A Comparative Analysis Of Mergers And Acquisitions In The Technology And Manufacturing Sector

Dangi Giridhar Bhuralal

Ramiah institute of legal studies

Abstract

Mergers and acquisitions (M&A) have been traditional strategy weapons employed by firms seeking to enhance growth, diversify operations, or gain competitiveness. This report is a comparative analysis of M&A activity in two different industries: technology and manufacturing. Technology as an industry, with its rate of rapid innovation and shifting market conditions, will most likely see M&A as a way of consolidating leading-edge technologies, gaining market share, and acquiring intellectual property portfolios. Manufacturing employs M&A, on the other hand, to consolidate operations, achieve economies of scale, and gain access to new markets or manufacturing plants. In making such a comparison, the paper considers in how ways the two industries use M&A differently in order to drive growth, with particular emphasis being laid on strategic objectives such as enhancing operational efficacy, driving innovation, and minimizing risk. Secondly, the paper continues to highlight the issues affecting companies in the process of M&A integration, including cultural differences, regulatory issues, and operational integration. By using case studies of these two industries, the paper aims to determine the most significant forces behind successful M&A and highlight strategies which willing corporations can apply to improve their growth through such corporate activities. Last but not least, this research provides a glimpse into the application of M&A to improve growth, competitiveness, and long-term sustainability in high-tech as well as traditional manufacturing industries.

Introduction

Mergers and acquisitions (M&A) are potent weapons utilized by firms in different industries to drive different business goals, such as expansion, diversification, and competitiveness. Manufacturing and technology industries, though both utilize M&A to establish business opportunity, drive these business strategies differently due to their own respective market circumstances and operational requirements. Mergers and Acquisitions (M & A) are defined as consolidation of companies. Difference between the two terms, Mergers is the combination of two companies to form one, wherein Acquisitions is one company taken over by the other.[1] Because the sector is technologically advanced and high-speed in nature, M&A activity will normally be based on a need to wed emerging technologies, capture intellectual property, and purchase market share. In comparison with the manufacturing

[1] https://www.scirp.org/journal/paperinformation?paperid=91980.

sector, in which M&A activity would likely be predicated on acquiring operating efficiency, economies of scale, and access to new plants or markets.

This paper seeks to perform a comparative analysis of the manufacturing and technology industry M&A trends and practices. The paper will examine the main drivers of M&A in both industries, noting how such a step at the strategic level makes operational effectiveness, initiates innovation, and reduces risk. With a comparison of case studies from the two sectors, the research seeks to understand how firms use M&A as a weapon of competitiveness and growth.

The paper explores some of the difficulties organizations may face while integrating during the post-closing phase of M&A transactions, including cultural issues, regulatory compliance, and operational integration. Attention to these areas will provide some perspective on effective M&A, and the role M&A will have in creating sustainability, growth and competitive advantage in the technology and manufacturing industries.

An Overview of Mergers and Acquisitions in Technology Industry

Technology M&A has been made mandatory strategies for organizations willing to play in the market where markets are increasingly being fueled by rapid innovation and relentless technological disruption. According to Zhao , an analysis of M&A cases across various industries in the United States between 1984 and 1997 revealed that M&A transactions driven by the goal of technology innovation are a common phenomenon. It is through technology M&As that companies, especially those with a weak innovation capacity before the M&A, will increase the number of patents obtained[2]. Ongoing change in a high-velocity technological environment makes M&A a clear strategy by which companies can diversify their investments, combine critical technologies, or move into new industries. For most tech firms, acquiring startups with new products or new technologies allows them to drive the envelope without taking the time and expense of creating it themselves. It is of greatest importance to software, semiconductor, and communications industries wherein intellectual property and adopting new technologies become the focus for remaining at the top of the curve. One of the classic examples of M&A success in the tech industry is Microsoft's 2016 purchase of LinkedIn, enabling the tech giant to connect a social platform with its portfolio of enterprise software offerings and establish new sources of growth. Equally, Facebook's purchase of Instagram in 2012 enabled the social networking behemoth to expand its base of young adults and further solidify dominance in social networking. Acquisitions are not just performed in order to obtain new customers, but also in order to obtain talent from acquired companies and integrate them into existing products.

