



STRATEGIC CHANGE AND ORGANISATIONS (LCDB7005)

Assignment-1



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Introduction

SoftBank Group Corp. was established in Tokyo in October, 1981 as a distributor of packaged software. By 1989 it became the largest publisher of computer and technology magazines and of trade shows in Japan (SoftBank Group, 2019). Soon, in 1994, it became a public company with a net worth of £2.5 billion. Currently, it is a Japanese multinational conglomerate with a market cap of £90.3 billion (Forbes, 2019). From 2004, SoftBank started to acquire companies and enterprises that it believed to be disruptive innovators and have a potential to be a market leader in the distinct future by reshaping the industry (SoftBank Group, 2019). SoftBank acquired Japan Telecom in 2004, followed by Vodafone K. K. in 2006, Sprint in 2013 and ARM in 2016. Other than this, SoftBank merged, partnered and acquired various other large and small organizations partly or completely who (companies) brought in revolutionary innovations in their own respective fields (SoftBank, 2019)

ARM Holdings PLC, the British computer manufacturer, previously Advanced RISC Machine, originally Acorn RISC Machine first came up with ARM architecture using the family of reduced instruction set of computing (RISC) in 1980s for computer processors, designed for various computing environment (ARM Holdings PLC, 2015). ARM is considered as one of leading company worldwide with more than 90% market penetration, because of its strong capabilities in global semiconductor intellectual property and the IoT (internet of things) which has been considered as a proven record of innovation (ARM Holdings PLC, 2015).

SoftBank strategic planning

In May 2017, SoftBank Group with its strategic team came up with a goal to continuously grow for next 300 years (SoftBank Group, 2018). The strategic plan is focussed on investing in different companies that has a potential to be market leader in their fields. Acquisition of ARM was only a result of their strategic plan that they were developing for so many years. It established SoftBank Vision Fund to invest on such companies which can revolutionize in various sectors of technology field, including artificial intelligence (AI), IoT (internet of things), robotics, mobile applications, biotechnology, cloud technology and fintech (SoftBank Group, 2018). The aim of SoftBank is to lead the companies which has

a potential to shape the future to able to sustain and grow in the continuous changing market environment (SoftBank Group, 2020).

Due to the limited scope of this assignment, only the strategic imperative behind the acquisition of ARM by SoftBank will be discussed in this article.

Acquisition strategy of SoftBank

Mergers and acquisitions are generally done to consolidate companies or assets with an aim of enhancing the growth, gain competitive advantages and enhance market share/influence supply chains (Jeffs, 2008; Carnall, 2007; Stacey, 2010). In mergers, both the companies combine together to form one company only, letting the other company to extinct, however, in acquisition both the companies exist as separate legal entities, where one becomes the parent company of the other (Balogun, Hailey, Johnson & Svholes, 2008). In this case, SoftBank bought ARM entirely in between June and September 2016 (until 2018, when it sold 51% of its Chinese subsidiary to a China-led group of investors at a price of £622.5 million (The Telegraph, 2018; Financial Times, 2018)) and both companies run as separate businesses. SoftBank paid a premium of £24 billion to buy ARM out of which it paid £16.7 billion by cash on hand and paid the rest £7.3 billion by taking loan from bank (Financial Times, 2016; CNBC, 2016).

The strategic imperative behind the decision of SoftBank & ARM acquisition

1. Acquisition is an easy process to avoid new entrants' barriers in an established business sector and enter into new markets and brand lines instantly with a brand support which is highly recognized in the industry with a high reputation and a large customer base (Dobson, Starkey & Richards, 2004; Stacey, 2010). Entrance of new competitors can be an expensive process for businesses due to the investment required in market research, development of new products from scratch and the time needed to establish a new brand to gain customer base (Lundan, 2001; Ranft, 2002).

ARM was already an established brand in the chip designing industry with more than 90% market share and was developing new product using IoT (internet of things) technology. Entering in this sector for SoftBank by itself would have been time consuming including a huge monetary investment.

2. To increase market, share quickly, acquisition strategy is often taken by large multi-national companies. Although competition is often challenging, but the quick growth through acquisition gives a competitive edge in the market place by gaining market synergies (Jensen, 1988; White, 2004).

