International Venturing by Indian IT Firms: A Motive Analysis

Sumati Varma

Journal of Emerging Knowledge on Emerging Markets
Volume 1 Issue 1
November 2009
Introduction

In the last decade, emerging economies have begun to account for an increasing flow of global FDI. Not only have countries like India and China become important investment destinations, they are also beginning to account for an increasing flow of outward FDI (OFDI). In the Indian case, while inward FDI doubled between 2004 and 2006, OFDI grew four times in the same period (UNCTAD 2007), led by increasing flows of cross border M&A activity by firms in the IT and pharmaceutical sector.

Prior to this outbound FDI from India was insignificant due to the inward looking protectionist regime. A few Indian enterprises were investing abroad in the mid-1960s (Lall 1983, 1986), but outward investment activity became significant only since the onset of economic reforms in 1991. Indian outbound FDI has undergone long term transformations in its character covering industrial structure, geographical composition, ownership controls, entry modes, motivations, and sources of financing.

The increase in overseas acquisitions by Indian firms can be seen as their response to globalized competition since 1990s. With liberalization and changes in trade, industry, foreign investment and technology policy regime, previously protected Indian companies
have been exposed to global competition. Indian firms increasingly realized that their existing technological and other capabilities accumulated with predominant dependence on protected home markets and under the import substitution policy regime of the past were clearly inadequate to cope with this new competition unleashed by a more liberalized business environment. This setting forced them to improve their competitive strength immediately and enlarge their position in the world markets. Indian companies realized that adopting a long term competencies-building strategy with large investment in R&D, advertising, etc. was relatively more risky and costly than pursuing the route of overseas acquisitions.

Firms engage in FDI because they are motivated and have the capability to do so. Despite the growth of outward FDI by firms from emerging economies, theoretical explanations of these ventures are relatively limited. The predominant view of FDI is the asset exploitation perspective that explains international expansion in terms of leveraging firm specific advantages in new locations to get a competitive advantage over indigenous firms in the host country (Hymer 1976; Caves 1971). Alternate viewpoints explained FDI not only in the monopolistic rent-seeking perspective (Hymer 1976, Caves 1996, Kindelberger 1969) but in terms of external market failures. Internalisation theory (Buckley & Casson 1976; Hennart 1991) focused on efficiency-seeking FDI aimed at reducing transaction costs of cross border activity. Dunning’s Ownership, Location, Internalisation (OLI) framework (1973, 1993) bridged the ideas of the market power and transactions cost approach and explained FDI as the possession of ownership specific advantages exploited by firms in foreign locations through the process of internalization.

Alternate literature suggests that firms move across geographic boundaries for resource and knowledge acquisition as well as capability enhancement (Bartlett and Ghoshal 1988, Madhok 1997, Luo 2000). Particularly with the rise of Asian multinationals, an asset-augmenting or asset seeking perspective explains the entry of latecomers to seek resources and overcome their competitive disadvantages (Makino et al 2002; Mathews 2002, 2006; Child and Rodrigues 2005). These alternate perspectives explain FDI as a tool for enhancing competitiveness rather than exploiting their existing set of advantages.

This paper posits that that asset exploiting versus asset augmenting is not necessarily an “either – or” proposition. This view is endorsed by Makino et al (2002) and Dunning (2006:140), the latter author acknowledging that the asset-augmenting perspective does not conflict with the OLI framework since “the investing firm has to possess certain unique and sustainable advantages which can include both internally generated capabilities and competence to seek assets with other institutions with which the firm has ongoing cooperative relationships.”

In the literature on international business, an overseas acquisition by a national firm is treated as a choice of foreign market entry mode. At the strategic level, the mode of entry is influenced by the motives underlying this diversification action. When the investing firm already owns a substantial and powerful bundle of ownership advantages and its sole objective is to exploit these advantages in foreign markets through production activities
then the Greenfield form of OFDI is a preferable strategy. However, when investing firms are motivated to augment their existing firm specific advantages, they adopt acquisition as an entry strategy to secure access to valuable strategic or knowledge based foreign assets (Dunning, 1988; Cantwell, 1989).

