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DEVELOPMENTS AND TECHNIQUES IN THE GLOBAL MARKET

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Developments and Techniques in the Global Market

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Abstract – The increased competition in the global market has prompted the Companies to go global for mergers and acquisitions as an important strategic choice. Mergers & Acquisitions (M&A) are the strategic growth devices in the hands of more and more Companies not only to stay in the competition but also to extend their margins, market share and dominance globally. The scale and the pace at which merger activities are coming up are remarkable. In the sense, mergers and acquisitions has become a strategic concept to grow quickly for a number of leading companies' world over. The booms in mergers and acquisitions suggest that the organizations are spending a significant amount of time and money either searching for companies to acquire or worrying about whether some other company will acquire them. Globalization, deregulation and technological improvements have resulted in increase in M&A across the globe. There is enormous literature existing in the advanced economies. However, very little information is available regarding M&A in India. Various sectors have witnessed differential involvement in M&A activity indicating higher participation by some. Particularly, certain sectors such as financial services and pharmaceuticals demonstrate higher M&A activity. To emphasise differential importance of sectors in M&A activity, it is necessary to conduct a sector-wise analysis. Accordingly, this study attempts to investigate the differential representation of various sectors in M&A. Further, it explores the role played by India in the rising global M&A activity. In light of this, it specifies the factors driving consolidation in the financial sector globally.

Keywords: Developments, Techniques, Global Market, Companies, Growth, Important, Mergers and Acquisitions, Improvements, India, etc.

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INTRODUCTION

Organizations are facing increased global competition, economic uncertainties, and changing markets. Technology is changing the way we conduct business and manage information. Outsourcing of significant functions within businesses and organizations complicates the landscape of supplier relations. Suppliers and vendor partners may be located in the same city, region or country. But they are just as likely to be located halfway around the world, adding new challenges to business management.

The growth of international strategic partnerships has risen exponentially in the last twenty years. Competing in a global marketplace has made it increasingly important to align business strategies with a risk management strategy that includes strengthening global supply chains and vendor partnerships. As Wiley points out, "In the near future, it is supply chains that will compete, not companies" (Armour et. al., 2011). Global supply chains must be carefully selected and monitored to ensure the competitive edge required to achieve success in the global market place. Typically, the first order of business has been logistics and operations. Businesses identify viable suppliers, hospitable host countries, lucrative markets, and amenable vendor partners world-wide. Then they set about drawing up agreements and operationalizing the new vendor relationships (Akinbuli & Kelilume, 2013). Then the realities of operating a global business hit home and businesses scramble to understand what went wrong.

In addition, organizations understand the importance of monitoring financial condition/operations, assessing quality of service and support, and monitoring contractual needs (Ballasubrahmanyan and Forsans, 2012). The degree of oversight activities varies depending upon the nature of the services outsourced. A number of multinational organizations indicated that they consider the extent to which the service provider conducts similar oversight activities for any of its significant supporting agents (i.e., subcontractors, support vendors, and other parties) and the extent to which the company may need to perform oversight activities on the service provider's significant supporting agents (Barai and Mohanty, 2010).

The globalization of markets can and has brought mutual benefits to the rich and poor alike. But it is only through better global politics that the values and rules critical to a secure and just world will be realized, and it is only then that the full benefits of a global market will be available to all.

Put another way, good global politics is critical to the battle against global poverty and unrealized human development, and to a more just and fair as well as a more stable and prosperous global economy (Capelli et. al., 2010).

REVIEW OF LITERATURE:

Globalization is shorthand for global capitalism and the extension of global markets. Markets that are bigger and deeper reward more efficiently those who already have productive assets: financial assets, land, physical assets, and perhaps most crucial in the technologically driven global economy, human capital. This is true not just across people but across countries too. The economic return to healthy and stable country institutions is huge (Global EDGE, 2008). Countries that are already ahead – with stable political systems, secure property rights, adequate banking supervision, reasonable public services, and so on – are better able to cope with market-driven changes in world prices.

