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MERGERS AND ACQUISITIONS AND THE STRATEGIES TO INCREASE THE MARKET STRENGTH

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Abstract - Mergers and acquisitions may seldom lead to the increase of the firms' market strength, which is reflected in a firm's capacity to set up the products' selling price and/or to increase its benefits. These operations allow the reduction of the competitive pressure by diminishing the number of competitors or raising barriers when entering the market. A series of operations have as main objective the improvement of the competitive position of the enterprise, exploiting or capitalizing the advantages of the target enterprise. This paper's aim is to present the microeconomic determinants of mergers and acquisitions analyzed from the perspective of market strength increase.

Keywords - mergers, acquisitions, market power, consolidating the position on the market

I. THE INCREASE OF THE INFLUENCE AND DOMINATION STRENGTH THROUGH MERGER AND ACQUISITION OPERATIONS

THE concept of *market strength* represents one of the theoretical foundations that explain why merger and acquisition operations occur.

Enterprises use merger and acquisition operations in order to increase their market strength and, perhaps, this is more obvious in the case of horizontal operations [1].

The market strength theory suggests the fact that firms merge or acquire other entities in order to increase their monopoly power and, thus, to establish the prices for products and services at an unsustainable level within a more competitive market [2]. The horizontal operations may lead to a limitation of outputs and an increase in the price of products or a diminution of the prices of factors of production [3]. Practically, through a horizontal operation, a firm eliminates a competitor, which may lead to the increase of the market strength of the newly formed entity and of the concentration of the market the firm operates on. The costs in terms of welfare resulting from the increase of the concentration degree depend on the competition level which exists after the horizontal operations have been concluded. If the structure of the market is getting closer to a monopoly form, the welfare costs and the welfare loss for consumers may be significant [4].

Often the firms struggle to mantain the market power and one way of achieving this could be represented by merging or acquiring another actor of the firm's environment. These types of closeness have, therefore, the purpose of reconfiguration of power within a network or of another sector.

The urge to have a greater economic power, in order to strengthen the firm's position as compared to the other firms, which are in direct competition relationships, represents a good reason to seek a merger or acquisition. This market strength can be reflected by the power of the acquirer to dictate on the market, and this, of course, at the expense of competitors and even society. Most times concentration operations, that have the motivation to increase market power, involve aggressive actions, unrelated to the rules of business ethics.

The horizontal concentration in the field of distribution can increase the negotiation strength of the firms, an example being the merger between AOL (America Online) and Time Warner made in 2001. By broadcasting through TV cable and on-line of Warner products (films, recordings etc.), the operation is framed within the category of vertical operations, allowing the group to become a leader on the market and, thus, strengthening its market position. As a result of this transaction, the AOL Time Warner company became the first wholly integrated media and communication company in the Internet century [5]. Yet, this transaction was under a lot of scrutiny, being considered one of the biggest disappointments in the history of corporate takeovers. The transaction has failed in creating shareholder value, many reasons being brought: the complexity to manage such a large entity, the exchange rate of shares was not correlated with the firms' operational performances, the recession which started in 2001 together with the explosion of the Internet bubble, the cultural differences between the two entities, the Hubris syndrome etc. [6].

Another consequence of gaining control over another enterprise is represented by the increase of the negotiation capacity, and thus the possibility to get more favorable conditions in the transactions carried out.

Reference [4] identifies three market strength generating sources: product differentiation, barriers when entering the market and market share. By horizontal operations of merger and acquisition, a company can considerably increase its market share. It may happen that, in spite of the increase of the market share, the lack of a significant product differentiation or the presence of barriers when entering the market hinder a firm to raise the price over the level of marginal cost. If there are no entry barriers on a market, the rise of the price will attract new competitors who see opportunities to obtain profits. Further on, the increasing competition in the market will lead to the subsequent diminution of the price. If the prices and profits obtained by the firms on a market are high, it will determine other firms to enter the market, increasing the competition level.

The continuous increase of the domination power allows the enterprise to obtain a monopoly position and that represents an extreme market situation, because the enterprise will have then a total control on the market and, thus, it could impose prices or quality standards. In 2001, the European Commission has rejected the project of merger between Schneider Electric and the competitor company Legrand, in the field of electric equipments because it was considered an example of getting an abusive domination power. Subsequently, the French company requested 1.6 billion Euros worth compensations from the European Commission in order to partially cover the losses determined by the ban of the merger with Legrand. In 2007, a European Court requested the payment of these compensations by the European Commission, in favor of the French group Schneider Electric, to block up the project to take over the competitor Legrand, in a transaction estimated to be worth 6.7 billion Euros [7].