The basic objective of the present study examines the motivation behind outbound FDI from India in the period 2000–2006 from the IT industry, which had the maximum number of outbound FDI deals in the given period (Pradhan 2007). Although a wide variety of actions are classified as FDI, this study examines substantive forms of outward FDI associated with foreign market entry in which new ventures are established. These actions require a greater commitment than traditional “exports” or sales operations (Zahra and Covin 1995; McDougall and Oviatt 2000) and are suitable for a study of firm specific characteristics. The literature on OFDI in the Indian context is relatively limited and mostly addresses OFDI from a macro perspective. In this context, the current study contributes to the literature by undertaking a firm-level study of OFDI. It also examines perspectives on OFDI in an integrated framework for the purpose of analysis. Using a database of 47 firms that carried out 133 mergers/acquisitions, the paper attempts to establish the motives and capabilities behind these international ventures.

Theoretical Underpinnings

Traditional FDI theory explains firm internationalization in terms of the possession of non-imitable, firm-specific resources and capabilities that generate a competitive advantage. Known as the asset exploitation perspective, a refined version of this theory by Dunning (1993) categorizes these advantages into asset-based ownership advantages, which are realized from structural market imperfections and transaction- based ownership advantages, which are realized from transaction imperfections. While Dunning’s theory is widely accepted as suitable for MNCs from mature markets it is unable to adequately explain emerging market FDI behavior. Firms in emerging markets begin operations in a protected environment, develop products and services independent of international markets and compete on the basis of price differentials rather than technology or product differentials (Kumar and Mc Leod, 1981; Lall 1983; Wells 1983). Thus these firms are often latecomers in global competition, lacking in the possession of monopolistic firm-specific advantages to give them a sufficient competitive advantage in foreign markets.

This led to the development of the asset augmentation perspective, which recognized the fact that firms from emerging economies do not compete only to exploit existing assets but also to augment them ( Wesson 1999; Mathews 2002; Li 2003). They often begin operations as suppliers to other manufacturers or depend on third parties to distribute their products and lack requisite international experience compared with established firms in developed countries (Vernen-Wortzel and Wortzel 1988; Brouthers et al 2005). The Linkage, Leverage, Learning (LLL) framework suggested by (Mathews 2002, 2006) explains how firms leverage prior linkages developed in the global economy through experiential learning and gain a foothold in the interconnected global network. Chen and
Chen (1998) employed a strategic linkage theory and network approach to explain how FDI is used as a strategic means for small and weak firms to access resources that investors do not possess. Similarly Pananond and Zeithaml (1998) emphasized the necessity for third world multinationals to maintain a balance between exploiting existing resources and accumulating new competencies. Makino et al (2000) adopted organizational learning and asset seeking perspectives to argue that firms from newly industrialized countries engage in FDI not only when they possess FSAs for asset exploitation but also when they intend to seek technology-based resources and skills that are not available in the home country environment.

Internally-generated firm capabilities such as technological and management capabilities are widely established in the current literature as critical firm-specific ownership advantages for firms that go international (Lall and Siddharthan, 1982; Clegg, 1987). It is proposed that a firm’s prior experience in alternate domains as well as in other forms of international ventures contribute to the development of capabilities that enable it to acquire abroad.

Business groups act as a network of internationalization, knowledge and connections that member firms can tap in order to exploit opportunities. Parental networks or business groups can thus be seen as “strategic networks” which provide member firms with access to information, knowledge, resources, markets and technologies, thereby facilitating internationalization of operations. This, in turn, enhances the firm’s dynamic capabilities as it results in the simultaneity of both absorptive capabilities which helps it absorb new information because of pre-existing knowledge and combinative capabilities that enable it to generate new applications for existing knowledge.

Indian IT: A Profile

There have been four discernable waves of development of the Indian IT industry. The first wave in the 1970s and 1980s created the offshoring model, which led to the birth of some of India’s premier IT firms. The second wave in the 1990s built up the BPO business. The third wave from 2000–2006 witnessed an unprecedented spree of acquisitions abroad. The fourth discernable wave—2006 onwards seems to be focusing on the development of software products.