The global market for skilled and talented people is another example of how markets can hurt the already weak. The efficiency gains and increased potential for growth of a global market economy are not to be disdained. But in modern market economies, there is a well-defined social contract that tempers the excess inequalities of income and opportunity that efficient markets easily generate (Gubbi et. al., 2010). The social contract may not be perfect, but it exists at the national level. Progressive tax systems provide for some redistribution, with the state financing at least minimal educational opportunities for all and some social and old age insurance. At the global level, there is no analogue. Statements of social and economic rights in the United Nations, and relatively minor transfers of financial and technical resources from rich to poor countries are as close as we have come to managing a global social contract (Karunagaran, 2011).

Global markets compound the risks and costs of market failures for the weak. What is true at the local level, where local polluters do not internalize the costs of their pollution, obtains at the global level, and often in spades. The rich countries that have historically emitted the highest per capita greenhouse gas emissions have imposed costs on the poor. As the biggest polluter in per capita terms, the United States is imposing costs not only on its own future citizens, but also on the children and grandchildren of the world's poor, who are much less likely to have the resources to protect themselves from the effects (Kaur, 2012).

Mergers and acquisitions have become a staple of newspaper headlines. Although most M&A activity is initiated by companies in the developed world, a recent A.T. Kearney study of global M&A reveals that a paradigm shift is occurring: Beginning in 2002, deals between developing and developed countries grew at an annual rate of 19 percent— far in excess of the industry average and four times faster than deals conducted within either developing or developed countries alone. While not large in absolute terms, this rate of growth indicates how rapidly the developing world is catching up in the M&A business (Leitão, 2010). This study highlights the key findings of the global M&A study, and lays out a strategy for established firms to gain a competitive edge from the changing dynamics they reveal. The rise of developing nations in M&A activity is creating unprecedented pressure on companies in the developed world (Lawrence et. al., 2010). Companies need the appropriate levers if they are to maintain their positions in the market.

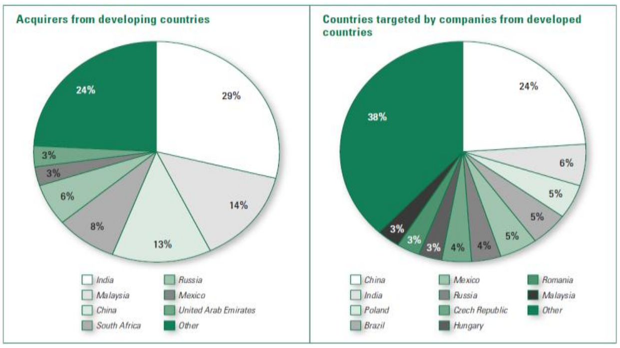

Figure 1: China, India and Malaysia are at the forefront of M&A activity.

Companies from India, Malaysia and China are at the forefront of M&A activity in developing nations. Together, these three nations accounted for 56 percent of the deals that took place from 2002 to 2007 (see figure 1). While India is spearheading the acquisitions market, Malaysia is a surprising second—primarily due to the government providing substantial tax incentives to engage in high-tech business deals and promote exports.

This is in sharp contrast to Chinese companies, which sometimes encounter political problems clinching deals. Consider the case of the China National Offshore Oil Corporation (CNOOC), which ran up against severe political obstacles in its bid to acquire U.S.-based Unocal.

China recently invested $3 billion in the private equity firm The Blackstone Group and now holds almost 10 percent of the firm's outstanding shares. We believe this is just a beginning. China recently founded a state-owned company to make $300 billion in investments this year, with the expectation that the organization will earn higher returns than traditional government bonds.

Russia is nearly in line with China. Its Stabilization Fund will cap reserves that exceed 10 percent of the GDP and divert them into the newly organized National Welfare Fund. This fund was established in February 2008 with an
estimated $32 billion for riskier investments. Such sovereign wealth funds (SWFs) state- owned investment funds that manage mainly foreign currency assets—are growing in number worldwide, and have been accumulating assets rapidly. Both oil-exporting countries such as Russia, Norway, Malaysia, and the Gulf States and non-oil-exporting countries in Asia such as China and India have gained huge current account surpluses in the last decades.