If we take into consideration a strongly competitive sector, the merger or the acquisition of a competitor will not significantly change a player's market strength, and thus it will not be able to change the selling price, the production level, the quality standards, the commercial practices etc. Especially oligopoly market favors obtaining and increasing firms' market strength. The increase of the market strength depends on the dimensions of the companies involved in the operation and on the level of competition within the sector. Here the competition authority control comes into play. Concurrency control is provided in Romania by the Competition Council and at the European level by the European Commission. These institutions are in charge with controlling that the concentration of enterprises, by mergers and acquisitions, not strengthen or create a dominant position in a market. It should be noted that the concept of dominance is not measured only in terms of market share of the new assembly, but also in terms of bargaining power or to create barriers to entry. Therefore, the involvement of competition control becomes an important element related to firms' strategy development.

The market strength concept is one of the most important fundaments of merger and acquisition operations. The literature in the field provides an empirical support for this theory, but there are studies contradicting this hypothesis. Thus, certain studies state that the intensification of merger and acquisition activity would rather determine an improvement of the operational efficiency than an increase in the market strength. Therefore, the empirical study made by Eckbo [8] rejects the hypothesis of an increase in the market strength as a result of merger and acquisition operations. According to this researcher, the revenues obtained as a result of an horizontal merger or acquisition operation are not due to the increase in the market strength, but, rather, to gains in efficiency. On the other side, Kim and Signal's study [9] emphasized the fact that the concentration operations in the flight industry in 1985-1988, have led to an increase in the flight prices belonging to firms involved in such operations. Researchers have showed that the market strength, reflected in an increase in prices, has led certain gains in efficiency.

Reference [10] states that horizontal operations increase the firms' power of negotiation which can diminish the acquisition price of *inputs* if the suppliers' market is concentrated. Reference [11] also supports this idea, after analyzing a high number of horizontal transactions, carried out in 1980-1997. They have not identified a significant reaction from the clients, which shows the fact that the market did not perceive a change in the firm's market strengths a result of the transaction. Yet, they have noticed a negative reaction, manifested on the capital market by the suppliers, which means that the latter have noticed that the transactions lead to the increase in the market strength in relation to the suppliers. The same results were obtained by Shahrur [12], who analyzed 463 horizontal transactions carried out in 1987-1999. He states that the motivations of horizontal transactions are rather related to efficiency than the increase in the market strength, which corresponds to the ideas enunciated by Eckbo [8]. Just like Snyder [10], Shahrur [12] states that horizontal operations lead to the increase in the market strength as compared to suppliers when their sector is concentrated.

II. Consolidating The Market Position Through Mergers And Acquisitions

The evolution of the business environment, the competitors' actions or structural developments in the sector can determine the enterprise to react and adapt in order to maintain its position and, consequently, mergers and acquisitions represent favorite and useful instruments in this view.

Reference [13], [14] or [15] analyzed the role of the developing sector on the merger and acquisition activity. On one side, the increase manifested at the sector level might determine the enterprises in the mature sectors or the enterprises in decline to invest their resources in the growing sectors (we are talking about carrying out mergers and acquisition for the purpose of diversification), which might guarantee them long-term survival. On the other side, as showed by Huyghebaert and Luypaert [16], the firms situated in slow growing or more concentrated sectors are often determined to consolidate their position in the sector. Thus, the firms with little growing opportunities are engaging, especially in horizontal merger and acquisition operations.

Reference [14] stated that mergers and acquisitions play a double economic role. On one side, just like the internal investments, these operations represent instruments by which the firms increase their capital (an expansion role) as an answer to the growing perspectives. On the other side, the merger and acquisition operations seem to facilitate the contracting at the sector level. The concentration of firms within sectors suggests the fact that these operations often represent an answer to the shocks at the sector level.

In the case of the mature sectors, the external growth of enterprises through mergers and acquisitions can represent an instrument to consolidate their position on the market, increasing its market shares, even if, at the sector level, the demand diminishes.