The growth of the Indian IT industry is rooted in organizational capabilities, consisting of critical competencies and embedded routines developed during the era of dominance of the computer hardware industry. This included development of productive apparatus for manufacturing hardware, spreading computer awareness and education, and honing programming skills accumulated from the necessity for developing custom software for the machines. This became the basis of the competitive environment in which the software industry subsequently flourished.
The story of the IT industry began with the establishment of linkages through exports. Starting merely as providers of manpower to be expatriated to firms elsewhere, time and cost arbitrage ensured that the IT industry sector was to be characterized by off-shore centers where efficiency mattered. And subsequently it grew vertically toward product development. Firms enriched in cash by providing manpower and in-sourcing found in customer acquisition the sustainability of revenues and profitability, while other players relied on the acquisition of products to move in the hierarchy of capability maturity.

The abundance of a low-cost, skilled English-speaking workforce willing to turn its work day around became the genesis of the offshoring model. This was facilitated by an enabling policy regime that included establishing software technology parks and allowing increased inflows of FDI. Both of these enhanced organizational learning leading to the development of an enhanced set of skills and capabilities for the IT firm. Increased competition because of foreign MNCs forced the domestic IT firm to look towards foreign markets, while existing linkages and learning enabled it to leverage existing capabilities towards international forays.

The first known case of Indian IT OFDI can be traced to the Indian computer hardware company Hindustan Computers Limited (HCL), followed by DCM Data Systems Services Private Ltd. forging a Joint Venture in Bahrain and Hinditron Computers System Private Ltd setting up a wholly owned subsidiary in USA in 1983. In the late 1980s, HCL Overseas Ltd. and Infosys Consultants Private Ltd. each undertook one OFDI project directed at the USA for the development of computer software. The real break in the trend of Indian IT OFDI took place in 1991 when a significantly large, (compared to the past), number of Indian firms undertook overseas investment projects. In 1991, there were three overseas joint ventures and two overseas wholly-owned subsidiaries undertaken by five Indian IT companies¹ (Pradhan 2007).

Since 2000, outbound FDI from India began to assume proportions of a major phenomenon, with OFDI from IT comprising the single largest sector. Between 2000 –2006, there were over 521 overseas acquisitions out of which 133 (25.5 %) were from the IT sector. Data from various sources indicate that there were 165 IT multinationals that had an international presence in the form of subsidiaries, joint ventures and associate companies in the year 2006. Outbound M&A activity, however, was undertaken by only 47 Indian firms, resulting in 133 acquisitions. A look at the temporal distribution of these acquisitions is profiled in Table-1 and their geo-economic profile in table 2 and figure 1.

¹ These outward investing companies are Computer Aided Learning Systems Private Ltd. KEI Systems P. Ltd. each undertaking a JV in Russia, Hinditron Services and International Computer Ltd. each establishing a wholly owned subsidiary in USA, and Tata Consultancy Services entering into a JV in USA.
Table 1
Temporal Distribution of Indian M&As Abroad

<table>
<thead>
<tr>
<th>Year of Acquisition</th>
<th>Percent*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>25.8</td>
</tr>
<tr>
<td>2002</td>
<td>10.9</td>
</tr>
<tr>
<td>2003</td>
<td>12.5</td>
</tr>
<tr>
<td>2004</td>
<td>13.3</td>
</tr>
<tr>
<td>2005</td>
<td>9.4</td>
</tr>
<tr>
<td>2006</td>
<td>26.6</td>
</tr>
</tbody>
</table>

* Percentages may not add up to 100 due to rounding off.

Table 2
Geographic Profile of Indian IT M&As Abroad (2001-2006)

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>27.4</td>
</tr>
<tr>
<td>Asia</td>
<td>11.1</td>
</tr>
<tr>
<td>Middle East</td>
<td>3.0</td>
</tr>
<tr>
<td>Oceania</td>
<td>1.5</td>
</tr>
<tr>
<td>North America</td>
<td>56.3</td>
</tr>
<tr>
<td>South America</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Research Methodology and Data Analysis

