

MANAGEMENT STRATEGY OPERATIONS.

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Abstract: The aim of the present paper is to present a few operations belonging to the management strategy, which have the purpose to increase the value of a company. These operations are described through the legislation which governs them, the achievement stages and the success chances. Moreover, the paper also contains a brief description of some aspects of the value strategy, present on the Romanian market.

There have been enunciated several definitions of the management strategy, by taking into consideration the multiple aspects tackled by it. The present paper presents the strategies that follow, to a certain extent, the interests of some stakeholders to gain maximization of profit through increase of the enterprise value.

Thus, the strategy will have as main goals the following: the gain per share, the action value, the capital efficiency coefficient, the profit, the profit rate, the turnover, the market share, the labour productivity, the products and services quality.

According to the objective criterion and the type of approach, there are different types of strategies, such as: privatization, reorganization and joint venture strategies.

The reorganization is a very complex strategy which can be achieved through merger actions, acquisitions, divisions, disinvestments (the disinvestment is a cession of financial or enterprise assets, made by a company with the purpose of reassigning some of its assets, in order to make new investments, to return to its main domain of activity or to undertake action to pay the debts) and joint ventures.

These types of actions first appeared in the United States of America at the end of the 19th century, taking place in successive periods. The same situation was observed in Europe, where many mergers and acquisitions took place, especially as a consequence of the introduction of the Euro currency. The European acquirers expressed themselves actively on the international markets. On the Asian market, with the exception of the Japanese companies, the mergers and acquisitions are less numerous.

Mergers and acquisitions are methods through which the strategies of certain companies are realized, while for the investment funds and rated companies they represent the strategy itself. The purpose is nothing else but gain for the shareholders of the merging companies, but sometimes, at the level of the national economy, a monopoly situation may be created, which consumers perceive as having a negative impact. The reverse situation is when these strategies determine an economic development through new opportunities, employment possibilities and usage of resources for activities that have an increased value.

The merger is an operation through which two or more enterprises decide to merge in a single company. These process can be done in two ways: through absorption or through merger.

The merger and other similar operations are regulated at a national and European level. If the yearly turnover of the merger companies exceeds a certain percentage from the total sales obtained at a national and European level, the respective companies have the obligation to notify this situation to the European Committee, for giving it the opportunity to asses the merger impact upon the competition. The propose of these regulations is- as it has been stated in article no. 3 (f) of TCEE- to create a regime which

assures a loyal concurrence within the unique European market. This principle can also be found in article no. 3 (g) of the European Union Treaty, being an important part of the European politics in the domain.

In Romania, the legislative reform in the financial-economic domain made possible the regulation of the relative aspects concerning the merger, division and liquidation of companies, through article no. 233-245 of the Companies Legislation, through MFO 1223/98 (repealed), MFO 1078/2003 (repealed) and through MFO 1376/2004 (still in force). These laws point out that in our country are targeted not only the merger through absorption (a process through which one or several companies are absorbed by another company), but also the merger through fusion (a process through which a new company is created through the integration of two or more already extant companies) and company divisions. The merger/division has to be decided individually by each participant society, through voting within the General Shareholders' Meeting. The next step is the devising of the merger/dissolution plan, which will be registered at the Registrar of Companies in order to be examined by an expert so as to obtain the approval of the designated judge and to be published in The Official Gazette. The mergers and acquisitions that imply at least one.....society must be performed in accordance with the 297/2004 Law of capital markets and by taking into consideration the regulations issued by the National Committee of Movable Securities.

In highly developed countries the loss of independence of an absorbed company, does not necessarily imply liquidation or the erasing of the company from the Registrar of Companies (as it happens in our country), but determines only the loss of decision making capacity within the management process.

Usually, the companies resort to mergers, acquisitions, disintegration and joint-ventures in order to increase their value. Each has as its main purpose the maximization of the shareholders' income. In the case of the rated companies the first advantage goes to the shareholders of the purchased company, because the purchasing company has the interest to offer them a higher or a lower bonus.

