IS THE MERGER AND ACQUISITION THE APPLICABLE ENTRY-MODEL IN THE CASE OF MACEDONIA?

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SUMMARY

Merger and acquisition is a well-known entry market model, which enables companies to strengthen its position. This paper aims to research the applicability of this model within the context of Macedonia. The paper theoretically reviews the concept of M&A, as well as illustrates concrete cases when companies enter and/or strengthen its position in the Macedonia's market. The paper concludes that M&A is used in several cases mainly from big companies and not for small ones.

Key words: Merger, acquisition, company, strategy.

INTRODUCTION

Most of the global companies start as national companies and expand through internationalizing their operations. They may have many motives of doing so. It can depend on advantages they hope to gain and requirements of their particular industry. The decision to locate in a particular country is guided by the existence of local and regional markets. This can result in that global companies acquire local companies to speed up the process of entering new markets (Morrisson J, 2002). Organizations spend millions on their identities (*Melewar & Saunders, 2000*). They build showrooms, produce packaging, design products, launch advertising campaigns, buy vehicles, train staff, and even replace doorknobs. If these activities are effectively coordinated, they present a clear, strong message that positions the organization as a whole.

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Merger and Acquisition, is becoming a significant strategy for big companies when entering foreign markets (Melewar, 2001). Many of multinational firms have after acquisitions and restructuring, have been forced to find new ways of identifying themselves in an effort to project their new circumstances. Therefore the need to put an even greater emphasis towards projecting consistent global corporate identity is of particular importance for further positioning.

THEORY

Theories of Mergers and Acquisition (M&A) are not mutually exclusive. A firm could, for example, seek to gain market power and at the same time be building an empire and believe that it can more efficiently manage the business of a firm or plant it has targeted as a potential acquisition. A merger refers to the combination of two companies. This entails that a new organization structure appears from the two combined companies. On the other hand, an acquisition is one company buying another (Bruner, 2004)
United States Department of Agriculture Economic Research Service elaborates two leading M&A efficiency theories. These are the disciplinary and synergistic merger motives which impact M&A.

a)**Disciplinary mergers** theory suggests that M&As discipline target firms' managers who pursue objectives other than profit maximization. Managers who do not maximize profits presumably would focus attention on goals other than profitability. Since this difference in focus can come at the expense of operating efficiency, a firm's performance may suffer. Poor performance does not go unnoticed, however. Opportunistic buyers may observe the poor performance accompanied by good assets and discipline the poorly performing plant by acquiring it. Thus, the disciplinary theory suggests that acquiring firms merge with poorly performing targets and improve their performance as new management realizes the full potential of a target's assets.

b)**Synergistic mergers** theory holds that firm managers achieve efficiency gains by combining an efficient target with their business and then improving the target's performance. Buyers recognize specific complementarities between their business and that of the target. Thus, even though the target is already performing well, it should perform even better when it is combined with its complementary counterpart, the buyer firm. The synergistic theory implies that target firms (or plants) perform well both before and after mergers.

After an acquisition, employees' behaviour of the acquired firm can act through four elements. They can work hard to support the organisation after the acquisition (loyalty), they can quietly continue to do their job as before (compliance), they can express their opposition, working to change things (voice) or they can reduce their effort and use working time for personal business (neglect) (Bourantas & Nicandrou, 1998).

ANALYSIS

Thomson Reuters Legal Solution emphasizes the main corporate entities commonly involved in private acquisitions in Macedonia are limited liability companies (LLC) and joint stock companies (JSC). An LLC must have a minimum share capital of Euro 5,000 and can have from one to 50 shareholders. The number of shareholders in a JSC is not limited and its minimum share capital depends on whether there is an initial public offering (IPO) for the subscription of shares on incorporation. The minimum share capital is Euro 25,000 if the JSC is incorporated without an IPO, and Euro 50,000 if an IPO is intended. JSCs that are not listed on the Macedonian Stock Exchange, that either made an IPO for a subscription of shares or have a nominal share capital of at least Euro1 million and more than 50 shareholders, are considered as JSCs with special reporting obligations. Parties that intend to acquire 25% or more shares issued by a listed JSC or a JSC with special reporting obligations, must make a public bid for a takeover under applicable rules.There are several cases of mix international and local companies, which have used the M&A to broaden its activities in the Macedonian market. Following are presented the most significant M&A in Macedonia which occurred during 2014 and beginning of 2015 (Jovanovic J. and Dragan I, 2015).