Derhy (1997, quoted by [17]) emphasized the relation between a sector's maturity and the forms of mergers and acquisitions operations. Therefore, in the set off stage less concentration operations are carried out. In the growth stage, the enterprises associate this growing strategy through horizontal or vertical mergers and acquisitions to the internal growth policy and the alliances with other enterprises. During the maturity stage, the concentration operations are carried out in order that the enterprises obtain scale economies that can contribute to preserving the profits. Sometimes enterprises carry out diversification operations with the purpose of dispersion and diminution of risks. Of course, the diversification strategy has its own risks as shown in many cases in which large conglomerates formed as a result of a diversification strategy, faced financial, managerial, organizational problems. In the decline stage, firms are forced to take some radical decisions because, due to the competition pressure, the risk of exist the marketis is much higher. Thus firms tend to perform mergers and acquisitions operations which could bring them back in the direction of increased efficiency and profitability [17]. In a mature market or in a market in decline, the problem of growth is acute and determines the enterprises to gain market shares to the detriment of competitors.

In the matured or in decline sectors overproduction problem occurs often because enterprises develop their production capacity beyond the optimal level. During the economic boom forecasts on sales and demand are very optimistic and, on that base, companies increase their capacity. However, as the evolution of the economy is cyclical, in the decline phase, enlargement strategy previously adopted can become the greatest threat to the very existence of the company on the market. As a result, far too many products are on the market, prices fall, firms face stocks of unsold goods, money that is not running and thus lower profits. All these lead to blockages which can cause some firms to disappear from the market, while others may face a limitation of the horizon of strategic options especially in terms of growth and development. From that point of view, a merger or acquisition operations might have a positive effect because it may lead to the rationalization of the activities, assets and capacity of production, in order to balance the supply-demand ratio.

In this way, it can, also, explain the logics of one of the motivations which have justified the merger between Daimler and Chrysler in 1998, that is the contribution to the solution to the overcapacity and overproduction problem in the automobile industry in the USA. The merger operation has allowed the elimination of Chrysler's stocks, the improvement of operational efficiency, and the renewal of product range. Due to these initiatives, the newly formed group significantly righted itself and became more competitive on the market. Also, the transaction, which at the time was the most important industrial transaction of all times and the largest intercontinental transaction, has triggered the wave of concentrations in the automobile industry. More Asian companies made the object of mergers as a result of the Asian crisis (except for Toyota and Hyundai). In the same time, several British companies were acquired by German firms (Rolls Royce, Bentley, Rover) or American firms (Aston Marin, Land Rover) [5].

One of the major changes regarding the firms' strategy was determined by the phenomenon of globalization. Market globalization determines the firms to develop and expand through mergers and acquisitions, beyond national borders, so that they can act in the global competition game.

The characteristics of this global competition determine thus numerous enterprises to adopt progressively the internationalisation strategy. An example is the merger between the automobile producer Daimler and Chrysler, which anticipated the world market's globalization tendencies or the acquisition of Nissan company (35%) by Renault. Otherwise, Ferdinand Piech, the strategist from Volkswagen, has appreciated that in the future, at the world level, there will not be more than eight or nine automobile producers, as a result of the concentrations in the car sector [5].

III. Constraining The Entry In A New Sector Through Mergers And Acquisitions

The concentration on a market might be important and it might have a negative impact on the competition in as far as it contributes to erecting entry barriers. For Stigler (1968, quoted by [17]) an entry barrier is a production cost which a firm wishing to enter the market must stand, without the firms already existing on that market doing it. Bain (1956, quoted by [17]) identifies four sources of advantages after entering a market: the patents or the production secrets, the exclusive control on an input, the shortage of a factor of production, and the privileged access to financial capital. These advantages can be obtained by carrying out a merger or an acquisition operation, which can increase the costs for the new entrants.

In the same time, the existence of some entry barriers hinder other firms to enter the space of a company and to compete with the latter's strategy and operations. The existence of as high as possible barriers at the entrance facilitates the implementation of the strategy for the protected organization or organizations [18].

If threats like the entrance of new competitors or the appearance of fungible products appear, the enterprise can use various methods to discourage any attempts of entry in the sector.

The newly potential entrants can be represented by the newly formed enterprises (whose entry actually represents the natural continuity of their development strategy), the enterprises situated in connected sectors or markets (which follow the achievement of scope economies), the firms with important financial resources (willing to invest in profitable fields, to diversify with the purpose of dispersion and diminution of risks, following a strategic or financial logic) or by the enterprises which have as objective the enlargement of competencies within the network (through vertical integration) [2].