In the case of rated companies, the transactions are considered successful when:

1- the created global value is higher; if the market is convinced that the transaction is followed by a substantial gain, the purchaser will increase its success chances and thus, the value of the shares; the market has also a positive reaction if there are signs which point out that the transaction has a hidden value

2-the purchasing company pays to the purchased (absorbed) company a reasonable bonus for the shareholders or purchases only the subsidiaries

3-the purchasing company gains the reputation of having a skillful management, especially if this situation lasted for at least five years

There are also failure situations which have various causes, such as: poor administration after the purchasing moment, a very high purchasing price, a wrong assessment of the market, over assessment of synergies.

The wrong assessment of the market takes place, when the purchasing company is not able to create synergies and to bring the necessary activity improvements, these two elements being cumulative.

Another failure cause is the over assessment of synergies. The new created company created through merger/acquisition must have a higher value than the cumulated one of the two companies extant before the transaction. The exploitation synergies have to be correctly appreciated, because it is necessary to increase the start benefits- a task which most of times is impossible.

Other mistakes that can lead to failure are: a poor preparation of the transaction, lack of secrecy during the preparation stage, lack of rapidity, overbidding, lack of integration after the transaction moment.

There are several stages that have to be completed in order to have a successful merger and acquisition. These stages are: preparation of the merger documentation, identification and selection of candidates, assessment of the selected candidates, negotiations, administration of integration

The first step in the preparation of the merger documentation is the assessment of the purchasing company. It is necessary to start from the idea that the accountancy figures express the company performances, while the per share result is a valid indicator. However, it is necessary for the per share result to have as starting point the global result. Furthermore, it is important to take into the consideration the prevalence of the economic over the juridical. This principle stipulates that the accountancy information is credible as long as the events and the transactions represented by it, are reflected in accountancy in accordance with the economic reality and not only with the juridical frame.

The assessment stage is followed by an analysis of the future value creation possibilities. The following three aspects are taken into consideration:

a- strengthening the main activities and gaining access to more customers, new segments of customers or to other products and services

b- exploitation of economies at a functional level (logistics and manufacturing, reducing costs and improving the product and services quality)

c-the benefit derived from technology or competency transfer taking into consideration the fact that other companies have developed unique technologies, which represent a source of actual value

In the case of the synergetic aspect, it is customary to mechanically estimate that the turnover of the future company will be equal with the sum of the sales obtained by the companies involved in the merge. However, reality usually contradicts this superficial idea, since the very merger process can disturb the relationship with the clients, which leads to losses. Another sensitive area is the one belonging to the sales. In theory, the sales increase, but there is the desire to obtain this increase with the same personnel. If the merged companies do not have exactly the same profit, than the sales will not increase.

In certain cases, the merger leads to value increase due to a competency or technology transfer. This possibility should be realistically even skeptically analyzed, in order to know exactly its dimension at the transaction moment.

The last action of this stage is the formalities establishment of the merger/acquisition operation: who will approve the operation, what are the aspects that have to be presented in front of the Board of Directors, the moment of this presentation, what aspects will be presented to the shareholders, which authorities are implied in endorsing this action, which are the criteria according to which the endorsing is given, the existence of any conflicts between the merger operation and the previous contracts signed with a customer, supplier or employee, the fiscal situation of the company at the merger moment, establishing if this situation will be affected once the transaction is over.

The second stage implies the identification and selection of candidates.

Most of time the banks are the ones that make the proposals but there is the possibility that the same offers have been made to other companies. This determines a quickening of formalities for fear of losing the opportunity or for having to pay more.

The best solution is to closely analyze the companies that activate in the same domain and to make an own file. The candidates have to be observed for a longer period of time and the information has to be occasionally updated. The analysis must be made according to some well defined criteria (rated or unrated company, national or international

importance, potential synergies, enterprise culture, affinities, and others). The conclusion will point out which companies are suitable for the proposal.