ARM's outstanding power efficiency processor designs are used in the main chips of more than 95% of smartphones and is believed to be the biggest global supplier of the technology (The Guardian, 2016). In the financial year 2016, ARM technology were used in 17.7 billion chips, which means 2.4 chips per person with a total global population of 7.3 billion and these figures are continuously growing (ARM Holdings PLC, 2016).

3. Acquisition enables the parent company to get access to competencies and resources it currently does not hold onto, even if it tries to develop it using own employees and buying new resources, it will not only be time consuming but also highly expensive, with no guarantee of achieving the target as the company lack skills and is new in that sector (Schmidt, 2015 Steigner & Sutton, 2011). Therefore, acquisition helps in rapid growth which is highly desirable in fast changing market environment and also enhances the company's long term financial position which helps in raising capital required for growth strategies (Schmidt, 2015). In addition to it, acquisition assists in expansion and diversification which can support a company to overcome an economic slump (Steigner & Sutton, 2011).

For a new entrant like SoftBank to compete into an advanced technology industry by developing the skills within the home engineers is expensive. Rather by buying ARM who is already a world leader in designing key technologies used in semiconductor chips with huge share in diverse markets such as smart phones and disk drives, electronic devices, digital TVs, drones and so on, it made easier, cost effective and faster for SoftBank to use ARM's existing and potential developing technologies to enhance SoftBank's own products, such as massive MIMO spatial multiplexing technology- which is a powerful core technology for 5G which has been first commercialised worldwide by SoftBank only (SoftBank Group, 2017). Instead of developing any technology from scratch, by acquiring ARM's technology it helped SoftBank to avoid paying royalties on patented technologies and also it assisted to keep its technology away from competitors (BBC, 2017).

Also, SoftBank the mobile telecommunication operator, by using ARM's technology-based chips embedded in various products can collect data which can be later processed and analysed by AI (artificial intelligence) for commercialization (SoftBank Group, 2018). It will help SoftBank to shift from their previous approach of outsourcing everything to vendors to their own house engineers, who can look after the various aspects of telecommunication network from design to monitoring, which will reduce cost and will authorize state-of-the art technology quickly (SoftBank, 2018). Therefore, SoftBank can gain expertise and experience from repeated trial-and-error inside the company with no additional expense, helping them to roll out their 5G technology (SoftBank, 2018).

4. Acquisition also helps to get access of experts of the other company, such as financial, legal, human resource specialists, including managers and experts with fresh perspectives and ideas who can bring in a new dimension to the company's strategic plans/goals (Datta, 1992; Bany-Ariffin, 2016). It also helps to get access to the capital of the other company in time of need, instead of always going for bank loans or dipping into their own pockets (Wang, 2018). Moreover, it is easy to make acquisitions early in the life cycle of a new industry or product line, before it gets highly recognized and grows exponentially (Kusewitt, 1985; Rottig, 2017).

One of the reason behind this expensive acquisition of SoftBank was its long-term vision strategy to exploit the opportunity of the future IoT era believing that it can bring in a paradigm shift in human history. When SoftBank bought ARM, ARM was not at its matured stage and SoftBank paid a premium only because it was able to visualise the significant growth that ARM can reach with proper investment in R&D department. Although ARM were leading globally in chip designs but it was mainly limited to mobile application processors including smart phones, tablets and laptops (SoftBank Group, 2017).

Type of acquisition

There can be several types of acquisition, such as vertical acquisition, horizontal acquisition, etc. SoftBank is a telecom business and ARM is a chip designer. So, there was no possibility of cost synergies as there is no similarities between the businesses of these two companies, making it a conglomerate acquisition (where two companies with unrelated business activities in different industries generally located in different geographical locations acquires the other (Reus & Lamont, 2009) with cross-selling opportunities (SoftBank Group, 2017).

