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Mergers and Acquisitions and Economic Crisis. A Case Study Approach from a Qualitative Analysis in Greece

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Abstract

This article aims to examine the main issues in terms of Human Resource perspective that companies facing after Mergers and Acquisitions in Greece and within recession. For this purpose this article is based on a theoretical research in the recent literature and the results of a qualitative analysis in companies that completed a change like a merger or an acquisition.

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1. Introduction

The DEBT crisis in the Eurozone as well as the intense volatility of markets led to “free fall” of the value of mergers and acquisitions in the 4th trimester, resulting in strong shrinking of the commissions of banking consortiums, mainly those of Europe, according to a “Financial Times” publication.

The value of mergers and acquisitions has receded by 32% in the 4th trimester (compared to the previous) reaching the level of 375.3 billion dollars, due to the fall by 41% in European soil. As for the banking commissions, they receded by 8% (compared to the 4th trimester of 2010) reaching 72.6 billion dollars.

Europe was the area mostly hurt, since the value of mergers and acquisitions barely reached 2.57 billion dollars, the 4th trimester being the worse since the first tracing of this particular data in 2000, by the Thomson Reuters Company. It is noted that for the whole of 2010 the value of mergers and acquisition in Europe has increased by just 3.3%.

“Prospects for 2012 are grim. Either there will be a stabilization of the European crisis and a recovery of the merging activity, or deterioration and an even worse situation”, stated Paul Parker, specialist on mergers and acquisitions issues in Barclays Capital.

At the same time public issues fell by 27% for the whole of 2011, with the issuing of bonds following a respective course. In corporate level, only companies with high level of creditworthiness have access to markets,

whereas those of countries considered “problematic” are totally excluded. In any event, USA still “holds up”, even after the collapse of the agreement between AT&T and T-Mobile USA, with the value of mergers and acquisitions increasing – still in the 4th semester – by 12% in annual basis and the American companies corresponding to 40% of the world’s acquisition activity, as shown by Merger market company data.

1.1. Mergers and acquisitions as an instrument of economic development

According to some counselling units of ICAP Group, mergers and acquisitions have been highlighted as one of the main forms of strategic expansion and development of enterprises that keep gaining ground in the contemporary competitive environment.

The motives that push enterprises towards mergers and acquisitions are many and diverse. Motives change in different financial conditions and also if it is about a related or unrelated merger. A related merger may come from the motive of creating economies of scale or of creating capacity to satisfy the rising need for the product. On the other hand, an unrelated merger is probably due to differentiation of the business risk of the enterprise or the response of the reducing demand of the merging company’s product.

In some cases, the merging of companies may help a faster penetration in a new market (either geographically or in a new branch) relative to the organic development or the adoption of a strategy that possibly was costly and of high risk. In other cases, mergers and acquisitions have a defensive character, aiming at protecting the market share in a depreciated or concentrated market.

In general, the reason for merging one organization with another organization is to achieve its strategic objectives faster and with less cost compared to acting by itself, due to the scale economies achieved, to the Cross-selling ability and to the cooperation developed.

International studies conclude that mergers, for industry in total, vary significantly in proportion to the economic climate, namely increasing during development and decreasing during depression (Komlenovic, Mamun & Mishra, 2008). Indeed, the significant correlation between the economic cycle and mergers is self-powered for related as well as for unrelated mergers. Also, if the intensity of mergers differs according to the branch, circularity is still present. The general deceleration in an economy and the resulting decrease of demand leads in redundant capacity in a branch. Mergers can eliminate this redundant capacity by unifying the existing companies (Jensen, 1993). But during the depression the companies face restrictions in raising capital and cannot afford to pay the value of a business to merge (Schleifer and Vishny, 1992). Then the mergers/acquisitions are postponed until the market becomes more lucid. This argument also implies that the effect of the economic cycle in the financial suppleness of the business may lead to the fact that mergers accentuate circular fluctuations.

The above conclusions, which result from international bibliography, are confirmed in the current economic crisis for the Greek market. In particular, according to ICAP DataBank findings, the number of all kinds of mergers reached 345 in 2009 from 450 in 2007. Thus, the economic crisis has negatively affected the development of the realized mergers, obviously due to the above-mentioned reasons (restrictions in raising capital, high interest rates, economic instability).

Challenging markets create turbulence impacting demand, confidence, the competitive landscape and access to resources and capital. The M&A Services professionals recognise the importance and consequences of these factors and their potential impact on our clients, and we are at the forefront of creating practical solutions to support client strategies in the current global market environment.

Even though caution remains the prevailing sentiment, conditions for deal making are fertile. In a market environment where even modest organic growth can be hard to achieve, the corporate sector must consider inorganic growth opportunities, otherwise they risk squandering their hard won positions. Doing the right deal is about timing, intent, due diligence for fair valuation and execution capabilities.

1.2. Consequences in Greek economy:

We have to discern between mergers and acquisitions that were concluded until today and those who will most probably follow. Until today most of these cases had a positive impact for the Greek economy, since privatization of the banks brought high proceeds in the Public fund. Many new jobs were created by continuous development and the opening of new branches. The citizen-consumer got to know new products, has the possibility of choices

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