These threats are even stronger for the enterprise as the access to the sector of activity does not require a high cost for the prospective hankerers. In the face of the threats posed by the fungible products or the new entrants, the internal growth may be an insufficient and inefficient solution because it is done in a long time (necessary for the firm to accumulate the capital needed to grow and develop) and implies the existence of key skills that allows the firm to achieve the objectives set. Thus, a good solution is represented by the external growth through mergers and acquisitions (or strategic alliances) because it's a quick and efficient way to cope with these threats.

The horizontal concentration imposes cost barriers that can sometimes be difficult to pass. Potential new entrants will have to invest heavily to meet standards (related to cost of production, selling price, technology used, quality standards etc.) imposed by existing firms in the market. Investments usually increase proportionally with dimensions of the firms already existing on the market.

The vertical concentration may impose barriers to entry by firms that already on the market (being vertically integrated) and may prevent access to potential new entrants to the inputs necessary for the activity or to the distribution networks. In these conditions becomes almost impossible for the new entrants to develop a profitable activity.

Porter [19] showed that the entry barriers in a market can be strengthened when a company joins with one of the actors from its environment, transforming thus a risk factor into a growth opportunity. In this way, an enterprise may impose expensive entry norms which increase the risk that it would assume the potential competitors.

IV. Counteraction, Anticipation, Or Reaction To The Competitors' Actions Through Mergers And Acquisitions

Within the oligopolistic sectors and not only, the decisions to carry out the merger and acquisition operations may represent reactions to the competitors' behavior or they can simply represent anticipations of the competitors' strategic movements [17].

In the race for sustainable competitive advantage, the concentration movements, through mergers or acquisitions, represent an effective way for the enterprises to distance from the competition. Consequently, firms must be proactive and able to anticipate these movements and to react rapidly when these occur. In the competitive struggle, firms may gain an advantage through the target company's characteristics like technology, know-how, key competences, products, client profile and market segments or different valuable intangible assets.

Merger and acquisition operations can be subordinated to a defensive strategy in several situations and it can have more or less strong effects, for example:

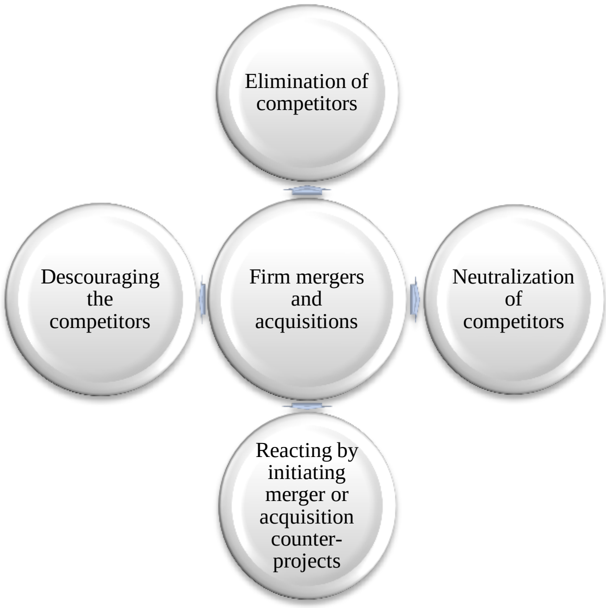

Fig. 1. Possible effects of firm merger and acquisition operations on the competitors

Merger and acquisition operations might represent, for the enterprises, an efficient reaction method to the threat of strong competitors. Also, a firm might initiate such operations to avoid becoming the target of a corporate takeover itself. Many operations were performed because managers felt that it is better to "eat" than to be "eaten" (being scared of certain consequences as a target company, which may have the acquisition process at the organizational level but also at a personal level). Table I and II (adapted about [17], [20]) provides a few examples of anticipation and reaction movements of some firms, movements that have caused the actions of some competitors.