Purpose of Conglomerate acquisition strategy

1. Conglomerate acquisitions helps to diversify their business by overcoming risks associated with the vulnerable market (Dikova, Sahib & Van, 2010). Therefore, if the company is not doing well in one business sector, it can overcome the unfavourable situation by shifting its focus to the other diversified sector and it brings in synergies by combining individual entity's performances, resulting in increased sales and revenue (Dikova, Sahib & Van, 2010).
2. In conglomerate acquisition, the company having potential to expand can gets benefitted by the excess cash of the other company which is saturated in its sector or does not have enough opportunity to expand in its sector, by strategically utilizing the idle funds (Anon, 1992; Vazirani, 2012). It also helps to enhance the economies of scale, by spreading out the research and development (R&D) costs, advertisement costs, etc. throughout the several units of the company, leading to reduction of production cost per unit and achieving economies of scale (Leepsa, 2016). For instance, ARM chip designs were mainly used in smart phones worldwide. The smartphone growth has been slowed down due to the less innovation in mobile sector which caused consumers to extend their upgrade cycles (CNBC, 2019). In addition to it, due to the trade war between the U.S. and China who are the global leaders in designing smart phones, the demand of chips went down (Financial Times, 2019). ARM being a public limited company (before acquisition) had to meet to its short-term revenue targets to satisfy its investors while cutting down the funds for research and development (R&D) (ARM Holding PLC, 2015) and moreover R&D investment is quite expensive and takes time to get it benefits, sometimes it yields no result at all. Thus, it became a limiting factor for further growth of ARM- the company whose growth relies on innovation based on its history. Once it got sold, it did not remain as a

public company anymore. It got huge investments (£655 million) from SoftBank to strengthen the R&D to open the doors for innovation (Yahoo Finance, 2019)

3. Due to cross-selling of its products, the company can access the benefit of having a broader customer base, which results in increased sales and profits (Amihud & Lev, 1981). ARM before acquisition in FY 2015 had a net sales revenue of £968.3 million and after acquisition, ARM generated a net sales revenue of £1.53 billion in FY2018 (SoftBank Group, 2019).
4. In time of needs, the companies can use managers from different units to the required sector, giving the benefit of maximum usage of human resources to operate optimally (Ahtiala, 2000; Melicher & Rush, 1974).

Risks involved in conglomerate acquisition strategy

1. As two different industries merge together, the industries lack in having any past experience about the functionalities of each other (Levy, 1970; Rozen-Bakher, 2018). It can lead to several confusions within the business creating mismanagement within the organization, leading to the failure of main purpose behind the process of acquisition i.e. revenue generation (Rogen-Bakher, 2018).

To avoid this risk, mostly all of the leadership teams in ARM is intact and even the ARM headquarter remained in Cambridge, UK. SoftBank do not interfere in the day to day's activities of ARM, neither it influences the decision making processes in ARM (SoftBank Group, 2017). SoftBank only designs the long term strategic plans of ARM and has let ARM to operate as an independent business (SoftBank Group, 2017).

SoftBank has limited knowledge about the political and regulatory cultures of the market to operate in other countries such as Russia, South America and Africa where ARM is established in (SoftBank Group, 2017). In these countries, local government may not support this foreign company and encourage the local technology companies to compete, which may become challenging for SoftBank acquired ARM to manage its business in new geographic markets (SoftBank Group, 2017).

2. In conglomerate acquisition, where two unrelated companies acquire another, a shift in focus takes place in the parent company which acquired the other company (Boguth, Duchin & Simutin, 2018). It causes management to put huge effort to learn about the new business sector, operations of business, etc., which may lead to lack of concentration to the core business activity, resulting poor performance in all the sectors (Rozen-Bakher & Ziva, 2018).

SoftBank shifted its focus to develop the R&D sector of ARM and significantly doubles the ARM's employee count and has further plans to employ more engineers to successfully develop the next generation of processors and supporting technology that may the future customers look for (Financial Times, 2017; The Telegraph, 2018). However, due to such sudden increase in employee count ARM in FY2017 June suffered a loss of £48 million (SoftBank Group, 2018).

3. It also need to consider that different industries come up with different human values and employee experience who have worked in different industries, which leads to complication in human relationship and behaviour (Savovic, 2017). Lack of proper communication and cultural incompatibility can hurt decision making process, resulting in failure of acquisition goal. Also, while operating in different background, government plays a huge role in the functionalities of the company (Vuori, Vuori & Huy, 2018). Any changes in the accounting system can also cause huge confusion in the management.

