DETERMINATIVE FACTORS OF EXTERNAL MOTIVATION OF CROSS-BORDER MERGERS AND ACQUISITIONS IN THE ENVIRONMENT OF TRANSNATIONAL COMPANIES

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Abstract

The article touches upon the range of problems concerning detection and organizational filling of the determinative factors of external motivation of mergers and acquisitions of transnational corporations. There have been defined peculiarities of external motivation of mergers and acquisitions and expected management efficiency.

Key words:
world economic system, mergers and acquisitions, transnational corporation, external motivation, corporate strategy.

1. INTRODUCTION

Mega-deals have become a distinctive feature of cross-border mergers and acquisitions at the turn of the century. The biggest companies are forced to adapt to the constantly changing global market conjuncture affirming their position in the world economic system.

In recent years mergers and acquisitions have become a determinative growth strategy of many biggest transnational corporations (TNC). These were the latter ones that led this strategy on the level of one of the most common ways of TNC development. And, accordingly, there have appeared numerous studies in the western literature and the one of our country devoted to the consequences of applying this strategy. These papers don’t give a unique solution to the problems concerning different issues of mergers and acquisitions. Reasonability and effectiveness of such restructuring of the companies is still the subject of debates between scientists-economists, managers and other stakeholders.

2. PROBLEM DEFINITION

Issues of efficiency of such corporate deals were considered in the papers by famous foreign scientists and the ones of our country such as D. Vachon, D. DePamphilis, D. Johnson, P. Gaughan, A. Knysh, I. Sazonets, A. Subbotin, F. Reed, A. Rogach and others.

At the same time it is necessary to state the fact that science pays more attention to internal motivators of mergers and acquisitions and less attention is paid to external constituents. Traditionally external environment is considered in the light of the elements of the enterprise’s external environment that is reflected in the theory of classical management. But specific factors reflecting peculiarities of motivational behavior of transnational companies while implementing mergers and acquisitions are not taken into account at all.

The main aim of this article consists in necessity of precise defining the main external environmental factors which bring direct and determinative influence on the decision of TNC about making a deal of a merger or an acquisition. Simultaneously it is necessary to define economic and organizational content of each factor, degree and intensity of its influence as well as prospects of its development in case of interaction with TNC.

3. PROBLEM SOLUTION

Let’s consider determinative external motivation factors of merger and acquisition operations in detail.

1. Economic factors.

Macroeconomic environment influences demand as well as supply of cross-border mergers and acquisitions. Economic growth in the country stimulating a merger increases revenues and cost of capital in such a way that companies gain means for investing in other countries. In particular high price of stocks causes large cross-border mergers and acquisitions (of over US $1 bn value). It happens because highly valued corporate capital can be used as currency while paying for a cross-border deal [5].

Similarly, economic growth in the host country increases short-term profitability of the acquired company making it by this attractive for acquisition. Observed in the end of the XX century the prolonged economic growth and overheated equity market in the USA and Great Britain played a very important role in the increased number of cross-border mergers and acquisitions. These two countries became the largest players of the corporate control market in terms of cross-border deals both as acquiring countries and investing ones [8].
And vice versa, slowdown of the economic growth rate "plays" against cross-border deals. The continued trend to the lower economic growth rate in Japan during the last decade affected outward investments including such deals of mergers and acquisitions when Japanese companies were the merging ones. This process can be noticed also in other Asian countries. As a result of the currency crisis of 1997-1998 the number of cross-border deals with participation of these countries has decreased.

Thus, while slowing-down the economic growth rate motives of cross-border mergers and acquisitions lapse. This very process occurs nowadays when they say about the end of the fifth wave of mergers and acquisitions in the world economy.

The process of intensive growth of global competition in many production branches and service industries is also an economic factor of external motivation of the processes of cross-border mergers and acquisitions. As it was noticed earlier transnational companies use the strategy of cross-border mergers and acquisitions to achieve effects of economies of scale and to reduce increasing operating costs concentrating on their core activity. As a result, cross-border mergers and acquisitions are followed by the process of reinforcement of industry and commodity specialization.

2. Technological factors.

Nowadays new technologies rule the world. Application of the strategy of cross-border mergers and acquisitions can be often explained by high research and development costs, necessity to meet definite world standards and simplification while using communication means and getting access to information.