- [2] .Zhao X. Technological innovation and acquisitions. Manag Sci. (2009) 55:1170–83. doi: 10.1287/mnsc.1090.1018 [DOI] [Google Scholar]

Activity involving M&A in technology is focused generally on either new innovation or technology developments. For example, given the faster-than-average pace of innovation in technology, it is a real time-saver for a technology firm to purchase other technology firms or merge with them in order to access all or part of the valuable IP rights being developed. Likewise, M&A is also a method by which a technology company can supply disruptive technologies, which in turn allows that company to add value to the firm and continue to offer share prices to the market while remaining competitive. An example is when Google bought Android in 2005. Prior to the acquisition, Google was a firm created on a "search & advertisement" services and when the search company acquired Android the firm was able to step into a hardcore "market-share" role within a mobile OS solution. This type of firm acquisition positioned a technology into a strong competition and supported the ability to offer new products and extend a product cycle. An acquisition also allows a firm to secure the legitimacy ability of establishing an R&D department and technology infrastructure (capability). While M&A activity has its role with creating technologies and patenting them, as well as facilitating growth of existing technology firms, it also plays an important role in addressing the growing need for new and cutting-edge technology across all markets. As a result of M&A activity facilitates for the extraction of technology asset value, and acquiring these assets helps and assures the technology firms viability, relevance, and competitiveness to provide returns to the users and shareholders. In the process of sustainable development, ESG and digital development inevitably have a significant impact on enterprises' sustainable competitive advantage. The importance of Environmental, Social, and Governance (ESG) standards lies in their ability to help enterprises identify and manage the risks and opportunities that may affect their long-term value creation[3]..As our world continues to become more global in nature, many technology firms will acquire customers to advance their expansion in a geographic area, or perhaps more importantly offer a new target demographic of customers. M&A provides a way to mitigate cost while increasing footprint geographically by bypassing the difficult process of understanding the inherent complexity of establishing a new market. This is especially dichotomous for organizations entering new or emerging markets when they rarely have any background knowledge or are looking to establish pathway to compliance to government regulation. For example, Alibaba and their acquisition of the Korean e-commerce company Kakao in 2014 because it aided in enabling Alibaba to firmly position themselves in the Asian market because of the strong, current, and well-established user base of Kakao.

The technology industry is highly competitive, and mergers and acquisitions (M&A) are often relied upon to keep pace with, or to compete against, the larger and more resourceful corporations in the industry. The technology sector is dominated by conglomerates, like Google, Apple, or Amazon, though it is more commonplace for smaller technology corporations or startups to consider mergers and acquisitions (M&A) of other companies or capabilities as a way

- 3 . https://www.mdpi.com/2071-1050/16/6/2291#B2-sustainability-16-02291 to foster meaningful innovation, especially in instances where they are a newer and smaller technology company that is delivering an innovative product or service. The technology industry is highly competitive, and mergers and acquisitions (M&A) are often relied upon to keep pace with, or to compete against, the larger and more resourceful corporations in the industry. The technology sector is dominated by conglomerates, like Google, Apple, or Amazon, though it is more commonplace for smaller technology corporations or startups to consider mergers and acquisitions (M&A) of other companies or capabilities as a way to foster meaningful innovation, especially in instances where they are a newer and smaller technology company that is delivering an innovative product or service.

This buy helped make Google more competitive against companies like Apple and Amazon - competitors that were also entering the smart home market - and gave Google more strength in the Android platform ecosystem. Competitive pressures in technology continue to drive the industry towards M&A, largely due to the need to respond to competitors. One of the most important reasons for M&A in technology is to obtain operational synergies that deliver overall operational cost efficiencies, as well as to give an ability to scale operations. In technology there are often opportunities to use M&A to improve operations, eliminate duplicate resources and capabilities through M&A to create value.

