adjacent markets. Simple example of technology convergence is the fact that every giant in telecom market are finding new markets to play with that results in a ICT market trend. In any case, change in technology may also need some new or different technical skills which may results in existing technologies obsolete.

Problem Statement

Underneath are few problem statements.

- To what level management decisions, cost & timing and company strategies impact Mergers and acquisitions (M&A)?
- What are the major factors which contribute to make Merger and acquisitions a successful activity?
- What does the literature investigation process disclose about Merger and acquisitions?

Objectives

Purpose of the study is to suggest the guidelines for M&A, and following were the main objectives:

- To find out the effect of company strategies on the success of M&A.
- To find out influence of management decision for M&A.
- To check the impact of timing and cost on the success of M&A.

Literature review

Merger is that strategy where we combine the two company for increasing the profit level and sale level. Set up the single company after merging the two companies (Coffey et al. 2002). From the corporate reorganization point of view the merger and acquisitions are consider as the one of the major instrument. It creates the better value than the single company. Recently thousand are companies who are merging with the other for achieving the organizational goal. There are various companies such as the pharmaceuticals; oil, chemicals, telecommunication, finance and IT are merging their self with the other company (John and Valeroe, 2002). Acquisitions are that situation where one organization gets hold of other firms. One business purchase the other business usually purchase the smaller business which want to engage with the higher business. Mostly company purchase the target companies which are losing their value are nearby insolvent (Mc Donald, Jarrod, max Coulthard, and P.D.Lange (2005).

By looking on such trend industry convergence has been start on the technological and “digital” emerging. Large numbers of digital industry emerging with the other to run in current market situation (Yoffie, 1997; Lei, 2000; Stieglitz, 2003). In the recent modern age of the technology like the other industry technology also consider one of the main drivers without doubt of industry meeting.

In the beginning, various past decades that M & A (mergers and acquisitions) were just pay attention on the financial transactions for control the cheaper assets. The target of that organization was very different from the other acquiring company as well as they pay intention on the cash flow and debt repayment. Merger and acquisition are different concepts which are helpful for increasing the volume of industry as well as they are considering as to a certain extent strategic with operational in nature (Galpin et al. 2010).

According to the Böhmer, E., Netter, J.M., (1997) that when there are is task complexity so it becomes the reason of the failure. Before making the conclusion for the merger and /acquisition various managers perceived that the merger and acquisition transaction are difficult to do. Some time manager think that only task of the merger and acquisition are difficult but it is not enough prove also the company strategy become the cause of the transaction failure (Borg, 1989).

Whenever the company becomes fail after the merger and acquisition so it should be to do the blame on the M & A, there is another chance to improve themselves with the next M & A which can become the cause of restore. Sometime it become true when merges or acquire with the stronger or better. In view of the suggestion of Borg, J. R, (1989) that there are various types of the entry way in the merger and acquisition for the manager to start the journey of M & A which is the evaluating process and joining process with the other company should be done `by the business development team, clear understand the goal of the company and strategy as well as determine whether it can achieve in with the time or not. According to the Bruner, R.F., (2004) & Buehler, R., Griffin, D., Ross, M., (1994) on the various place companies blame on the acquirer or personality this was involved in acquiring process and merging process. In this case manager can transfer their responsibilities to the promoter, if manager chose the new experience promoter for the next merger and acquisition so it can become the successful instrument for the industry. If the industry are successful in the first merging and acquiring then they will try to do again merge with new industry which they are have in the target. Mostly the same results have been occurring with the positive outcome for first M & A attempt. Whenever the transactions of the merger and acquisition have been successful then its reward goes to the manager with such expectation that manager use innovative strategy as well as efforts and by used of the experience. There are two main risk factor which effect on the merger and acquisition process which are time-consuming and complex procedure. Spend time on the process of the merger and acquisition effect on the company strategy and company manger experience with also on the promoters. It’s also connected with the organizational and personal change with having the high operating cost, connected with the technical and technological change.