Hypothesis Development

The motives for cross-border M&As in this paper are summarised in a taxonomy made famous by Dunning (1993) and UNCTAD (2006). The taxonomy identifies four types of multinational enterprise (MNE) activity, specifically, resource seekers, market seekers, efficiency seekers, and strategic asset or capability seekers. This typology was further simplified into asset exploitation and asset seeking internationalization (Makino, Lau & Yeh 2002). The asset exploiting or market seeking motivation focuses on the exploitation of...
firm-specific advantages or proprietary assets for outbound venturing. Asset seeking motivations, in contrast are more closely tied to using FDI as a means to acquire resources—strategic assets, including technology and marketing and management expertise to build or enhance competitive advantage. Based on this model, we identify the following motives of cross border acquisitions examined in this study as follows:

Market seeking. The search for new markets is a constant concern for all business firms. Through cross border M&As, firms can quickly access international new market opportunities. Firms seek to protect or exploit new markets, motivated by prospects for growth and large market share, to establish presence in a new market prior to competitors or to counteract similar action by competitors. By taking over an existing company, an acquiring firm can immediately have access to a local network of suppliers and customers, fulfilling its desire for market power.

Efficiency seeking. The intention of efficiency seekers is to take advantage of different factor endowments, economic systems, policies and market structures to concentrate production in a limited number of locations. Efficiency gains are the result of synergies—both static and dynamic—in cross border M&As. Static synergies include the pooling of management resources, revenue enhancement by using each other’s marketing and distribution networks, purchasing synergies, economies of scale in production leading to cost reductions and the avoidance of duplication of production, R&D or other activities. Dynamic synergies involve the matching of complementary skills and resources to enhance a firm’s innovatory capabilities with a long term positive effect on sales, market shares and profits. The search for static synergies is particularly important in industries characterised by increased competitive pressure, falling prices and excess capacity, such as in the automotive industry. Dynamic synergies, on the other hand, may be crucial in industries experiencing fast technological change and which are innovation driven such as information technology and pharmaceuticals.

Resource seeking FDI is usually associated with firms in the primary sector. The resource seekers are motivated by their need for cheaper resources including physical, human, technological or organisational resources. These include large state-owned MNEs from the emerging markets such as ONGC from India. Rising prices of international raw materials and rapid economic growth have intensified the competition for these resources.

The strategic asset seekers may engage in cross border M&As as a means for sustaining or enhancing their international competitiveness. Merging with or acquiring an existing company is the least costly and sometimes the only way to acquire strategic assets. These assets, such as R&D or technical know-how, patents, brand names, local permits and licences and supplier and distribution networks, may not be available elsewhere in the market and they take time to develop. Such assets may be crucial to increase a firm’s income-generating resources and capabilities (Dunning 2000).

The desire for risk reduction through product or geographical market diversification is another motive for cross border M&As. Firms may undertake to merge or acquire across

http://digitalcommons.kennesaw.edu/jekem/vol1/iss1/9
DOI: 10.7885/1946-651X.1008
borders on the basis that industry returns across economies may be less correlated than within an economy (Vasconcellos and Kish, 1998). As intensified global competition and rapid technological development have led firms to focus on their core activities, the need for product diversification has become less important (Morck and Yeung 1999), although geographical diversification plays a role.

Financial motives also play a role in cross border M&As. If bad management, imperfections in the capital market or major exchange rate rearrangements provide short-term capital gains it may make sense to acquire an undervalued firm. It may be pertinent to mention here that much of the research on internationalisation motives has strived to separate and identify the primary motive of M&As with a view to finding out if the market reacts as implied by the motive. Our position is that motives are not only diverse (that is, they might vary across firms) but also multiple (that is, there is always more than a reason for overseas M&As) and dynamic (that is, they might vary over time).

Hypothesis 1: The motives of overseas acquisition activities are diverse, multiple and dynamic across the industry.

This paper also posits that firms may simultaneously pursue both asset-seeking and asset-augmenting strategies, although not necessarily with the same degree of intensity. Not only do they imply a firm’s internal or intrinsic expectations in terms of quest for synergy, managerial hubris and maximisation of shareholder’s wealth via better management of the acquired companies, but are also shaped by a host of exogenous enablers and constraints.

Hypothesis 2: Asset-exploitation and asset-seeking motives may be simultaneously pursued in international acquisitions.

