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ROLE OF INTERNATIONAL MERGERS AND ACQUISITIONS IN CORPORATE INTEGRATION

Literature review

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Abstract

This paper highlights the role of international mergers and acquisitions in corporate integration. The factors that stimulate mergers and acquisitions activities bring real changes in the world economy. Mergers and acquisitions are a form of expansion: mergers can take place either as a statutory merger or consolidation and minority, majority or full acquisitions dominate the international market. It is very important to not confuse the meaning of the two terms. Multinational companies are forced by the competitive environment to adopt new strategies to penetrate a particular market and decrease the position of competition on global market or to counteract competitor action on the other market. Cross-border M&A is functionally classified in horizontal, vertical, concentric and conglomerate. The balance between these types of M&A has been changing over time and the distinction among these four categories is not always clear-cut.

Introduction

The competitiveness impact of business environment force the multinational companies (MNC`s) to adopt new global strategies with a strong integrative character, to penetrate a particular market and decrease the position of competition on global market, or to adopt offensive strategies in certain markets, to counteract competitor action on the other market, or combine them to obtain operational and financial synergy benefits. The dynamics of international competitive environment stimulate the intercompany integration, which aims in a diversified manner, the axis-cooperation, like the main effective way to adjust company to the complexity and uncertainty of international political-economic context. So, beginning with `60-`70 years it appeared and developed a series of business practices included in literature like broad category of international economic cooperation, or strategic alliances category (Popa, 1997).

In the context of what can be named successive integration, a company can start by creating consortia, or other forms of temporary interdependence, pass it then through the status of joint-venture, and finally proceed with foreign direct investments. If a company want to invest in a foreign country, can choose from two alternatives: integrate investments (foreign direct investment – Greenfield investments) or acquisition or merger of a foreign subsidiary or local companies, which can be private or public company under privatization (Bari, 2010). The common point of these two alternatives consist in the governance/control of national assets by a multinational company based on a continuous organizational commitment and in this way can contribute to develop the global production system (Figure1).

The second alternative, involves the management control of a resident company by a foreign company and open a wide range of options to mechanisms types that can materialize this control (Figure2). Merger or acquisition is not identical one to each other, hence, is no reason to distinguish between them. Both contribute to the international production development and involve management control of a resident entity in one country by an enterprise resident in another (UNCTAD, 2000).

International mergers

A merger is a combination of two corporations in which only one corporation survives and the merged corporation goes out of existence. In a merger, the acquiring company assumes the assets and liabilities of the merged company. Sometimes the term statutory merger is used to refer to this type of business transaction. It basically means that the merger is being done consistent with a specific state incorporated on this one (Gaughan, 2010).

International merger involves the unification of two legal entities of different nationality. The merger is treated by the majority of economists as a form of acquisitions and can be classified as *a statutory merger* and *consolidation*.

Statutory merger is the embedding of one or more companies that ceases to exist. Consolidation serves to put together two or more companies that cease to exist to establish a new company.

Through statutory merger, the company buyer disappears and his shareholders receive, instead of the old shares the new shares of company buyer, to a certain exchange rate. The company buyer acquiring all property rights of the acquired company, and in the same time, all obligations. Typically, the company`s shares are directly exchanged on acquiring company`s stock, the last one can buy and pay with cash or other financial assets. An example of statutory merger is Tata Oils Mills Company Limited with Hindustan Lever Limited (Gupta, 2010).

When we speak about consolidation, distinction between the buyer and the company buyer becomes irrelevant, because the two companies merge into a new company, the original companies cease his legal existence. In this case, the shareholders of both two companies received in exchange for old shares, shares in the newly established company.

Also, they have the option to pay cash, in their account of shareholders' rights, or acquire bonds issued by the new company. At international level, the inputs are more frequently than consolidations, because of the many difficulties in achieving a true merger, especially from legal points of view, in the absence of unifying legal statutes and rules applicable for the countries of original companies. This consolidation process highlight the power of a brand name: for example Xerox corporation - many people make copies of documents but refers of ``Xerox`` copies (Halibozek & Kovacich, 2005).