Reduction of communication and transportation costs facilitates usage of cross-border mergers and acquisitions by the company to realize its competitive advantages. The latest research in computer technologies and application software in particular influences size and scope of the corporate control market; optimal company size becomes bigger than it could before. Transnational companies can expand and strengthen their market position by means of mergers and acquisitions keeping effectiveness and flexibility of the management structure due to the latest developments in the sphere of information technologies [3].

New communication means also make the process of cooperation in cross-border mergers and acquisitions easier and more practical.

The latest developments in this domain reduce costs of building up and maintaining partnership bonds with other companies. They have changed the way of doing business in many branches and have given an opportunity to companies located in different parts of the world to exchange knowledge, information, distribution channels etc. As a result, companies located far from each other can apply knowledge of one another without any delay. Thus, positive changes in information and communication technologies created more favourable atmosphere for partnership and, therefore, to some extent gave rise to the increased number of cross-border mergers and acquisitions.

At the same time incredibly high costs of investments in research and development, doubled because of uncertainty connected with changes in technologies, make companies cooperate with other firms on the global market as in this way the firms get access to the necessary resources and can share risks in development of a new product. Cross-border mergers and acquisitions are one of the ways to achieve this goal [1].

Complexity of modern technologies also dictates its demands. Even companies leading in many branches can’t finance research and development in all the domains connected with their activity. Cross-border deals are one of the ways to solve this problem.

Technological changes cause appearance of new kinds of activity and new markets which are mainly connected with information and communication branches. Modern tendencies to growth of cross-border mergers and acquisitions reflect, to a large extent, efforts of the companies to lock in the emerging markets in these branches with the help of the Internet technologies and movable communication as well as due to integration growth in the global networks. Development of technologies led to reduction of the product life cycle; it modifies and complicates competition conditions in many economic sectors; therefore, cross-border deals also relieve in this situation [3,4].

3. Regulating factors.

Liberalization and deregulation of the economy taking place in many developed countries accelerated the globalization process also, to a large extent, due to cross-border mergers and acquisitions. In 1990s liberalization of international capital flow and direct foreign investments led to making the biggest cross-border deals with participation of a large number of countries. Doing business in another country and foreign assets have become the main vector of doing business in conditions of interdependency and interconnection of the economies of different countries [2].

Reforms undertaken in such branches as telecommunications, power engineering and finance had a considerable influence on the growth of mergers and acquisitions since there appeared
additional opportunities for making cross-border deals in the developed and developing countries. These branches like some of the other ones became open for foreign investors; there appeared an opportunity for foreign partners to own a large stake often reaching 100 % of the acquired company.

Privatization also facilitated growth of mergers and acquisitions as there appeared new objects for acquisitions and opened new economies that caused competition growth. In recent years the main reason for increasing the number of cross-border mergers and acquisitions in Latin America, Central and Eastern Europe has been the process of privatizing state enterprises in telecommunications, power engineering and other branches.

Integration of the regional markets in Europe and North America facilitates geographical diversification of activity of the enterprises as well as it occurs due to cross-border mergers and acquisitions. Today entering the global market is often a criterion in struggle for survival for many firms in different industries. Introduction of euro speeded up growth of cross-border mergers and acquisitions in Europe but factors of economic growth slowdown, to a large extent, leveled this influence as well as other processes in economic regulation.

Regulation processes, certainly, influence activity of companies in the sphere of cross-border mergers and acquisitions. Deceleration of the growth rates of cross-border mergers and acquisitions at the turn of the XXI century, to a large extent, is connected with toughening the control of the regulating bodies. For instance, the trilateral merger of aluminum companies «Alcan Aluminium Ltd» (Canada), «Pechincya SA» (France), «Algroup» (Switzerland) was stopped as such a merger was considered to be limiting competition inside the branch [6].

Globalization and liberalization processes also cause changes in corporate management that led to growth of cross-border mergers and acquisitions in many countries of the world. In such countries as Japan, Korea, France and Germany where in the past corporate management modes were based on close bonds with other firms, suppliers and financial institutions there appeared a trend to greater transparency and clearer property structure. In addition to the competition growth on the commodity and service markets changes in the corporate management structure lead to more flexible strategies of development of the companies.

Integration of financial markets, changes in corporate management having strengthened the position of the owners as well as influence of institutional investors also served as external motivation factors of cross-border mergers and acquisitions.

