Strategies of international growth in enterprises and strategic alliances

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Abstract

Growth emerges as an inevitable necessity especially under the contemporary economic conditions. The results aimed by merger, acquisition and joint venture are not merger, acquisition and joint venture but growth, staying power and competitive advantage. This study introduces the basic suggestions for the enterprises to achieve business success and to acquire growth, staying power and competitive advantage. It is underlined that in order to achieve these goals, the enterprises should analyze their corporate and financial structures and settle their strategies in line with the results of the analyses.

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1. Introduction

In general, enterprises desire to carry on their economic activities, produce and market goods and services and thus to grow and gain profit. Enterprises feel the need to grow in view of the factors such as economic and environmental conditions, developing technology, increase of customer needs and competitive atmosphere.

For the most part, the growth of an enterprise is deemed positive; however an inappropriate growth makes it difficult to behave flexibly. While the enterprises that are active in the market grow normally, it becomes difficult to survive for the enterprises that cannot adapt to the new conditions.

With the impact of globalization, continuance and enlargement of business operations have become the most important goals of enterprises. In order to achieve the said goals in a competitive atmosphere, enterprises will either utilize their own opportunities or benefit from external sources. With this aim, enterprises can have recourse to merger, acquisition or strategic alliance.

This study aims to examine the international growth strategies of enterprises in all their dimensions. To this aim, drawing on the concept of enterprise growth, firstly the definition, types, scales and causes of growth are explained. Secondly, the issue of merger is discussed as an international growth strategy and the reasons that lead companies to merge are illustrated through examples from the mergers of big

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companies. Thirdly, the various types and causes of purchasing, another strategy of international growth, are explained. The last part of the study is devoted to the examination of strategic alliances, their reasons, joint venture process and the possible jeopardies that would be faced in this process.

2. The definition, types and scales of growth

The concept of enterprise growth denotes the complex development during the phases an enterprise goes through from its establishment to the phase of maturity. Growth is a process of change and development. It implies increases in certain components of the enterprise with regard to either volume or amount. However, besides the increases in volume or amount, the developments concerning quality should also be mentioned. The quality aspect of growth involves the improvement of the quality of the material and human components that constitute the enterprise structure.

Enterprise growth can be divided into two: internal growth and external growth.

Internal growth can be achieved by means of enlarging the existing operations. In general, enterprises enter the process of growth on the basis of their own resources. Methods such as self-financing, borrowing or finding new capital can be used to meet the need of financing in the internal growth process. An enterprise can enlarge its market operations or seek new markets by increasing its production capacity via the said methods.

External growth, on the other hand, is the growth of an enterprise achieved by utilizing the resources and efforts of other enterprises. In other words, it can be defined as an enterprise’s embarking on merger or joint venture with other enterprises with the aim of increasing its share in the existing market(s).

An internal growth can take the form of horizontal growth or vertical growth while an external growth can take the form of horizontal growth, vertical growth, circular growth or mixed growth.

3. The causes that lead enterprises to external growth

Enterprises seek opportunities for developing the most viable strategies in order to maintain their competitive advantage and profitability operations which are the two basic aims of an enterprise. In fact, all the causes that lead an enterprise to growth can be summarized as one aim: to increase the net present value of the enterprise. The major causes that lead enterprises to growth are as follows:

- The necessity of lowering the costs,
- The advantages provided by the tax laws,
- Integration of the production method,
- Increased sales,
- Risk reduction factor,
- Elimination of the commercial boundaries,
- Privatization,
- Existence of a high number of firms that operate simultaneously,
- Gaining competitive advantage,
- Ease of financing,
- Unearthing of the unnoticed values,
- Synergy effect,
- Increasing profitability.

4. The definition, types and causes of enterprise mergers

Enterprise merger is the merging of two or more companies with each other to establish a new enterprise or the joining of one enterprise in another enterprise.
The primary aim of the enterprises is to gain maximum profit. As this aims is highly difficult to achieve in the perfect competition market, enterprises tend to eliminate some of the perfect competition conditions in order to gain more profit. Imperfect competition markets such as monopoly, duopoly, monopsony, oligopoly and duopsony emerge as a result of such tendencies. One of the various methods that give rise to imperfect competition markets is the merging of enterprises with each other (Can, Tuncer, Ayhan, 1996). Merger becomes especially inevitable if the growth rate of the enterprises is smaller than that of the market.