During the third preliminary stage, the selected candidates are thoroughly assessed. This work implies finding the way in which each candidate corresponds to the purchaser's strategy to recover more than he has invested in the acquisition and in the bonus that has to be paid. It is necessary to establish not only the inherent present value and the expected synergies but also the losses that can be caused by the transaction. The study of the inherent value is done by taking into consideration the appraisal made by the financial analysts, the obtained performances and the manager's statements. It will also be evaluated the moment in which the purchaser will take advantage of the synergies. It is also necessary to take into account the competitors' synergies. If the estimations reveal that these have a superior value, than it is better to give up the transaction.

W. Pursche has established three categories of synergies:

1. Universal. Any rational acquirer who has a good framing and sufficient resources, can take advantage of these synergies. This means to bring into discussion the economies of scale (for example, a better usage of fix costs, of an informatics department or the elimination of a higher extra position) and some opportunities, which can be exploited in order to obtain a price increase, a reduction of expenses and the elimination of waste.

2. Endemic. Only certain acquirers can take advantage of these synergies, usually those that activate in the same domain as the target. In this situation, are brought into discussion the economies concerned with the enlargement of the intervention field (a wider geographic area) and of the majority of exploitable opportunities (redundant sale forces).

3. Exclusive. The opportunities that can be exploited only by a certain buyer or seller.

Each of these synergies offers an advantage either to the buyer or to the seller, depending on their power.

1. For instance a universal synergy favors the seller, if this knows how to control it. If the buyer is the one who takes the control, then he will have the possibility to decrease the price (because there is no competitor). This situation occurs when the buyer does not necessarily want to purchase a certain company

2. The endemic synergies offer equal possibilities. However, the advantage goes to the better negotiator.

3. When the synergies are analyzed, it can be observed that ones favour only the buyer while others only the seller. Certain assets can be sold with the occasion of a liquidation, a division in subsidiaries or a leverage redemption. Moreover, there are values that cannot be perceived at a first sight: credit contracts through lease takeover, royalty payments, minor participation offers, dividend shares, and others.

The fiscal regime that establishes the rules according to which the merger/acquisition will take place, has a huge importance, since it can be determinant for the success of the operation. This fiscal regime is in a perpetual change, and therefore is very important for those implied in the transaction to have good and permanent working relations with the fiscal experts.

The fourth stage is very important, since it represents the very process of negotiation. The negotiations can take place for years in a row. If the target company has its own future plans and a good financial situation, then it is almost impossible to make the transaction. If the purchaser is willing to take part into a transaction, then the purchaser's negotiation qualities have to be exploited. He will try to convince the seller to negotiate only with him. He will try to pay as little as possible and avoid any further contract terms. If he pays more and fails to close the deal, soon he will be in the situation of being purchased.

A good negotiator always finds interference points which lead to reaching an agreement. For example, managing to have the same customers is a winning point; maintaining the same staff, could be a problem, but if the key-points staff is kept, then this could be an advantage. It is also important to point out that once a concession is made, it cannot be revoked.

The last stage, that of the management integration, which follows the transaction moment is very important because it implies the recovery of the investment. A bad management will compromise all the previous efforts.

Therefore, it is important to act rapidly on the following three aspects:

1. – defining a new activity model through:
 - a- the adoption of a sole strategy
 - b- the development of a new operational model
 - c- a clear definition of objectives, responsibilities and incentive measures

The purpose of a merger/acquisition is to create value; this objective will be part of the strategic plan of the newly created entity and therefore it has to be put into practice as soon as possible. It is important to point out precisely the collaboration methods of the two entities that now function as a whole. Ideally, this aspect is established when the agreement is signed.