4. Routine factors.

This external motive was advanced as a theory by M. Gorth in 1969 [7]. According to this theory a wave of mergers and acquisitions is caused by disbalance of the economy, for example, as a result of the long economic growth, technological progress etc. This disbalance causes changes in individual expectations and increases the general uncertainty level that, in its turn, leads to differences in estimates between current company owners and potential buyers. Thus, it changes the very order of expectations that creates a wave of mergers since those who haven’t possessed assets previously estimate them of higher value than the current owners do and vice-versa.

This theory is based on the motive of restructuring the branches in the crisis conditions, in particular, as affected by the technological shock. Thus, mergers and acquisitions can become an instrument of restructuring the branches. At first larger industrial groups are divided into parts and then these parts are regrouped while restructuring.

This theory didn’t become widespread because of three quite obvious reasons and it was even called a theory of errors. Firstly, it doesn’t consider institutional scope of mergers and acquisitions at all. But particularly here, in macroeconomic explanation of the examined phenomenon, it would be worth mentioning. For instance, why didn’t the oil crisis of 1973 -1974 cause such a wave of mergers as it was at the end of 1960s though at that period there was no any particular disbalance? Secondly, practically each disbalance is a branch one and, therefore, it is necessary to make up a branch model of mergers and acquisitions but here again the theory appears to be probative only within a limited number of branches (oil and food processing industries can be good examples) but the same wave of 1960s can be a contrary instance. Thirdly, it is not obligatory that change of expectations has to cause changes in the structure of expectations.

But what can be said in favour of this theory is that any disbalance on the market and at the technological level really keeps abreast of factors leading to new investments as well as cross-border mergers and acquisitions. M. Gorth found positive correlation between intensity of merger processes and different measures resulting in growth of investment activity.

Within the bounds of this theory view of mergers and acquisitions as means of transmitting knowledge and innovation technologies between certain companies is rightful.
It is possible to define two main motive forces of mergers and acquisitions such as time and a strategic asset. These two constituents led mergers and acquisitions on the level of the leading strategy of many companies. Speed of getting the strategic asset which is understood in this particular case as acquisition of the whole company with the established organizational and production structures provides main competitive advantages and makes companies including the biggest ones look for the ways to achieve this goal.

Motivation of cross-border mergers and acquisitions lies on intersection of two vectors: internal motivation proceeds from the essence of functioning the company and the external one is based on the objective factors of changes in the world economy. It is also possible to divide internal motivation into general, inherent, to some extent, in all the types of mergers and acquisitions, and cross-border.

In terms of general motivation most theories proceed from assumption of rational choice while taking decisions concerning application of the strategy of mergers and acquisitions for future development of the company. The main motive in this classification is a motive of achieving growth of shareholders’ profit as well as a motive of “pursuing their own ends” by the company’s managers.

But as practice testifies motives leading to making the deals very often don’t have the expected result during the period after implementing the merger. And in the given context the cost estimation theory where the motive of the deal is defined as private information possession and, accordingly, assumption about capital market efficiency is doubted appears to be quite interesting for consideration.

The motive of tax saving is not basic but seems to be quite interesting for consideration. Recent boom of cross-border mergers and acquisitions has been mainly connected with the deals financed due to share exchange. Such financing in terms of the motive of tax saving appears to be the most beneficial for the selling company. Accordingly, keeping in mind conclusions of the cost estimation theory regarding to which most managers consider their companies to be undervalued, it is possible to mention at least one more stimulus facilitating cross-border mergers and acquisitions.

The process theory affirms the opposite: motives of mergers and acquisitions lie in the plane of rational choice; the motive of mergers and acquisitions is formed as a result of operating the combined routine processes acting inside the company. A lot of research corroborates the conclusion stating that mergers and acquisitions affected by many limiting factors not always appear to be the most reasonable strategy of development.

4. CONCLUSION

External outline of motivation finds its confirmation in the factors which provide external environment of a company’s existence. Economic factors, the factor of change and development of new technologies and knowledge as well as the factor of legislative regulation or deregulation of branches and economy were the main reasons of motivation of the processes under consideration on the external level.

Understanding the motives of mergers and acquisitions leads to an opportunity to estimate efficiency and effectiveness of cross-border deals as well as interpretation of their practical picture.

So, economic, technological and regulating factors underlay external motivation of the processes of cross-border mergers and acquisitions. Such latest trends as globalization, liberalization of commodity and service markets, changes in corporate management, integration of financial markets, introduction of euro, privatization, developments in the sphere of information technologies, high-cost investments in research and development which are the factors of getting competitive advantages played their role in this process.

REFERENCES