a)Telecom Austria Group/Blizoo Macedonia
Telecom Austria Group on July 2014 announced hat it was finalizing its 100 % acquisition of triple-play cable Blizoo Macedonia, from Swedish private equity house EQT, the price was undisclosed. Austrian telecom stated that the acquisition of Blizoo Macedonia, represents a significant step in the execution of Telecom Austria Group's convergence strategy, and will allow VIP Operator (its telecom operator in Macedonia) to buddle fixed-line and mobile services in the future. With the takeover of one of the leading cable operators in Macedonia, Telecom Austria Group gained 63000 new customers in the Macedonian market. Synergies in terms of resources, experience and processes are expected to open up new opportunities for further development, was claimed by Telecom Austria.

b)Telecom Austria Group/Telecom Slovenija Group

Telecom Austria Group entered into another merger with Telecom Slovenija Group, as they have agreed to merge their subsidiaries in Macedonia, VIP Operator (Telecom Austria Group) and ONE (Telecom Slovenija Group) both operating in the Republic of Macedonia. According to public information delivered by both companies, Telecom Austria Group aims to own 55% and have sole control over the newly created entity. ONE is the third largest mobile operator in Macedonia with a market share of 23.6 % and a customer base of about 562,000 at year half 2014. Telecom Austria has been offering mobile services in Macedonia via its subsidiary VIP Operator since 2007. Having a market share of 28.1 % and approximately 630,000 customers at half 2014, it is the second-largest operator in the country.

c)Phillip Morris International Management SA/Tutunski Kombinat Prilep AD

Phillip Morris International Management SA and the tobacco company Tutunski Kombinat Prilep, merged and through a joint venture, established the company Philip Morris-Tutunski Kombinat Prilep LTD in 2014. The capital of the newly founded company is controlled by Phillip Morris International Management SA with 51 % (also with voting rights) and Tutunski Kombinat Prilep with 49% respectively. This merger appeared as a result of a strategic partnership agreement signed by the two companies in May 2014. The newly founded joint-venture company has been fully operational since September 2014 and its main aim is the production of cigarettes under the Philip Morris brand in Macedonia.

d)Visteon Corporation / Johnson Controls LTD Macedonia

In April 2014 Visteon Corporation gained control and become the sole owner of the Johnson Controls LTD Macedonia, a company owned 100% by Johnson Controls Holding Company Inc. USA. The sale agreement between Visteon Corporation and Johnson Controls Company Inc. USA worth US $ 265 m, was officially signed on January 12-th 2014. With the agreement, Visteon Corporation acquired Johnson Controls Holding Company's daughter companies in Macedonia, USA, Brazil, Slovakia, Tunisia, Bulgaria and Germany.

e)Eurostandard Banka AD Skopje/ Postenska Banka AD Skopje

In April 2014, Eurostandard Banka AD Skopje gained 100 control over Postenska Banka AD Skopje . Eurostandard Banka AD Skopje previously owned 2/3 of the capital of Postenska Banka AD Skopje and bought the remaining stocks worth Euro 4.4 m. by the Republic of Macedonia. With this transaction Postenska Banka AD Skopje merged into Eurostandard Banka AD Skopje and ceased to exist as a separate legal entity. As the only merger or acquisition in the field of banking services in Macedonia in 2014, this merger set the example for the expected trend of mergers between banking and financial service institutions to take place in the coming years.

f)Mid Europa Partners / Danube Foods Group

Mid Europa Partners, a leading investment fund and the largest private equity firm focused on Central Europe and Turkey, at the beginning of 2015 announced that it was aiming to acquire a controlling interest in Danube Foods Group. Since its foundation in 1999, Mid Europa Partners has been managing capital totaling Euro 4.2 bn. With revenues of more than Euro 400 m in 2014, Danube Food Group is a regional leader in the field of milk and dairy products, confectionery, mineral water and energy drinks.

CONCLUSIONS

In the case of Macedonia M&A is an applicable model, used mainly from big companies and no so much from smaller ones. The analysis of this paper conclude that entering through M&A strengthen the position of the acquirer company and in some cases (such as Telecom Austria Group) the company incrieses the market portion with new custimers. The M&A happens mainly to already estabklished companies, which have its market segments and perspectives are ahead for the acquirer company. The paper also concludes that the M&A is not limited to one or few industries, instead it is widely streched, hereby only during 2014 in Macedonia industries such as banking, tobacco, cable-tel and telecommunication, food and beverages, were subject of M&A practices. The strategy of M&A is not limited to foreign companies, but it includes also local companies. It means there are cases when foreign companies acquires a local company, as well as when a local company acquires another local company.

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