TABLE I
EXAMPLES REGARDING ANTICIPATION MOVEMENTS TO THE COMPETITORS' MOVEMENTS

Acquirer	Target company	Movement	Objective followed/ Competitor targeted
IBM	Lotus	Anticipation	Microsoft
Google	DoubleClick	Anticipation	Microsoft, Yahoo
Yahoo	Skype	Anticipation	Microsoft, Google
Barclays Bank	ABN Amro	Anticipation	Position consolidation in Europe
Delta Airlines	Northwest	Anticipation	Consolidation on the international network

TABLE II
EXAMPLES REGARDING REACTION MOVEMENTS TO THE COMPETITORS' MOVEMENTS

Acquirer	Target company	Movement	Objective followed/ Competitor targeted
Microsoft	aQuantitative	Reaction	Google (acquisition of DoubleClick)
Total	ElfPetrofina	Reaction	ExxonMobil
British Petroleum	Amoco	Reaction	ExxonMobil
RBS	ABN Amro	Reaction	Barclays (overbid for ABN)
United Airlines	US Airways	Reaction	Delta and Northwest Airlines
Vivendi	Universal	Reaction	AOL- Time Warner

V. CONCLUSION

Over the last decades, the momentum that took the growth and development strategy through mergers and acquisitions adopted by enterprises is remarkable. These transactions have become unavoidable in the process of conquering markets, especially internationally. Without resorting to a merger or acquisition transaction, it often becomes almost impossible for an enterprise to develop in short time, to remain in the competition struggle and to reach a sufficient size so that survival is assured.

In the majority of countries, different sectors have been massively restructured through mergers and acquisitions. Actually, no international enterprise has ignored the possibility to grow and develop through merger with or acquisition of another player and we can even state that these operations have allowed, in many cases, obtaining the position of the world leader in certain fields of activity.

The development of corporate takeovers phenomenon in the developed countries, has spread in the last period to the emerging countries. In developed countries shareholders and investors are interested in this area from a very long time, yet in Romania, only since the 90s, mergers and acquisitions began to grow both in terms of number and value of transactions.

The mergers and acquisitions operations have seen an important upsurge in the last years and have become important instruments for achieving strategic or financial objectives of different sized entreprises. These operations are subordonated to the external growth policies and, by these, firms can facilitate the implementation of the specialization, vertical integration or diversification strategy. The merger and acquisition operations represent central elements of the strategic, economic and financial objectives of the firms.

An important aspect which must be underlined is that mergers and acquisitions do not represent a strategy per se, as it might seem at a first attempt to know this vast field, but they are instruments used to achieve a strategy.

A merger or acquisition operation determines enterprises, due to the competition's dynamics, to be more innovative, more proactive, more efficient, more operative and more profitable. A highly competitive environment implies benefits both for enterprises and especially for clients because the competition favors price decrease, increasing quality standards and advancing in technological and innovation area.

Merger and the acquisition operations may have a positive or negative effect. They can be focused effectively on getting synergies and achieving scale economies, increasing productivity, and getting lower price products, to the benefit of the clients. The firm growth and expansion operations through mergers and acquisitions can, also, have different objectives, which, instead producing positive effects, might have unfavorable results both on the business environment and on the society, by reducing the number of competitors, increasing the prices, constraining the entry in a new sector or dominatig the market. All of these can then turn against the company that can decade in the eyes of customers, investors and other stakeholders. Thus, sooner or later the market can punish these acts that are contrary to business ethics.

At the microeconomic level, the merger and acquisition decisions have the purpose to improve the enterprises' economic efficiency and to increase the market domination and influence power. Therefore, the concentration operations can be used as instruments to penetrate new markets, to obtain operational, financial or managerial synergies (synergies corresponds to an additional creation of value derived from grouping the companies concerned and which would not have been achieved otherwise), to attract new resources, to diminish transaction costs, or to diversify their activities. At the same time, concentrations might lead to the increase in the market strength, to consolidation of the firm's position on the market, to erecting entry barriers, or they can follow to counteract, anticipate or react to the competitors' actions.

The strategic coordinates of mergers and acquisitions operations are multiple and may correspond to some offensive or defensive type of actions. Of offensive actions we can mention entering a new market, adding new resources, strengthening the domination and the influence capacity, renewing or retechnologisating the firm. The defensive actions are, for example, the consolidation or protection of the market position, the surge to reach a critical size, the adaptation to technological evolvements, the counteracting, anticipating or reacting to the competitors' actions, the limitation of entries within the sector by imposing different kind of barriers.

Mergers and acquisitions represent a modality to transform the enterprises and are especially useful when the competition pressure increases and forces companies to adopt measures to remain competitive. The external growth and development of firms through mergers and acquisitions represents, for some time already, one of the most encountered ways for enterprises to expand. This is true even if the enterprises act in sectors under development or in mature sectors where acquiring a strategic resource that presents sustainable advantage is a serious aspect to achieve.

No matter the situation described, this type of development remains a common tool used by many firms, at one time or another of their development cycle.

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