Research Methodology

The empirical estimation in this paper investigates the motives for 133 cross-border acquisitions of 47 firms of the IT industry between 2001 and 2006. Based on the discussion in the earlier section, we identify the following motives of cross-border acquisitions:

- Market seeking
- Product acquisition
- Resource seeking
- Efficiency seeking
- Technology seeking
- Risk diversification

The study seeks to examine the presence of each of these motives in the given sample of acquisitions and to determine whether a particular motive or motives dominate in cross-border M&A activity of the IT industry. It is assumed that an acquisition can simultaneously have more than a single motive.
**Data Sources**

The study covers M&A activity of the Indian IT industry during January 2001 to March 2006. It uses secondary reported firm-level data from studies by consulting firms such as UBS, Accenture and MAPE, as well as ‘Prowess,’ the Centre for Monitoring Indian Economy (CMIE) database. The study also examines published firm-specific information and media coverage (including their websites) to assemble a final data base. Data on the motives behind the acquisitions analyzed herein were derived from the statements made by the top management of the firms in addition to reports in popular and business media (print and internet sources) to undertake a content analysis of the motives behind these cross-border M&A activities. Firms finally included in the study are those that have undertaken a merger or an acquisition between 2001 and 2006, and are incorporated in India. The study excludes acquisition activity by firms that are subsidiaries of foreign firms and have been used as a vehicle of acquisition.

HYPOTHESIS: Let \( \Sigma P_i, i = 1 – 6 \) be the probability of occurrence of any motive leading to an acquisition decision.

Null Hypothesis:
\[ H_0 = P_1 = P_2 = P_3 = P_4 = P_5 = P_6 \]

Alternate Hypothesis:
\[ H_1 = P_1 \neq P_2 \neq P_3 \neq P_4 \neq P_5 \neq P_6 \]

In order to test the hypothesis we use the Chi Square (\( \chi^2 \)) test, a statistical test used to examine independence of occurrence in categorical variables.

**Findings of the Study**

As the acquisitions studied above may have multiple motives, the study considers the frequency of motives, not the frequency of the acquisitions alone. Table 3 shows that 254 motives present in 133 acquisitions. Table 4 shows the relative dominance of the different motives.

**Table 3**

<table>
<thead>
<tr>
<th>Motive</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Seeking</td>
<td>93</td>
<td>36.6</td>
</tr>
<tr>
<td>Product Seeking</td>
<td>56</td>
<td>22.0</td>
</tr>
<tr>
<td>Efficiency seeking</td>
<td>50</td>
<td>19.6</td>
</tr>
</tbody>
</table>
It is evident from Table 3 that outbound M&A activity by the Indian IT firms is characterised by a multiplicity of motives. In other words, Indian IT firms were simultaneously diversifying their product and market portfolios as they were also striving to harness efficiencies arising from the M&A synergy. Given the multiplicity of motives, it then becomes imperative to see if some particular motive or combination of motives dominate the Indian M&As abroad. The results of the chi-square test are tabulated below.
Table 4
Dominant Motives

<table>
<thead>
<tr>
<th>Motive</th>
<th>Frequency</th>
<th>Disparity Number</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Seeking</td>
<td>93</td>
<td>60.7</td>
<td>55.4</td>
</tr>
<tr>
<td>Product Seeking</td>
<td>56</td>
<td>4.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Efficiency Seeking</td>
<td>50</td>
<td>1.4</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Total Chi Square ($\chi^2$) = 109.549*  
* Percentages may not add up to 100 due to rounding off. [Level of probability?]

These results reject the null hypothesis of equal likelihood of occurrence of all motives. This implies that some motives dominate over others in cross-border acquisition activity.

In order to test the dominant motives of acquisition, we computed the disparity number of motives with the highest frequency—that is, market seeking, product seeking and efficiency seeking motives. The results of the test tabulated in table 4 indicate that the market seeking motive dominated in 56% of all acquisition activity and emerged as the dominant motive of cross border acquisition activity of the Indian IT industry. This was followed by product seeking and efficiency seeking motives. The other motives emerged dormant and had no role to play in acquisitions by the IT Industry.