In terms of financial analysis, there are two types of mergers:

- *Operational mergers* - occur when activities of two companies are integrated to achieve synergistic effects
- *Financial mergers* - the merging companies will not be operated as a single entity and is not expected to obtain significant operational savings.

International acquisitions

International acquisitions are defined as a result of the combination of two or more different corporations, under the same leadership, the control are taking by the company who purchase, takeover a company by another one, with financial and managerial implications (Teau, 2009).

An example is Oracles acquisitions of Sun Microsystems with an important technology transaction in 2009 (Sherman, 2010).

In terms of control, exercised by the acquired company, international acquisitions can take three forms:

- *Minority acquisitions*: foreign company aims to control 10% to 49% of the company acquired votes
- *Majority acquisition*: foreign company aims to control between 50% and 99% of the company acquired votes
- *Full acquisitions*: 100% control.

The acquisitions that involve less than 10% of financial assets from host company is, in fact investment portfolio that is purely financial investment, does not imply a long-term relationship, so they are not a part of research objectives without minimizing their importance.

Cross-border M&A: waves and classification

Historically, mergers and acquisitions have occurred in waves (Gregoriou & Renneboog, 2007):

- *The first wave - the 1890s*: was generated by an economic depression; the main areas covered were oil, steel, tobacco and other basic industries;
- *The second wave - the 1910s to the 1920s*: the first boom of M&As took place in Europe and occurred for first time modern corporations processing;
- *The third wave - the 1950s to the 1970s*: was generated by international trade and economic expansion and involved many structural changes;
- *The fourth wave - the 1980s*: a greater desire to internationalize global economy, the main reason to justify consolidation and building corporations.
- *The fifth wave - the 1990s:* companies start with new expansion projects, favored by lower interest rates and other forms of financing.
- *The sixth wave - the 2000s:* since 2003, in the United State, Europe and Asia activity has been increasing.

Cross-border M&A can be classified in:

- *Horizontal M&As*: when a company combines their operation with another one from the same branch and in the same sector of activity;
- *Vertical M&As*: when a company combines their operation with another one from the same branch and in different sector of activity;
- *Concentric M&As*: when a company combines their operation with another one in different but related branch;
- *Conglomerate M&As*: when a company combines their operation with another one in unrelated activities.

The balance between these types of M&As has been changing over time. The distinction among these four categories is not always clear-cut. The present wave, which began in the early 1980s, started in the USA, continued in England and a few years later it reached the rest of Europe (De Gruyter, 2013).

Conclusions

International mergers and acquisitions are major reorganization measures for international industrial structures and involve not only economic and financial aspects, but social and cultural meanings of environment. The principle of an open market economy does not include a passive attitude to a well functioning market, but rather impose to maintain a constant vigilance. In this way allow a good functioning of market. In the current context, these measures are necessary, because the market integration are deepens. Regulatory bodies, councils or competitive offices analyze every possible business transaction and every implication of integration market or markets which includes corporate. These judge any disputes relating to transactions with companies. The main reason for competition policies that governing corporate transaction cover: normal functioning of markets, ensuring consumer welfare, that stimulate optimal resource assignments and providing strong incentives to increase quality and technique of efficient level production.