Manager thinks that they have gained from the last decision and learn from mistake, so the next Merger

and acquisition will be better than the last transaction. They try to avoid from the mistake but the process of the merger and acquisition on every new types of the industry, in some place that are similar. According to the Prendergast and Store (1996) that manager pay fast efforts and their every efforts are learner from the past decision. Mangers make the transaction from their past experience or on the given available information that may be wrong. The procedure of the merger and acquisition is very typical because that are not match from the last transaction. But on the other hand M & A have reward of simple decision.

When there is no any option of growth and also not have materialized proposal then it is better to think about cost and timing, M&A and as well as it is better tool for creation of the industry growth. Merger and acquisition become the source of the additional source of the transaction Sherman, Andrew j., (2010). According to the Jeffery S. Perry, Thomas J. Herd, (2004) that it is not possible for the listed company to create the growth just form the internal project due to external pressure so in that case there is only one option which is merger and acquisition and control of cost and timing. Whether they already loss such case in the past transaction. In view of the past studies that when there are large number of professional advisor and manager who give various opinions on the M &A so the decision become late which become the cause of the failure. According to the Jeffery S. Perry, Thomas J. Herd, (2004) sometime the external pressure become the cause of the M & A.

Structural Model

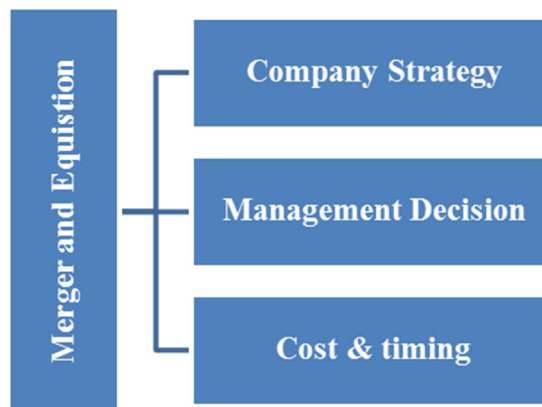


Figure: 1 Proposed research model (own created)

HYPOTHESIS

- H1: *Company strategy has positive relation with merger and acquisition*
- H2: *Management decision has positive relation with merger and acquisition*
- H3: *Cost and time have negative relation with merger and acquisition*

Methodology

This study was based on primary data, for this purpose the data was collected by means of 300 questionnaires through field surveys, the respondents were the Executive vice presidents, General Managers, Managers and staff of selected companies like Warid, LinkdotNet, Mobilink and NSN Networks, at Islamabad. The aim of survey was to review the enlisted success factors and determine whether the list provides the comprehensive set of success factors to be considered. Answers of the each success factor were summarized to evaluate the total score of importance of success factor for M&A in identified organizations are Warid, LinkdotNet, Mobilink and NSN Networks.

Population

The employees of different level of jobs of selected companies like Warid, LinkdotNet, Mobilink and NSN Networks were the population for this research, working at Islamabad.

Sample and Selection

The questionnaires in 300 quantities were the sample for this research, and the researcher tried involve all level of employees of all the departments of selected companies.

Data Collection

After the successful development and distribution of questionnaires (by different types of media for distribution) the data was collected, as the main medium of distribution was by hand, so on spot filling method made easier to collect data. Very small amount of data was distributed and collect through email.

Analyses of Data

To obtain the research results SPSS Inc 16.0 was used, Means, Mode and Standard Deviation tests provided a vision of collected data. It also was analyzed, that at up to how much level the M&A is best. The Regression analysis showed the impact of each independent variable over dependent variable. The relationship among all the variables was tested in co-relation test the analysis in detail is discussed in next chapter.

Correlation Analysis

The correlation analysis shows the association among all the research variables which is known from the significant level, the significant level is shown with P-value, the significant level lies between 0.001 to 0.005.

Table No. 1 Correlation Analysis

		Company strategy	Management decisions	Cost and time	Merger and acquisition
Company strategy	Pearson correlation Sign. (2-tailed)	1			
Management decision	Pearson correlation Sign. (2-tailed)	.446**	1		
Cost and timing	Pearson correlation Sign. (2-tailed)	.000	.411**	1	
Merger and acquisition	Pearson correlation Sign. (2-tailed)	.166*	.212*	.329**	1

** . Correlation is significant at 0.01 level (2-tailed).

* . Correlation is significant at 0.05 level (2-tailed).