The agreement or mergers at various levels, which range from the loosest relationship to the complete merging of the enterprises, can be classified under six categories.

4.1. Enterprises that sign gentlemen’s agreement:

Gentlemen’s agreement is an agreement based on the promising of the contracting parties and which does not impose any sanctions in case one or more of the parties renounce it. Gentlemen’s agreement can be made by two or more enterprises to share the material resources and markets or to establish de facto monopolies by canceling price competition. Thereby, enterprises gain strength against the sellers, buyers or competitors. For, the aim is gain economic benefit by changing the existing conditions in favor of the parties that participate in the agreement (Mucuk, 1997).

4.2. Consortiums:

In order to become preferred bidder for large scale contract, enterprises from the same or different countries and from the same or different fields of expertise cooperate, combining their financial resources and technological or other advantages.

Consortiums are established in order to achieve goals such as obtaining the adequate capital, spreading the risks and etc. This cooperation ends with the completion of the contract and the incoming profit is distributed among the enterprises within the framework of the agreements. The member enterprises of the consortium preserve their economic and legal independency.

4.3. Cartels:

Carret is a monopolistic union established between more than one enterprise operating in the same field of production with the aim of canceling competition among the members of the cartel. The enterprises that unite in the form of a monopolistic union gain advantage in the market and hence increase their profits via canceling competition among themselves. In cartels, the capitals forming the union are not combined but used together for a specific purpose.

To form a cartel, the participating enterprises should be strong and effective in the market and have the biggest share in the production of a good or in a specific field of production. In this way, the cartel can gain advantage over the enterprises outside the cartel. Cartels are established in the form of “price cartel”, “sales cartel” or “quota cartel”.

4.4. Trusts:

Trust is a form of monopolization formed by joining of the enterprises under one management. Although they are similar to cartels, the economic and legal entities of the enterprises cease to exist and the enterprises are disincorporated in case of a trust. In this regard, trusts symbolize permanent union as opposed to the temporary union in the case of cartels. Trusts are giant organizations that keep down markets and restrict free competition and therefore they are banned in many countries.
4.5. Holdings:

Holdings are organizations which take other companies under control by buying their shares. Holdings consist of one parent company and subsidiary companies connected to the parent company. The parent company controls the management of the subsidiary companies active in the same or different fields by buying their shares.

Mathematically, 51% of the total shares of the subsidiary companies should be owned by the parent company.

Holding is not a legal group (Altuğ, 1996). The parent company and subsidiary companies protect their legal independence although they belong to the holding group. The basic aim of the holdings is to gather the parent company and subsidiary companies under one management.

4.6. Full-Fledged Mergers:

As the name implies, full-fledged merger is the merger of two or more enterprises to become one enterprise. Full-fledged merger can be achieved when an enterprise buys or joins another enterprise or when enterprises merge to become one, new enterprise. Merger of two companies to become one big enterprise or merger of two big companies to become a giant company are common in business life.

There are many approaches concerning the reasons of merger which share many common points. The said reasons can be listed as follows:

Advantages of large-scale operations: In parallel with the increase in production, the reduction in the average production cost unit or expansion of the fixed expenses over a larger production volume represents a general expectation. The large-scale operations that become possible as a result of the merger enables the organization to use the existing machines and instruments in a more effective way and to include the inactive means of production in the production process. The said operations also justify the use of machines with high-capacity and high-efficiency in production albeit they are expensive. Merges also facilitates technical information flow between companies and enables them to carry out research and development projects. The R&D projects, which are not regarded to be economic in terms of a single firm, become so in case of merger and can be financed more easily. The power and strength of the firms also increase by merger and it becomes easier for them to carry out marketing activities. The costs of purchase become more profitable as the amount of purchase increase as a result of merger and the expanding of fixed costs over a larger production volume creates the opportunity of lowering costs. Combining the services that perform the same functions, which provides a considerable degree of labor saving, is another benefit of large-scale operations that can be multiplied. In summary, it can be said that companies that perform large-scale operations as a result of external growth gain competitive advantages over their competitors in the market in many aspects.

Financial reasons: Fast-growing enterprises may face difficulties in finding the necessary financial sources for their growth. In such a case, it becomes reasonable to meet financial requirements by merger with enterprises with high liquidity instead of slowing down growth. As merging companies combine their financial opportunities it becomes possible for them to get higher amounts of funds under more favorable conditions. Merger is also performed by companies with surplus cash and good investment opportunities for the re-use of their capital. Companies that grow through merger also gain benefits such as reduction in credit costs, more profitable return by reason of balanced production and delays of tax payments.