Being an established brand and a world leader in chip designing industry, the strategic reasons for ARM to selling its business to SoftBank were

1. ARM was offered £24.3 billion; £17 per share which was 41% more than the all-time high closing share price of ARM; the largest deal price ever offered in European technology till date (The Guardian, 2016). SoftBank also gave the ARM shareholders an interim dividend of 3.78p a share (The Guardian, 2016). The compelling offer secured the future of the ARM shareholders today and in cash, which was hard to reject by the ARM shareholders (The Guardian, 2016).
2. A large acquiring company which has reputed brands, complementary distribution & marketing channels and finance that the parent company

can leverage allows the acquired company to gain its market share (Balogun, Hope, Johnson & Scholes, 2008; Carnall, 2007). The acquired company generally gets funded for expansion. The parent company may have a capital or debt capacity through which it can buy many small competitors to consolidate an industry. However, the acquired company due to its limited financial capabilities may not perform to its full potential by its own which narrows down its business (Balogun, Hope, Johnson & Scholes, 2008). Moreover, acquired companies which has small range of product lines with less diversification, with high dependence on similar types of customers has a risk of bankruptcy if it cannot adapt itself with the change of customer base and their demands (Balogun, Hope, Johnson & Scholes, 2008). Thus getting acquired by a large company helps it to diversify its products/services on offer along with its customer base (Balogun, Hope, Johnson & Scholes, 2008).

3. Parent company being a large organization has superior management and leadership in action (Carnall, 2007; Jeffs, 2008). It helps the acquired company to re-strategies their business plans to unlock value in the target businesses (Carnall, 2007; Jeffs, 2008).
4. Many a times, the socio-political-economic scenario along with changes in governance slows down the business functionalities of companies. As a result, to avoid any unforeseen financial complexities shareholders feel it safe to sell the company instead of keeping it (Jeffs, 2008).

ARM was the largest London-listed tech company in terms of its market value. The deal was made three weeks after the referendum decision where Britain voted to leave the European Union (E.U.). The Brexit news in 2016 created a confusion within its international investors, making the UK temporarily uncertain for any foreign investment (Forbes, 2016). During the perplexities of international relations of the UK with EU, the pound sterling gets weakened significantly by 11% and remains the lowest compared to the last 30 years. SoftBank's acquisition was perfectly timed both politically and financially, as the deal was made just after the announcement of Brexit and strategically takes the advantage of the situation to its own benefit and makes the deal just on time making it approximately £3.25 billion cheaper (Forbes, 2016; CNBC, 2016). During the normal political scenario acquiring ARM- a pride of the UK, would have

been challenging for SoftBank- being an overseas buyer, making it hard to buy by calling for political scrutiny (CNBC, 2016).

Implications of the changes in ARM and SoftBank due to the acquisition

In the third shift of digital revolution, companies and businesses are moving into the hot phase with AI, IoT and AR/VR. SoftBank believes ARM has huge potential to be at the nexus of many other important new technologies, especially in emerging technologies related to IoT which in future can bring in a paradigm shift in human history by changing how all the industries functions (SoftBank Group, 2019). ARM has more than 1379 cumulative licenses signed and over 4500 patents owned or pending (ARM Holdings PLC, 2015). SoftBank according to his long term strategy visions to bring in disruptive innovation in the technology of semiconductor industry through ARM (SoftBank Group, 2019).

The Disruptive Innovation Model (Christensen, Grant, Govindarajan & Davenport, 2016).