The above given table shows the correlation among all the searched variables, the research results regarding the company strategy that is = 0.166* at P= 0.00, show that there is positive significant correlation with merger and acquisition. Here the single * indicates that there are only 5% of chances of error. In case of management decision the correlation value is 0.212* at p= 0.000, it is interpreted as there is positive significant correlation but with 5% error in research. Same 0.329** at P= 0.000 indicates that there is strong positive correlation of cost and time.

Regression analysis

The regression analysis gives the information about the model; the relationship of each independent variable with dependent variable is also measured in regression. The table of regression is given below, will be discussed, at the end the conclusion will show the model is fit or not fir for the research.

Model summary

Table 2 Model summary

Model	R	R square
1	0.540	0.591

- Predictors: (Constant), Company strategy, Management decision, Cost and timing
- Dependent variable: Merger and acquisition

As the model summary is given in above table represents the impact each independent variable like Company strategy, Management decision, Cost and timing on dependent variable M&A. The above table of regression analysis shows that the R provides the relationship between the observed and predicted value of dependent variables, here R= 0.540. The R square gives the strength of relation between independent and dependent variables, here R square is 0.591, means each independent variable Company strategy, Management decision, Offers (products and services), Cost and timing and Performance of team has 62% impact on M&A.

ANOVA

Mostly F-value represents significant level, which from 0.01 to 0.05, the F-value in significant level shows that model is fit for research, otherwise not fit for research

Table 3 Anova

Model	F-Value	Significant
1 Regression	12.765	0.000

- Predictors: (Constant), Company strategy, Management decision, Cost and timing
- Dependent Variable: Merger and acquisition

In this research F-value = 12.765 at significant value 0.000 that means there is the high level of significance, the model is fit for research.

Coefficient

In coefficient analysis it comes to know that how much each independent variable is impacting on dependent variable, the value of standardized beta shows the impact level.

Table 4 Coefficient

Model	Standardized Beta	T-Value	Significant
Constant		3.433	0.001
Company strategy	0.500	2.878	0.001
Management decision	0.543	4.440	0.003
Cost & time	0.380	0.242	0.002

Dependent Variable: Merger and acquisition

In this research the independent variables are Company strategy, Management decision, Cost and timing, their standard beta value is 0.500, 0.543, 0.380, respectively, means company strategy has 50% impact on dependent variable M&A, management decision has 54% impact on dependent variable M&A, cost and time has 38% impact on dependent variable M&A.

Conclusion

This research concluded very important aspects regarding the impact of factors like Company strategy, Management decision, Cost and timing on Merger and Acquisition further it is summed up in following points:

The company strategy is a key element for merger and acquisition, as has been seen very significant impact of company strategy on M&A in selected organization like Warid, LinkdotNet, Mobilink and NSN Networks. So it is very effective for these companies to make very clear and strong strategies that play their more positive role for merger and acquisition.

The success factor of any company is the decision making, the companies having capable managers that make suitable in time decisions, play their vital role for the company to be or not the part of M&A. this research indicated a significant relation, the selected companies decided best for merger and acquisition.

In the case of cost and timing, in merger the cost becomes more reasonable and affordable, the time decides the future of the firm, so in this situation the cost and timing has positive role.

At the end the success or failure of merger and acquisition totally depends upon the team work, if the companies have more skilled team but lacks in teamwork is step first for downstream.

Limitations

As this research claims for perfection, there are also some limitations which are given below:

- Initially very limited demographic and geographic area
- The small amount of selected companies
- Short sample size
- Other influencing factors of M&A

Recommendations

After successful completions are made:

- The ICT organizations like Warid, LinkdotNet, Mobilink and NSN Networks in Pakistan, in case of teamwork needs to place right person for right job, it will increase the productivity and ensure the success of merger and acquisition.
- The decision phase for merger and acquisition is based on suitable decision making so the ICT industry should make right decisions on right time by observing the economic conditions of country.
- The changing trends of market and customer, it is essential to offer the products and services on reasonable cost with short span of time.
- The research results may vary if the demographic area and sample size is increased.

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