Mergers and Acquisitions in the Manufacturing Sector

Mergers and acquisitions (M&A) among manufacturing businesses have formed part of the primary business strategy for companies seeking to increase competitive strength, spread business presence, and reduce costs of operation. The principal motives for M&A in manufacturing are achieving economies of scale, extension into new geographical regions, acquiring new production technology, and improved availability of raw materials. Economies of scale allow companies to reduce unit cost, acquire bargaining leverage over customers, and allocate fixed costs over a greater level of production. Therefore, M&A companies prefer consolidating their operations, streamline their supply chain, and employ higher production capacities to enhance profitability. This move is not only beneficial to the acquiring company but also to the target firm, which can benefit from the broader scope, resources, and expertise that the acquisition or merger can offer. In the industrial sector, M&A is largely fueled by obtaining new markets. For instance, a business in a given geographical region may seek access to growing markets with untapped markets. Acquiring a local company gives the firm instant access to the market without having to undertake the painstaking process of starting new operations from scratch.

From the research findings, we formed the opinion that merger and acquisition greatly affect the performance of manufacturing companies in terms of profitability. Also, increase in capital when companies merge together, leads to increase in profit because large capitals increase the business potentials. Skilled manpower leads to increase in dividend per share. Also when companies merged and acquired, they tend to overcome competitors, and this increases sales performance[4].

By acquiring established local players and their distribution infrastructure, supply chains, and consumer bases, firms can control risk of market entry and set in motion their growth curve. Acquisitions also grant new channels of distribution, which are an important consideration for manufacturing companies to take their presence geographically further and offer more products to other markets.

Technology is another important factor for M&A activity in manufacturing. In the context of manufacture, manufacturing companies are always on the prowl to learn how to increase productivity, lower costs, and improve product quality. Once a manufacturer acquires a manufacturer with unique capabilities or developed technologies, the acquirer can greatly improve its capabilities. For example, a manufacturer operation could acquire a smaller manufacturing operation that has developed new automation technologies or new materials that significantly decrease labor costs, may be able to operate more accurately, and may increase the manufacturing capacity of producing products. The acquired company can also utilize the technology from the acquisition to operate more efficient and competitive in an advancing automated world. In summary, this gives the manufacturing company an opportunity to catch up with advanced technologies and to potentially future proof its organization.

The consolidation of M&A activity is sometimes a primary objective for manufacturers, in particular because many manufacturing sectors include many smaller competing companies that are largely fragmented. Consolidating operation in this situation allows for the weakening of competition, leading to enhanced pricing power for higher profitability of the merged company. The auto industry accompanies this example of M&A activity in numerous different forms of mergers or acquisitions to leverage integrated capabilities that balance among the various industries, including those that manufacture parts, manufacture vehicles, or control the supply chain logistics. Together, from the merger or acquisition of its competitor, the manufacturing firm should find itself in a better market position and/or better control over the supply chain while gaining financial and operational capacity and resources.

Moreover, Mergers and Acquisition (M&A) can help with de-risking in manufacturing. Global supply chains are becoming more complex, unstable, and vulnerable to disruptions usually unrelated to natural disasters. For instance, political instability or anything to do with changing trade policy. A way firms might de-risk is to acquire firms with a diverse operation or supply modality for their overall supply chains. For example, manufacturers that depend on a specific geographic area or source of production for a specific material for their final product could use an M&A as an opportunity to grow or diversify their supply chains in an effort to de-risk. The supplying firms with a diverse supply network may provide firms an advantage and resiliency to supply shocks or other issues that may arise, and provide long term stability in raw material

[4]https://www.researchgate.net/publication/280723260_Impact_of_Mergers_and_Acquisitions_on_the_Performance_of_Manufacturing_Firms_in_Nigeria_by_SAC_Anyanwu_TC_Agwor

pricing and transportation costs. Overall, potential mergers and acquisitions may provide manufacturing firms opportunities to de-risk their supply chains and expand or diversify their options to leverage for future sustainability and successful long term prospects. For the manufacturing industry, cultural integration is likely the most challenging issue related to merger and acquisition. The distinction in culture associated with the acquisition (the acquirers' culture) and the target firm (especially for the smaller, more nimble organization) has specific implications to integrative potential for success. Addressing culture will compromise integration of management style and ultimately decision-making and employee engagement. Concentrating on culture integration will set the stage for M&A success in manufacturing. T/A must think of reasonable next steps that will outline options to meld the corporate culture, harmonize, and round out the infrastructure and organizational structure that will provide the platform for cooperation and collaboration in the acquired organization.