Tax advantages: Benefiting from tax advantages is another important factor that leads enterprises to merger. The enterprises, which have accumulated losses but also the chance to make the related reduction on the future gains, can merge with a profitable enterprise. By this way they can obtain the opportunity to get rid of paying tax on the basis of the profits to be gained from merger within the frame of tax laws and loss reduction.
Advantages of reducing risk via differentiation: For enterprises, differentiation through external growth is considerably important with regard to spreading risk. While entering a new product is deemed a risk for a small enterprise, developing a new product by means of merger helps reducing risk.

Having a competent management: A good manager is an indivisible production factor. In order to benefit from such a manager completely, the scale of an enterprise should be of a certain level. Enterprises that lack a competent management and the opportunity to employ good managers can seek solutions to their management problems through merger. The said problems can be solved through merging an enterprise with a good management. By this way, an enterprise can gain the opportunity to have experienced and knowledgeable managers in fields such as marketing, financing and international operations.

Market power: Market power can be defined as the power to fix and apply a price higher than the already existing price level in a competitive market. There are three sources of market power: to prevent entrance to the market, product differentiation and market share. Considering these three sources, increasing market power through external growth is of considerable importance as mentioned above.

Psychological reasons: Individual motivations such as the desire to put oneself in good light in fields of management and financing; the ambition to manage a bigger organization; the will to guarantee the survival of the enterprise; and the anxiety of becoming old-fashioned may also influence the decisions of growth.

5. Definition and types of acquisition

Indeed acquisition is another form of merger. Acquisition is the purchase of one enterprise or most of its shares by another in which the purchased enterprise becomes connected to the purchasing enterprise and controlled by it. In order to enter a new market or to increase efficiency in the existing market, an enterprise includes another enterprise, which can not operate satisfactorily, in its body. The difference between acquisition and merger is that in acquisition all the assets of the purchased enterprise, including debts and receivables are added to the assets of the purchasing enterprise. In this strategy of merger, the purchased enterprises adopt the identity of the purchasing company.

In terms of both the purchasing and the purchased enterprises, the aims that lead enterprises to external growth via the strategy of acquisition can be listed as follows:

For the purchasing company:
- Increasing the stock prices and stock values in the market via cultivating an image of “strong enterprise” in the market and adding to profits per stock with the new opportunities gained,
- Increasing the growth rate of the enterprise more than that of the existing internal growth strategies,
- Balancing or perfecting the product line,
- Reducing the number of the competitors,
- Differentiating product line when the life curve of the existing product reaches maturity,
- Obtaining the necessary sources more quickly,
- Increasing the existing and potential returns via deducting the past losses of the enterprise from fulfillment,
- Increasing the efficiency and profitability resulting from the synergy to be formed between the purchasing and the purchased company with regard to production, marketing, channels of distribution, technologies, general expenses, research and development and etc.

For the purchasing company:
- Increasing the stocks of the owners and the value of the enterprise,
- Organizing and streamlining the activities by means of the sources to be obtained,
- Increasing the growth rate of the enterprise by means of the sources to be obtained from the purchasing enterprise,
• Increasing the market value of the enterprise and hence the stock prices,
• Contributing to the development of a strong strategy for differentiation by joining the existing enterprises owned by the purchasing enterprise,
• Holding a place in the top management of the purchasing company,
• Ensuring the survival and development of the enterprise in difficulty.

Acquisitions, which seem great on paper, may result in disappointment for many companies. There are cases where the purchasing companies could not find the synergy they expected for years or could not make people work together. There also cases in which the special features of the purchased company (its best employees or most valuable clients, for instance) were lost in the impractical combination of two companies. The success of acquisition is influenced by many factors such as the amount to be paid for acquisition, the management and employees, cultures, assets and competition principles of the companies.

6. Definition and types of strategic alliance

Strategic alliances are agreements between two or more independent companies which come together to cooperate in line with a specific strategic aim. Strategic alliances, which increase in parallel to the increase in global competition, encourage national companies to enter into competition in global scale and provide international companies with competitive advantage by reason of the facts that there are many growth activities, that companies have sources to complement each other and that these kind of alliances create synergy.

Strategic alliances may be entered into between competitors in the same market, between producers and clients; or between enterprises from different markets.