M&A as A Means of Globalization: Merger and acquisition (M&A) activities have increased rapidly since 2000. Historically, M& As have shown a cyclical pattern. There have been six waves of M& As for the past 100 years; these are those of the early 1900s, 1920s, 1960s, 1980s, 1990s, and 2000s. The history of M&A waves goes back to the 1890s. This first wave was largely characterized, both in the U.S. and Europe, by the consolidation of industrial production. This M&A wave formed intended monopolies through horizontal integration within industries. Horizontal integration led to the creation of many giant companies that exerted monopolistic market power in their respective industries. As a result, large companies could secure their capacities for mass production that led to an abundant supply of goods. The great merger wave for monopolistic purposes came to an end around 1903–5 when the equity market crashed.

Trends in the Global Capital Markets: After the severe financial crisis of 2008 and 2009, global capital markets have resumed growth. The global financial stock (debt and equity outstanding) grew by $11 trillion in 2010 to reach $212 trillion, which was above the 2007 peak level. The increase in the global financial stock was partly due to the recovery of global equity markets in 2009 and 2010, and largely due to growth in government debt securities (the latter is 14.6% above the 2007 levels while equities are still 17% below the level of 2007). Cross-border capital rose for the first time since the financial crisis in 2010, but still remains below the 2007 level.

However, the recovery in global capital markets has been unevenly distributed across geographies. Developed markets such as North America, Western Europe, and Japan were the major absolute contributors to growth in the global financial stock with a market capitalization of $6.6 trillion. Growth in emerging markets (up 13.5%) was much faster than in mature markets (up only 3.9%), and speaks to a shift in the global capital markets.

Globally, investors continued to diversify their portfolios geographically, with global foreign investments increasing to an all-time high of $96 trillion in 2010. Increased cross-border lending, debt issuance, and foreign reserves fuelled the growth in foreign investments; with foreign direct investments also attaining a new high of $21 trillion in 20103. With the focus of investors and investment firms shifting to high growth emerging markets, global imbalances have increased further. For example, most developed economies are now net debtors, with their debt funded by emerging markets.

Global Marketing Strategies: Multinational companies increasingly use global marketing and have been highly successful—for example, Nestle with its common brand name applied to many products in all countries, Coca Cola with its global advertising themes, Xerox with its global leasing policies, and Dell Computer's ''sell-direct'' strategy. But global marketing is not about standardizing the marketing process on a global basis. Although every element of the marketing process—product design, product and brand positioning, brand name, packaging, pricing, advertising strategy and execution, promotion and distribution—may be a candidate for standardization, standardization is one part of a global marketing strategy and it may or may not be used by a company, depending on the mix of the product-market conditions, stage of market development, and the inclinations of the multinational firm's management. Let us take an instance from Figure 2 and look at distribution with a magnitude of less than 50 percent on both coverage of world market and extent of uniform content. If we assume that the firm in question (represented in the diagram) does not have a manufacturing facility in each of the markets it serves, then to the extent that various markets have a uniform content, and presumably similar operations, there is a requirement for coordination with manufacturing facilities elsewhere in the firm's global network. Also, where content is not uniform, any change requirements for the non-uniform content of distribution require corresponding changes in the product and/or packaging. Thus, a global marketing strategy requires more intimate linkages with a firm are other functions, such as research and development, manufacturing, and finance.

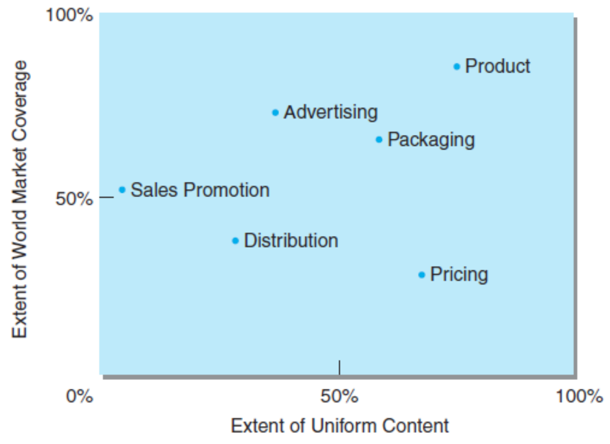

Figure 2: Variation in content and coverage of global marketing.

Factors Driving Cross-Border M&A Activities in the Global Market: There are two main factors driving cross-border M&A activities. As illustrated in Figure 3, these are industrial environment factors and strategic factors.