Problems in Mergers and Acquisitions in the Tech Sector

1. Integration of Technology and Systems

   Integrating different technology environments can be a very difficult challenge in the world of technology. Often when companies merge, they will find themselves with incompatible software, databases, and/or communications environments that will not make the integration much better for the numerous IT issues that will face the merged firms. The merged firms can also spend considerable amounts of both time and resources to align their IT environments which can result in interruptions or delays in performance. Beyond losing time for integration, issues of security will likely arise as well, and the firmness will be at risk for a data breach or cyber-attack depending on the adequacy of the security practices in place.

2. Innovation Risks

While innovation and differentiation are key drivers in high-performing technology companies, M&A activity may create a risk to the firm's ability to innovate and differentiate. After the merger, employees may be uncertain about the potential direction of their projects. Another worry is the likely loss of key talent to integration, which results in limited ability to innovate. The acquiring firm's culture may disrupt the target firm's culture, which could hamper collaboration, slow development cycles, and possibly shut down projects altogether.

3. Intellectual Property Issues

Intellectual property is an important asset in the technology industry, therefore, appropriately transferring and managing the patents, copyrights, and trademarks is an essential component of any technology merger or acquisition deal. Disputes can arise over ownership or the similar scope of intellectual property, and these disputes can lead to legal issues that could limit the profitability of the merger. Furthermore, IP that does not successfully transition into the new company could lose its competitive advantage which could ultimately diminish the potential to innovate and grow the company long term.

Problems in Mergers and Acquisitions in the Manufacturing Sector

1.Operational Integration Challenges

The manufacturing industry experiences some specific hurdles related to integrating operations after an acquisition. The integration of plants that have dissimilar operational processes, equipment, and supply chains is usually time-consuming and expensive. Companies will need to assess their willingness to integrate operations across locations where previously there were dissimilar operations in different geographical locations or plants. Failure to appropriately integrate operations can result in inefficiencies, disruption of supply chains, and production costs that will negate any economies of scale expected from the acquisition.

2. Cultural Differences

Cultural integration challenges are issues prevalent across all industries, but they can be emphasized more in manufacturing M&As. Companies must contend with alignment challenges around values, work ethos, and operational style around employees or even the around the world or production standards. Resistance to the adoption of newly defined processes around familiar processes established from their company will further exasperate the integration. Management at each organization will need to find ways to accommodate cultural adoption while still trying to get the integration merger implementation process achieved.

3 .Supply Chain Disruptions

The manufacturing industry has faced the continual disruptions to supply chains. An example of this impact has been uniting organizations that procure two different suppliers at the same time, even for the same component of their compensation approach. When the manufacturing organization looks to unify its resources and advance towards a single-source strategy for components, the procurement of the supply chain may develop delays in the scheduling of manufacturing and possibly create disruption in stock that delays production efforts while rising costs begin to impact the organization.

4. Labor Issues

Labor issues are urgent during mergers and acquisitions (M&As) in manufacturing, especially in cases where the merger resulted in loss of jobs or a transfer of job functions. Labor unions usually organize to oppose any merger in order to protect their member's job status or security and may resort to strikes or protests. If the merging firms have different labor standards, pay or compensation standards, or positions governed by site-specific work rules, the merger or acquisition could become difficult. To mitigate the fact that workers may be unhappy and discontent may spill over into unrest, it will be important to considered a reasonable and transparent process for evaluating the employment actions of impacted workers.

5.Environmental and Regulatory Compliance
Manufacturers face a variety of obligations and difficult environmental regulations when completing a consolidation. It can be challenging to consolidate (or merge) two facilities that have their own environmental policies or compliance obligations. For example, one facility may have a more robust environmental control, which may potentially force the facility to reconcile the variations identified in the environmental management systems. Then there is the concern of potentially violating any local environmental regulations at multiple facilities that could lead to fines, permit loss, and another obstacle to the consolidation itself.

Strategies to Align Mergers and Acquisitions with long term Corporate Growth Objectives.