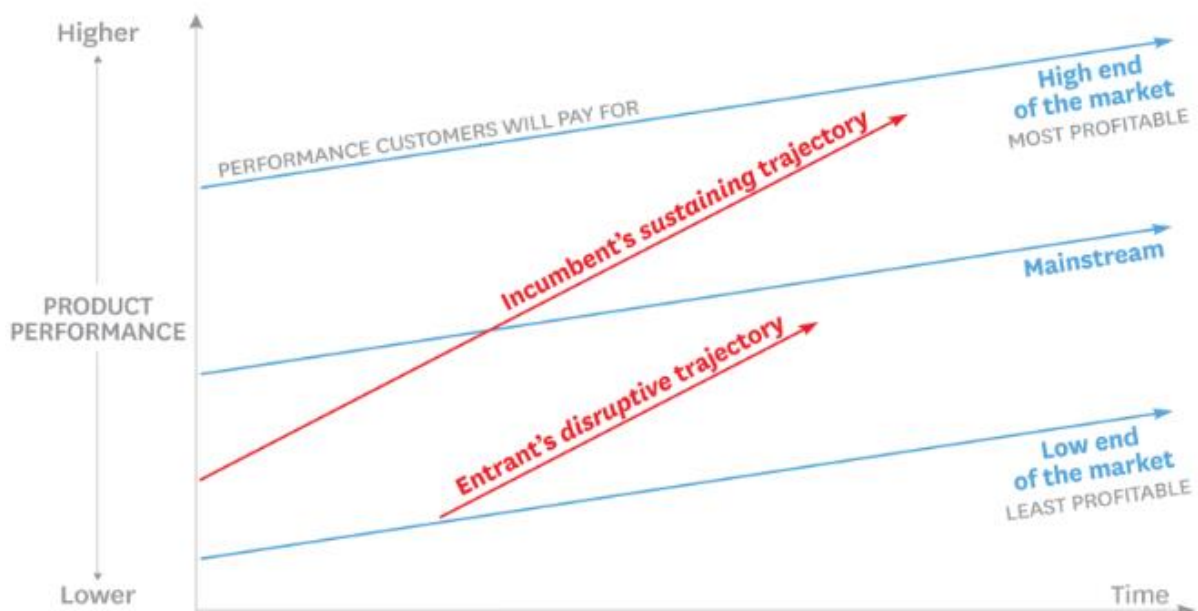


Figure: Disruptive and Sustaining trajectory (Christensen, Grant, Govindarajan & Davenport, 2016).

In the above figure, the red lines represent how products/services improves over time which is known as performance trajectories and the blue line represents the customers' willingness to pay for the performance, known as

customer demand trajectories (Christensen, Grant, Govindarajan & Davenport, 2016). As a leading company comes up with high quality product/services (upper red line) to fulfil the needs of high-end customers where the profit margin is maximum, it neglects the requirements of low-end clients and other regular customers (Christensen, Grant, Govindarajan & Davenport, 2016). It results to a market gap where incumbents can enter with their new products/services specifically for the low-end customers, yielding low profit margins (Christensen, Grant, Govindarajan & Davenport, 2016). On the lower red line- disruptive trajectory, the entrants enhance the quality of their product/services and shifts to the upper market, getting high profit margins and challenge the existing market leaders (Christensen, Grant, Govindarajan & Davenport, 2016).

Disruptive innovation originates exactly where the incumbents overlook-low-end or new-market footholds. SoftBank visions ARM as a future disrupter which can create a market where none exist to make the non-consumers into consumers (Christensen, Grant, Govindarajan & Davenport, 2016). SoftBank has invested heavily on the R&D department, so that ARM can come up with revolutionary technology, for example, Mbed OS, IoT Soc, Kigen SIM are some of the recent IoT device products launched by ARM (SoftBank Group, 2019). Before acquisition, ARM's market share was mainly limited to mobile application processor, but in FY2018, under the strategic plan of SoftBank, ARM has increased its market share in in-vehicle infotainment and driver assistance (automobile) from 10% (just after acquisition in 2016) to more than 75%, in embedded computing it has increased from 30% to 90% (SoftBank Group, 2019). ARM has successfully expanded into various sectors, such as AI, IoT, Security, 5G, Smart cities, Smart spaces, Utilities and energy, Wearables, Mobile Computing, Storage, Automotive, Retail and so on (SoftBank Group, 2019).

However, it can also be argued that it is hard to catch the mainstream consumers through disruptive innovations until quality matches up to their standards (Kumaraswamy, Garud & Ansari, 2018). Disruptive innovations should not be confused with sustaining innovations, which mainly focusses on incumbent's existing customers by further enhancing the high-quality products, such as coming up with additional features in a mobile (Taneia, 2017; Kumaraswamy, Garud & Ansari, 2018). Although, these innovations can be a gateway for a major breakthrough, but it mainly accelerates the sale of their products/services to its high-end customers only (Nugroho &

Khristian, 2019), similar to ARM who are making more efficient chips that work in multiple ecosystems with a wider range of devices.