The study revealed that the largest number of acquisitions was done by Teledata Informatics a Chennai-based software solutions provider in Marine, education, telecom and other utilities. It was incorporated in 1990, by K Padmanabhan, who saw the opportunity for software development in the shipping space. Teledata is one of the leading ERP companies for marine applications; its suite of products (marine and school management) are sold in all continents of the world. It currently has a presence in 48 countries of the world and has the vision to excel through constant innovation. Teledata’s spate of acquisitions bears testimony to its inorganic growth-driven strategy. All acquisitions made by the company have helped it to strengthen its presence in diverse verticals (SAP, Communications, Data warehousing), hardware manufacturing, and in different geographies of the world. Its acquisition strategy clearly points towards efficiency enhancement through improved capabilities and market penetration in diverse geographies.

Wipro, India’s third-largest software exporter came a close second with its famous string of pearls of 10 acquisitions. Most of the acquired companies were based in Europe and dealt in niche verticals or R&D services. Wipro’s acquisitions are more to achieve competencies and geographical reach than to achieve scale. The NerveWire, AMS and Mpower buy-outs armed Wipro with skills in areas like financial securities, utility consulting and niche technologies in the payment space, respectively. It also acquired mid-sized European specialist companies like Enabler for its retail solutions; Newlogic for wireless IPs and Saraware for embedded technology capabilities and access to Nordic countries. Besides competencies, the company has also landed key customers to its kitty, such as GM,
MasterCard, Tesco, Esprit, Philips, Shell and Ericsson. NIIT (7), Subex Azure, Four Soft and 3-I Infotech, with 6 acquisitions each, were the other large acquirers.

**The Veterans**

More than one-third of the acquiring companies in the sample were over 20 years old at the time of first acquisition. This includes IT majors such as TCS, HCL, Infosys, Wipro, and Mastek, among others. It is interesting to note that although most of them have international experience of varied forms, including Greenfield ventures, acquisition experience for most of them came relatively late in life. This may be explained by the fact that well-established firms have systematized routines that are costly to change and inhibit the ability of the firm to adapt and innovate. Bounded rationality and embedded hierarchies of routines inhibit their ability to adopt new technological solutions, leading to an emphasis on developing knowledge and routines closely related to or adjoining their existing knowledge and routines, but which may be sub-optimal in evolutionary circumstances. (Nelson and Winter 1982)

**The Global Start-Ups**

It is interesting to note that 12% of total acquisitions in the sample were undertaken by firms which were incorporated less than 5 years before they made their first global acquisitions. These firms came into existence with a geocentric attitude of operating in the global market from day one. Lacking in prior experience in the IT industry, they may be classified as “born globals” (Knight and Cavusgil 2004), exhibiting qualities of entrepreneurship not found in other firms. The innovative culture of born-global firms gives rise to specific capabilities suitable for success in foreign markets. Their entrepreneurial orientation is associated with an innovative and proactive approach to internationalization.

Notable among these is Vmoksha Technologies, a Bangalore based software services company incorporated in 2001. that made its first acquisition in 2002. Its acquisition of two US-based companies, Challenger Systems and X media, was to increase its size by widening its customer base, and leverage on the expertise of the acquired companies to gain customers and to expand into new geographies. The firm claims to be the first in the world to be assessed at CMMI level 5 assessment, without having been assessed at intermediate levels. Similarly, firms such as Recursion Software and Secova Eservices made acquisitions within a year of incorporation. Firms such as Foursoft, Hinduja TMT, Moship Semiconductors, Mphasis BFL and Subex Azure had made their first acquisitions within five years of incorporation.

**Prior Domain Experience**

Firms such as Four Soft, IBS Software, Teledata Informatics, Hinduja TMT, 3i- Infotech, WNS Global have prior experience in other domains, such as logistics and supply chain, airlines, shipping, banking and insurance services, among others.

**Parental Network**
The existence of a parental network has facilitated acquisitions by firms such as 3iInfotech, Polaris Software, WNS Global, Sarla Technologies, Tata Interactive Systems and Sobha Renaissance Information Technology Ltd.

**Market Seeking Mergers**

The majority of acquisitions in the sample sought to expand their reach in international markets and to spread across different geographies.

Mphasis BFL, through its acquisition of Navion software, wanted to expand its operations into the Chinese and Japanese markets. Ravi Ramu, Mphasis BFL’s group chief financial officer of stated, “The need for developing a near-shore centre for the Japanese market triggered this acquisition. Besides this, we plan to tap the skilled labour force in China to improve our prospects in the region. We also plan to tap the local market at a later stage and use the Chinese base as an alternative centre for our offshore services in the region.”