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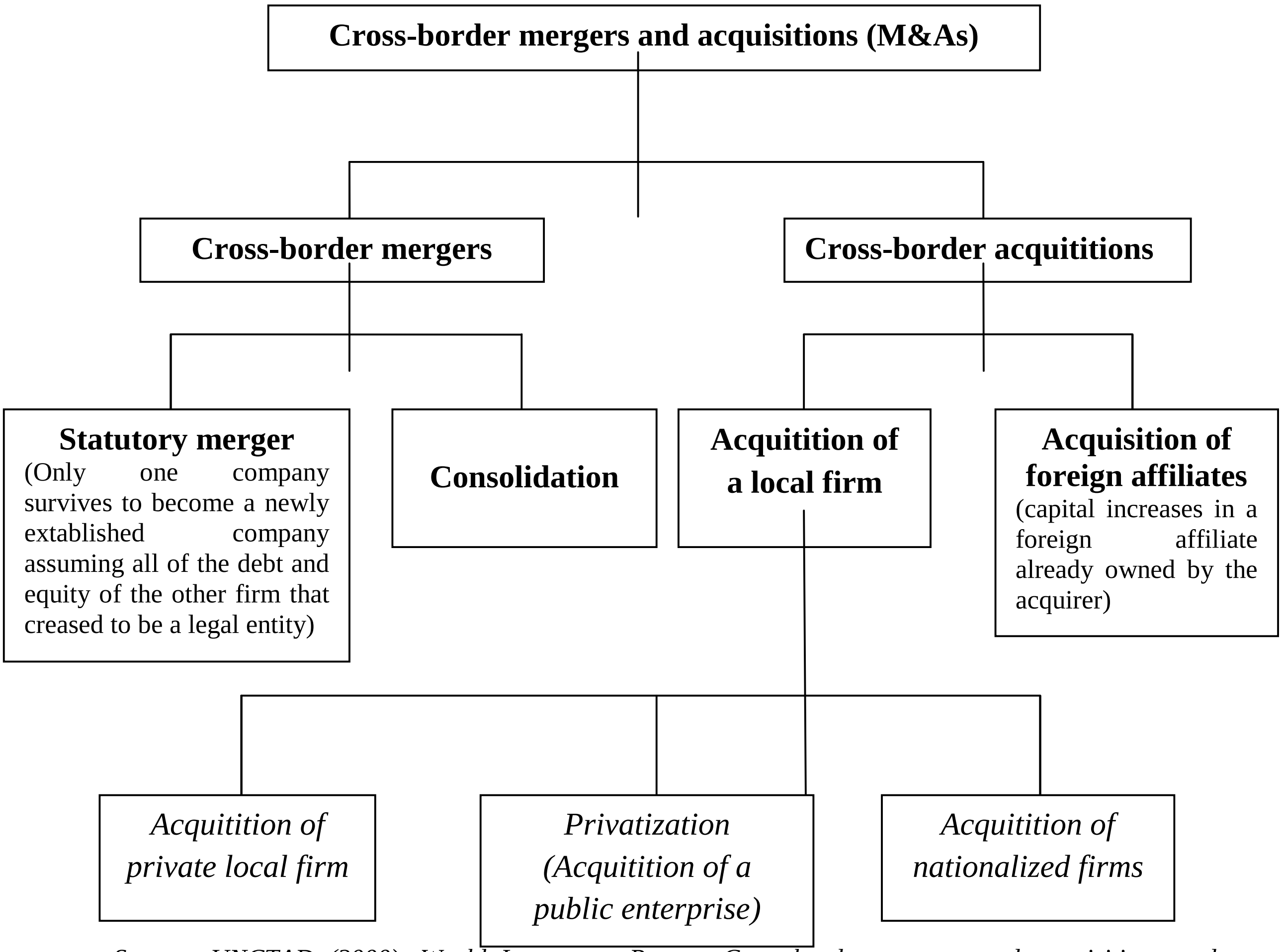
Figure 1: Axis - corporate integration

❖ Sample contracts ➢ Global contracts ▪ Turnkey contracts • Sample consortium	❖ Subcontracts ➢ Coproduction ▪ License • Franchise	❖ Joint-venture ➢ Mergers and acquisitions (M&A)
AUTONOMY		*INTEGRATION*
❖ There is not a continuous organizational commitment ➢ Decisions are made by the each firms	❖ It involves a commitment ➢ Decisions are made together	❖ Involves changes in the control and/or corporate structure
COLLABORATION	*STRATEGIC ALIIANCES*	*FULL INTEGRATION*

Source: based on Bari I., Tratat de economie politică globală, Ed. Economică, București, 2010

Figure 2: The structure of cross-border mergers and acquisitions (M&As)



Source: UNCTAD (2000), World Investment Report, Cross-border mergers and acquisitions and development, United Nations, Geneva