Disruptive innovations are initially considered inferior by the incumbent's customers and they wait until the quality of the product/service rises (Skiba, 2018). A true disruptive innovation is tricky and the disruption is a process that takes place over the time through evolution of that product/service (Skiba, 2018). For instance, ARM first made chip for a personal computer, then phones and later over the time its chips helped to build smart phones, totally changing the mode of communication. It became disruptive by virtue of the path followed from the fringe to the mainstream.

SoftBank knows innovation itself starts with a small-scale experiment, be it disruptive or not. There is a tendency of the disrupters to focus more on getting the business model right instead of just limiting themselves to the product/services (Skiba, 2018; Taneja, 2017) , that is why SoftBank did not change the business model of ARM, as they believed it is a perfect fit with their organization's vision, where ARM does not manufacture any chips by itself, but generates its revenue by licensing processor designs to semiconductor companies that install the technology in chips used for the operation of various products, such as in autonomous driving, smart agriculture, monitoring and security, demand forecasting, preventative medicine, etc (SoftBank Group, 2017). To get the license companies pay an up-front fee to gain access to ARM's technology. The companies also pay a royalty for every chip installed in each and every product offered by the companies which are incorporated with ARM's technology (SoftBank Group, 2017). The ARM design pairs with various applications and can be further reused in a variety of chip families which can serve different market needs. Therefore, the same ARM design can be used in many different chips and can be used for more than 25 years, resulting in huge generation of revenue (SoftBank Group, 2017).

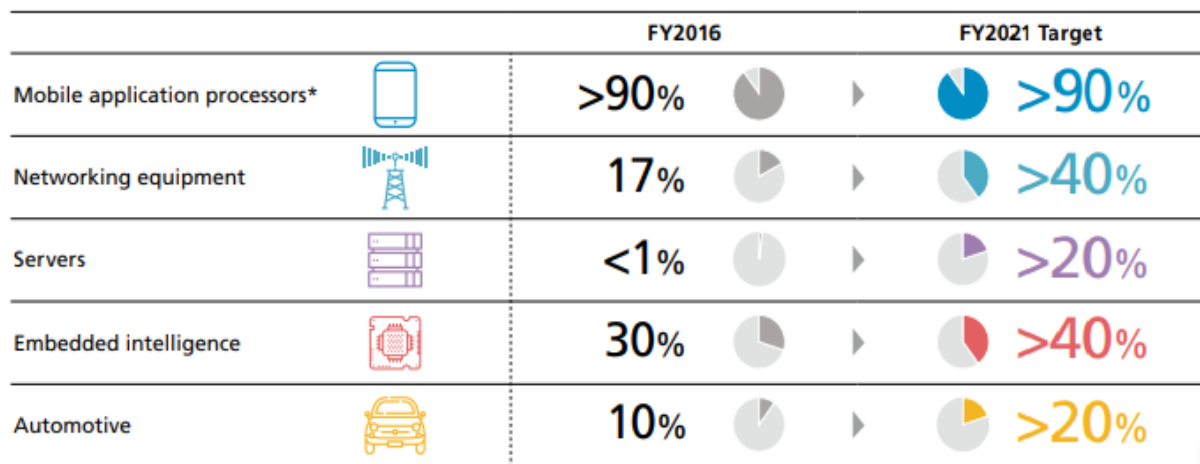
Rarely any product/technology is inherently sustaining or disruptive. When a new technology arrives, the company need to make a strategic choice between sustaining path or disruptive one. Incumbents generally prefers sustaining innovation as it already have targeted markets with large customer base and higher margins, whereas disrupted innovation has a poorly defined customers and a smaller market with less margins (Li, Porter & Suominen, 2018). Under the new leadership of SoftBank, ARM has now

shifted to disruptive innovation from sustaining innovation. In the fourth quarter of FY2019 ARM signed 32 processor licenses, out of which four licenses are for new technologies which are yet to announce (SoftBank Group, 2019). According to the prediction of disruption theory, when an entrant performs better than the incumbent, incumbent either come up with better product/services at best prices or they buy the entrant (Christensen, Grant, Govindarajan & Davenport, 2016). Although, SoftBank and ARM were not competitors, neither in related industry, however, as SoftBank realised ARM is on its path of disruptive innovation and has a potential to dominate its industry, soon SoftBank acquired it at the right socio-economic-political situation.