Similarly, vMoksha Technologies, after acquiring two US-based companies, has cemented its base in the US market and plans further expansions from here. Kumar comments, “With the acquisitions, we also expanded our reach in the US market besides India. Since the majority of workforce in the acquired companies was Indian, integration was much easier and smooth” (Kumar, 1996).

**The Synergy Factor**

Many companies have undertaken M&A to grow in size by adding manpower and to facilitate overall expansion. The Polaris-OrbiTech merger saw a spurt in the merged entity’s revenues from $60 million to $125 million. The merger also added 1,400 employees to Polaris, taking the total employee resource to 4,000.

Similarly, for Bangalore-based vMoksha Technologies, the logic behind the acquisition of two US-based companies, Challenger Systems and X media, was to increase in size by widening its customer base. Pawan Kumar, chairman and CEO of vMoksha Technologies says, “The size of a company does matter when interacting with customers and clients. These acquisitions added 120 people to our staff.”

The acquisition of China-based Navion software helped Mphasis BFL increase its employee strength by 85 people and expand its business in the region. Similarly, when software services giant Wipro acquired BPO player Spectramind, it helped the company expand into the BPO space.

In the same vein, Bangalore-based Mascot Systems’ acquisition of US-based eJiva and Hyderabad-based Aqua Regia enhanced the company’s value proposition and made it globally competitive. With the acquisition of eJiva and Aqua Regia, the total employee resource base of Mascot Systems increased from 1,700 to 2,000. [“strength” is a term laden with value—adding numbers is not in itself a strength.]
The need for skill-set enhancement is a manifest reason for companies to merge and make new acquisitions. The Polaris-OrbiTech merger helped in combining skill sets of both companies, which, in turn, led to growth and expansion of the merged entity. While Polaris Software was looking for a specialised product suite, OrbiTech was looking forward to efficient marketing and service support for its products. Post-merger, Polaris got the Orbi suite framework and combined it with its service expertise to win more customers. After the merger, Polaris has become a large, specialised company in the banking, financial services and insurance (BFSI) space, offering solutions, products and transaction services. Polaris has had some recent post-merger wins, including ABN-AMRO Bank, Kuwait Commercial Bank and Deutsche Leasing.

Wipro acquired GE Medical Systems Information Technology (India) to leverage its specialisation in the health science domain. The intellectual property that Wipro acquired from the medical systems software company provided it with a platform to expand its offerings in the Indian and the Asia-Pacific healthcare IT market. Similarly, when Wipro acquired the global energy practice of American Management System and the R&D divisions of Ericsson, it acquired skilled professionals and a strong customer base in the areas of energy consultancy and telecom R&D. [Traditional English spelling is fine; the word analyse (used earlier), as used here, is spelled in the American form—with a z. Perhaps this is consistent with Indian English. In any event, consistency should be the norm.]

vMoksha Technologies’ acquisition of two US-based companies helped it to increase its size, and leverage on the expertise of the acquired companies. Says Kumar, “One of the acquired companies is very strong in banking and we leveraged this factor to gain some good banking customers.”

Likewise, Bangalore-based Mascot Systems benefited from the technical expertise of eJiva and Aqua Regia, the two companies it recently acquired. The acquisition also helped Mascot to extend its offerings through a portfolio of complementary services, technologies and skills.

The strategic asset seekers may engage in cross-border M&As as a means for sustaining or enhancing their international competitiveness. Polaris Software had six major customer wins after it acquired the Intellectual Property Rights (IPR) of OrbiTech’s Orbi suite framework of banking solutions. vMoksha also saw a rise in the number of its customers (four new customers) due to acquisitions as it expanded considerably in the US market and leveraged on the existing customer base. Mphasis also added new customers in the Japanese and Chinese markets after the acquisition of Navion.