2-dispelling uncertainties and solving conflicts through:

- a-putting up the basis of a managerial team
- b-identification of the best elements (employees)

c-setting up the communication frame in order to determine the staff to adhere to the politics of the new enterprise

The merger/acquisition process can cause, within an organization, a state of tension and uncertainty related to the fear of losing the job. It is difficult to overcome this state, because indeed some employees will be dismissed. Moreover, the majority of people are refractory when they have to face a change. This atmosphere has a negative impact upon the company activity and therefore it is necessary to take measures to limit these perturbations. The first measure to be taken is to form an efficient managerial team, whose first task will be to select the best elements (employees) within the organization, with whom the team will communicate permanently, involving them in the process of decision making. The management has to be open to the suggestions that come from these employees. It is important to convince these employees of the merger/acquisition advantages, thus turning them into the spokespeople of the managerial team. An efficient and permanent communication will dispel the idea that the future actions will have a secret character, since it is well known that secrecy generates fear. The existence of a calm and secure atmosphere within the company is reflected in the relations extant between the employees and customers and with the exterior world in general.

3. response to the exterior requires through:

- a- establishing an agreement with the most important customers
- b- communication with external partners
- c-fulfilling the requirements of the involved authorities

The ones that are interested in the consequences of the merger/acquisition are the involved authorities, shareholders, creditors and clients. It is necessary for these to be properly informed. A very important aspect of the relation with the authorities is the compliance of the deadlines.

Taking into consideration how sensible the stock market is, it is wisely to make a presentation in front of analysts in the very day that the transaction has been made, especially if the company implied is a rated one. Certain information are expressly required by the legislation of movable assets. Moreover, management representatives will contact

the most important clients in order to explain them the advantages of the transaction. This stage should be characterized by fast movement, because rapid changes dispel uncertainty. It is also very important to improve the cash flow as soon as possible.

Another highly used method to obtain value is the division, through which the patrimony of a company is divided in several parts, simultaneously sent to new or already extant companies. "This process bring benefits to the "mother company" and has as consequence a concentration of enterprises."

The division can be absolute (when the whole patrimony of the split company is divided) or partial (only a part of the company is split away and it is given to another one). The latter is considered a partial asset share and not a proper division.

This type of organization leads to amplification of activity and to concentration of enterprises.

The joint venture is another method through which companies can join forces. It is a risk reduction method, through which two companies join their production forces or promote a new product together. It can also be used as a method to penetrate a foreign market. In this situation the company collaborates with a local company thorough a partnership with the purpose of producing and/or promoting the product on the respective market.

Mixed societies, with foreign participation are a consequence of the internationalization of the business domain. Their spreading is determined by at least two tendencies: the first one has an economic nature and has as purpose the consolidation of the competitive capacity through the capitalization of geographical areas that have rich and cheap raw materials and the second one derives from the synergy action of the factors that have the tendency to globalize the world economy.

This type of association could also be called co-enterprise and has several points that make it different from the acquisition: they are partnership, no takeover bonuses have to be paid, there are no foundation costs and the risks implied are less. A joint-venture can refer to certain activity branches (sales, usage, development, production license, and others).

The success rate of this type of alliance is quite high, especially if it has an independent manager.

In Romania, the joint-ventures are represented by those companies that have been founded with foreign capital after 1973. The preferred domains were industrial and agricultural production, constructions, transportation, commerce, research and services. The Romanian part had to bring 51% of the capital.

After 1989, between 1990-1991, several mixed societies were founded, but the foreign contribution was quite low (around tens of millions of dollars).

More societies were founded between 1992-1993, the foreign investors showing preference for domains such as commerce, production and communication.

Conclusions:

-within a market dominated by mergers, acquisitions and divisions, the success chances of the companies initiating these actions, are moderate

-the mastery of these kind of processes implies a good knowledge of one's own company

-the selection criteria, the realistic offers, the discovery of synergies, the negotiation, the post-transaction integration have a well determined role and the neglect of one can compromise the entire action

-the joint ventures have to be autonomous and flexible.

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