SMART KPIs:

Key performance indicators (KPIs) are essential to a business as it pushes the key objectives at the forefront of the decision making process (Parmenter, 2019; Martina & Martin, 2019). It is not only used for performance management, but also to strengthen employees' morale and encourage personal growth (Parmenter, 2019; Martina & Martin, 2019). Data driven enterprise like SoftBank collects data from all areas of its business activities to analyse and have an insight of it which leads to the formation of KPIs. Several factors can be considered while formulating KPIs, however in this case study SMART KPIs has been used to evaluate the organization's performance in comparison with FY2016 (just after acquisition) and FY2018 (latest) as it brings in clarity, structure and measurability (Dobson, Starkey and Richards, 2004). SMART stands for Specific, Measurable, Achievable, Relevant and Time-bound factors (Dobson, Starkey and Richards, 2004).

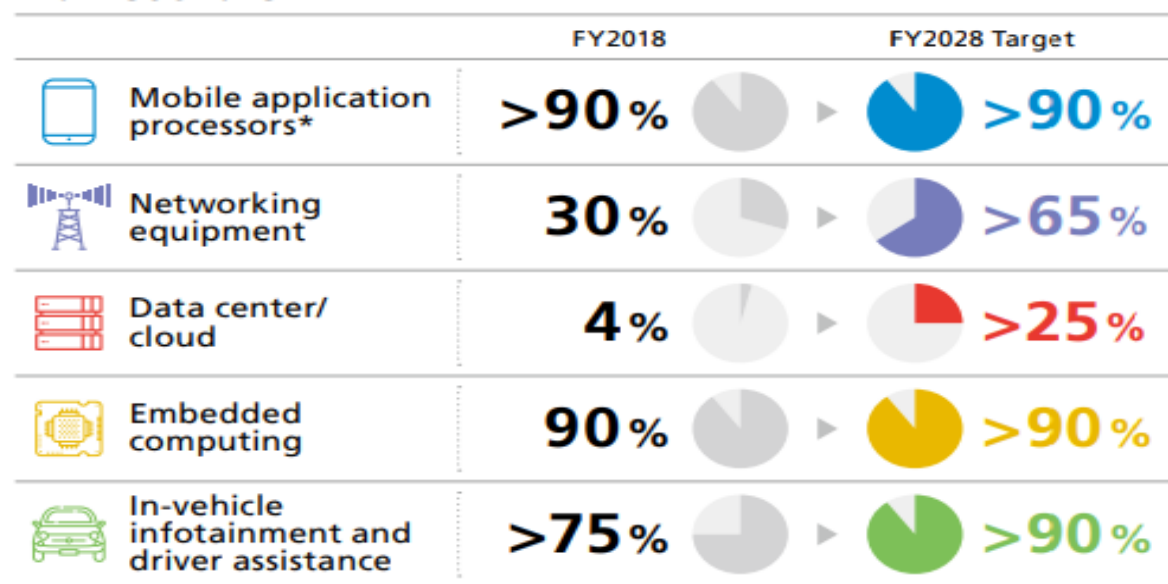
Market share



*Includes smartphones, tablets and laptops

Figure: Market share of ARM in FY 2016 just after acquisition (Softbank Group, 2017).

Market share



* Includes processors for smartphones, tablets, and laptops

Figure: Current market share of ARM in FY 2018 (Softbank Group, 2019).

From the above two pictures, its evident that ARM is clearly specific about what percentage of market shares it want to achieve within how much of time period and it is relevant with the ARM's business sectors. Interestingly, in just three years (FY 2016 to FY2018) it has outreached the targets it has

measured for the FY2021. The KPIs discussed here are only related to market share, but it is not limited to it. The KPIs can also deal with volume production (mass), economies of scale, experience effects, cost reductions, competitive enhancement, potential price advantage, partner margins enhanced and so on, but from the above discussed KPIs of market share it can be concluded that after acquisition the sales revenue has increased significantly, from where it can be inferred that the strategic acquisition of ARM has worked positively for both the companies.

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