The study also revealed that the largest number of acquisitions was done by Teledata Informatics a Chennai-based software solutions provider in Marine, education, telecom and other utilities. It was incorporated in 1990, by K Padmanabhan, who saw the opportunity for software development in the shipping space. Teledata is one of the leading ERP companies for marine applications; its suite of products (marine and school management) are sold in all continents of the world. It currently has a presence in 48 countries of the world and has the
vision to excel through constant innovation. Teledata’s spate of acquisitions bears testimony to its inorganic growth-driven strategy. All acquisitions made by the company have helped it to strengthen its presence in diverse verticals (SAP, Communications, Data warehousing), hardware manufacturing, and in different geographies of the world. Its acquisition strategy clearly points towards efficiency enhancement through improved capabilities and market penetration in diverse geographies.

**Wipro**, India’s third-largest software exporter came a close second with its famous string of pearls of 10 acquisitions. Most of the acquired companies were based in Europe and dealt in niche verticals or R&D services. Wipro’s acquisitions are more to achieve competencies and geographical reach than to achieve scale. The NerveWire, **AMS** and Mpower buy-outs armed Wipro with skills in areas like financial securities, utility consulting and niche technologies in the payment space, respectively. It also acquired mid-sized European specialist companies like Enabler for its retail solutions; **Newlogic** for wireless IPs and Saraware for embedded technology capabilities and access to Nordic countries. Besides competencies, the company has also landed key customers to its kitty, such as GM, MasterCard, Tesco, Esprit, Philips, Shell and Ericsson. **NIIT** (7), **Subex Azure**, **Four Soft** and **3-I Infotech**, with 6 acquisitions each, were the other large acquirers.

**Conclusion**

Indian IT firms’ response to the changed competitive landscape has been in the form of simultaneous leveraging of existing competencies to access new markets and also enhancing them through product and capability acquisition.

The preponderance of the *market-seeking, product seeking* and *efficiency-seeking* motives for outbound M&As validates the hypothesis of the existence of diverse, multiple motives of acquisition activity and the simultaneous need to analyze it in a dynamic perspective that includes elements of strategic and entrepreneurial behaviour. It also brings out the equal importance of the asset-seeking and asset-augmenting behaviour of the Indian IT MNC.

Driven by competitive pressures, the Indian IT industry appears eager to buy customers and efficiency gains. At the same time, there are players within the industry that have chartered for themselves the route of product/service diversification and the movement up the capability maturity/value-chain. The diversity of the motives is indicative of the broad-based nature of the Indian IT industry and the peculiarities of the imperatives for survival and competitiveness in the different segments. For the service providers, the deal lies in acquiring customers and efficiency gains and of late vertical moment toward knowledge processes. For the developers, the success mantra seems diversification of product portfolios. Moreover, the newer, younger firms seem typically to demonstrate substantial aggressiveness and thoroughness as regards both product and market portfolios.

The acquisition experience of the industry has been the result of innovation springing from internal R&D drawn from its own accumulated knowledge of the IT industry and domain
experience gathered elsewhere. The existence of parental networks has also helped in the process of organizational learning.

The linkages developed by the IT industry enabled it to become part of a global network, facilitating leapfrogging and spring-boarding behaviour to be able to leverage its resources for acquisition purposes in the global market. Actually, as in any typical behavioural situation, it is the confluence of the capabilities and opportunities that results in strategic manifestations and success.

The motives for the outbound M&As by the Indian IT industry also seem to lend credence to the convergence of different theoretical strands of analysis. Theories of trade and investment yield insights on the economic motives behind M&A, theory of entrepreneurship underlines the motives of achievement, ambition and aspiration, and theory of strategic management implies adaptive and generative learning/behaviour on the part of the firm as it strives for a place in the merging global economy. Historically, these three strands of the explanation of MNC behavior may have evolved sequentially, yet in the present context they seem to be convergent explanations for M&A behaviour for the emerging market MNC.

While the analysis in this paper is restricted to examining the overall tenor of the overseas M&As by the Indian IT industry, there is a *prima facie* case for examining M&A behaviour from temporal and spatial perspectives as well as from the perspective of firm-characteristics such as age, size, affiliation with a business group or parental network, prior experience in international venturing, and so on. The field of research in M&As is clearly wide open.

*Note: The author expresses her gratitude to Professor Lakshmikanthan, at the Indian Statistical Institute, New Delhi for help with statistical work.*

**References**