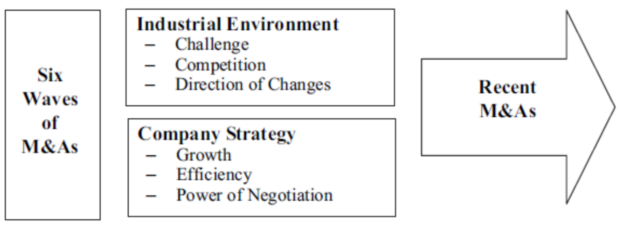

Figure 3- Factors Driving M&A – Conceptual Framework

Strategic Factors: Growth Strategy - Leading global companies have used M&As as a means of achieving growth, oligopoly, and globalization. Such companies have achieved higher growth rates than the market rates. Leading companies try to reach the goals of growth, oligopoly, and globalization through M&A. Organic growth produces a relatively smaller expansion of market share and globalization than that achieved through M&A. As such, M&A is a good strategy to achieve greater market share and global growth.

Mergers between Mittal (Netherlands) and Inland (U.S.) in the steel industry, Vodafone (England) and Mannesmann (Germany) in the telecommunications industry, and Ford and Volvo in the automobile industry are some good examples of M& as for growth.

Oligopoly Strategy - Leading companies tend to use M&A to secure business resources by establishing an oligopoly power in a specific market. In a market where competition is severe, companies try to reach a certain size to achieve economies of scale in a short time period in order to survive. M&A is a good way to seize production capacity and customers in a short time period. Mergers between BP (England) and Amoco (U.S.) in the oil industry, Johnson & Johnson (U.S.) and DePuy (Swiss) in the pharmaceutical industry, and DT (Germany) and One2One (England) in the telecommunications industry are good examples of M&As aimed at securing oligopolistic structures.

Globalization Strategy - The oligopoly strategy is closely related to globalization strategy. Globalization strategy is aimed at creating global oligopolies. The leading global companies used M&A as a vehicle to acquire global networks of target companies at once. Companies with a network in a specific area become targets of M & A even though they do not operate their businesses in the specific area. M & As between western companies and those in emerging markets have been intense since 2003. The extent of M&As between western and emerging market companies was only 12.8% until 2000, but increased to 28.8% by 2003. When the global networks of the acquiring and target companies do not overlap, M&A is regarded as the best way to expand a company that does not have operating experience in a target area. M&A activities in the emerging markets are significant in most industries except for advertising and home electronics. Daimler-Chrysler (Germany) and Mitsubishi (Japan) in the automobile industry and IBM (U.S.) and Daksh e-Services (India) in the computer industry are typical examples of M& As for globalization.

CONCLUSION

The present study makes an attempt to examine the impact of MA on financial performance of Indian companies. It is found that the profitability of a firm depends directly on its size, selling efforts and exports and imports intensities but inversely on their market share and demand for the products. In other words, firms larger in size or having greater selling efforts or higher presence in the international market or larger proportion of imported goods in the selling basket experience greater profitability.

On the other hand, the firms with greater demand for products or larger dominance in the domestic market record lower profitability in the long-run. However, MA does not have any significant impact on profitability of the firms in the long run possibly due to the resultant X-inefficiency and entry of new firms into the market. In addition, in-house R&D and foreign technology purchase also do not have any significant impact on profitability of the firms.

Thus, Indian firms fail to reap the benefits of MA in terms of profitability. In other words, MA in Indian pharmaceutical industry is not necessarily counterproductive and detrimental to the interests of the consumers. Rather, MA may benefit the firms in enhancing their competitiveness and thereby facing acute competition from the MNCs. This in turn ensures consumer welfare. Improvement in efficiency and competitiveness is reflected in large number of acquisition of foreign firms abroad by Indian companies. The findings of the present study, therefore, raise an important question, is there any necessity to regulate MA in Indian industry? In other words, should there be uniform thresholds of assets and turnover in regulating MA across industries, especially when the combinations are not detrimental rather beneficial to consumers' interests? More importantly, should there be any flexibility in the competition law for objective-specific assessment of MA? Addressing these questions in future research is very important, particularly for Indian industry, as the new product patent regime may encourage innovation and restrict competition in the marketplace.

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