In Manufacturing Sector

Manufacturing companies need to determine their strategic intent, or rationale, by defining specific goals related to objectives like innovation, cost leadership or market access, before they pursue any mergers or acquisitions. The Amazon acquisition of Kiva Systems represents a goal aligned with their successful integration of automation as it relates to the warehouse operational aspects of their strategic intent around operational efficiencies. Sika's acquisition of Parex allows for the strategic and potential growth benefits of synergy based transactions that involve complementary product lines and local points of access to distribution. Targeted acquisitions also produced better supply chain management, R&D scale, facility scalable opportunities, that point to acquisition targets that fit with the corporate objectives for strategic coherence and sustainable value generation. Geographic expansion is one of the drivers for strategic M&A in manufacturing. An example of this is Meyer Werft acquiring Turku Shipyard, giving Meyer Werft major entry in the cruise ship market; the Turku Shipyard has essentially doubled sales since the acquisition, in about three years. Geographic expansion is one reason for an M&A, but it also warrants consideration technology; for instance, Amazon acquiring Kiva's robots can be viewed as one of those archetypal examples of acquiring firms' ability to provide next generation capabilities that increase efficiencies, capacity and availability. These examples at the very least also highlight that M&A can serve two purposes; 1) provide entry into a new market; and 2) provide acquirers with current capabilities in order remain competitive. Assessing strategic transactions with long-run transformative purpose need to assess more than just size, but also both technological and geographic reach.

A successful M&A provides an opportunity to diversify product lines and employs additional risk mitigation through a larger customer base. For example, Berkshire Hathaway acquired GEICO, and offers cash flow that is at least somewhat stable from year to year, and it also has some kind of relationship with Berkshire in the form a distribution relationship. Not every acquisition will be successful. The failed acquisition of Snapple Coffee by Quaker Oats was partly due, for example, to their not understanding true distribution, and the relative lack of cultural fit from a social perspective. Quaker Oats lost value (at on-line 82%!) when they had to eventually write-down Snapple. A successful M&A program must also be complemented with an ongoing review of an organization's portfolio. Divesting of companies or assets that do not meet your organization’s goals must always be part of the M&A process.

In Technology Sector

Although mergers and acquisitions (M&A) will differ by industry, all M&A activity in the technology industry must within the context of a corporate strategy to achieve sustainable growth. When evaluating potential acquisition targets, corporations must assess the cultural aspects, technologies and long term viability of innovation, in addition to financial returns. Corporations must also consider how the acquisition will facilitate goals, like changes to a product line, entering a new market, or gaining access to talent or proprietary technology. Like all aspects of the due diligence process, the key aspect will be the strategic fit to limit the integration complexities that could derail the proposed growth. Aligning technological objectives during M&A not only simplifies integration processes but also positions the merged entity to thrive in a technology-driven marketplace[5]. In order to obtain sustainable value from an M&A in technology (and other sectors), integration is extremely important. The parties need to put together the integration plan in advance of (and prior to) the deal closing, which will consider factors such system compatibilities, employee retention, and organizational congruity. The organization culture will be paramount with respect to the integration, with respect to every culture determining the innovation itself uniquely-connective to each company--while the acquiring company can figure out where culture works and where it does not--to the extent it works; then the acquiring company is able to find and preserve those aspects which create the high-performing culture, and then over time blend both companies values and structure.Technology companies engage in merger and acquisition activities primarily to accelerate the innovation cycle, or to develop ecosystem products or services. For M&A intentions to translate to value and thus growth, the acquiring company needs to employ the integrated acquired goods, acquired knowledge, new human capital and new physical resources, to collaboratively add to the innovations. Companies fail to understand how to assess their M&A efforts and to cycle through the innovation impacting the companies overall - and they do not replicate redundancies.

Conclusion

Mergers and Acquisition plays a vital in a companies growth. Mergers and Acquisition (M&A) is one of the most important driving tools and preferable business strategy for the last several decades around the globe.[6] In order to describe the results of industry mergers, this comparative research identifies several distinct macroeconomic and strategic causes and outcomes that exist in each sector. Manufacturing mergers are more concerned with supply chain integration, cost reduction, and scale efficiencies than IT M&As, which are driven mostly by R&D, talent acquisition, and speed to market. Furthermore, technical success is driven by culture and agility,

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https://www.researchgate.net/publication/388380766_Strategic_Implications_and_Performance_Outcomes_in_Mergers_and_Acquisitions_A_Semantic_Review

6 https://www.sciencedirect.com/science/article/abs/pii/S0148619521000229

whereas manufacturing success is facilitated by operational efficiencies and asset optimizations.