Strategic alliances can be grouped into three categories:

6.1. Joint Venture:

In joint ventures, the cooperation between the enterprises reaches the level of ownership or shareholding. In order to carry out a specific project or business activity in a specific field together, enterprises start a new enterprise with a new title and identity by combining their assets and skills. However, as opposed to merger, the individual corporate identity and assets of the main enterprises also continue to exist.

The main aim of the new initiative is to carry out jointly the specific projects or business activities that the main enterprises would have difficulty in or would fail carrying out individually. After the completion of the project the enterprise, which was started with the aim of carrying out the project, can be completely liquidated as its task is finished.

6.2. License Agreements:

License agreements can be considered as one of the easy ways of entering external market. By license agreement, licensor sells a production process, technique, brand and patents to a licensee for a consideration.

With license agreement the licensor party produces its products in a foreign country, in other words makes a foreign investment but it does not spend capital for this, hence does not run a risk. The licensee enterprise allowed to sell the products pays a certain share for each product to the licensor. This share is called royalty.

6.3. Franchising:
Franchising is the assigning of one enterprise of the selling of its products to another enterprise by granting it the agency or authority to effect sales. This kind of cooperation is a common strategy (Dinçer, 1998).

In the franchising system, with an agreement the enterprise owning the patent-right assign the right to produce and sell a certain commodity or service to other enterprises with the defined title, standards and commercial methods. In this case, franchiser gives the guarantee to the contracting independent enterprise of being the exclusive enterprise in a certain region. In consideration of this, the independent enterprise guarantees to pay to the franchiser the franchise fee and usually a certain percentage on the sales proceeds determined in the agreement. The assignment of a commodity or service is one of the most important differences between the franchising system and the agency or dealer system.

With the franchise agreement, a continuous business relationship is established between the contracting parties. The best part of this system is that a person both owns an independent enterprise but he is still not alone. An entrepreneur who enters business life as the owner of a franchise also buys a proved and well-known brand, a certain image and the experience of franchise.

7. Reasons for setting up a strategic alliance

The aims that lead enterprises or strategic business units to set up a strategic alliance can be listed as follows:
- Acquiring new technologies and/or production opportunities and skills,
- Gaining the opportunity to enter easily to a specific market,
- Gaining the opportunity to share the financial source needed for entering a new market and the consequential risk with the partners,
- Creating a competitive advantage or strengthening the existing one by bringing together the privileged competitive advantages of each partner.

8. Alliance process and the ways of protection from the hazards that would be encountered in this process

Strategic alliances are formed as a result of a specific process. Starting out with the analysis of the enterprise is useful in terms of clarifying the position of the enterprise on the way to form a strategic alliance. An enterprise evaluates the decision to form a strategic alliance via the said analysis. Strategic decision consists of three sub-phases: situation analysis, definition of the potential of strategic alliance and evaluation of the return potentials for partners.

After deciding to form a strategic alliance, parties should analyze issues of form such as the field of cooperation, intensity of cooperation and growth opportunities.

The field of cooperation is determined on the basis of the direction of the cooperation and the related value chain activities. The intensity of cooperation depends on the degree of resource allocation and formalization. This phase is the fine tuning of the formalization of the cooperation. The determination of the term of cooperation is of crucial importance for the alliance. When cooperation is mentioned, it is often assumed that the partnership is formed by two enterprises. However, more than two enterprises can join the strategic alliance. This phase may give rise to a network of different companies or enterprise units to which each party contributes to the general system with its own skills. Analysis of growth opportunities should cover enterprise systems and processes, products and services, skills and issues related to market.

The next phase is the selection of partner. The focus of this phase should be basic harmonization, strategic harmonization and cultural harmonization.

Basic harmonization becomes possible when the activities and expertise of two companies complement each other so as to increase the return potential while strategic harmonization is possible.
when the aims of two companies are in harmony. Cultural harmonization, on the other hand, requires the two companies to be ready to accept the cultural differences of each other.

Although strategic alliances offer several potential advantages to partners, it is not always easy to realize them. It is important to select the right partner as well to be able to manage the process duly. The three steps that minimize the potential hazards are:

- To determine the aims that express in clear terms how the company will benefit from the cooperation,
- To define potential partners and evaluate the advantages and disadvantages of each,
- To reach an agreement concerning the critical success factors (Luffman, G. & Lea, E. & Sanderson, S. & Kenny, B. 1996)

9. Result and suggestions

Merger has become attractive for companies on the basis of the facts that the companies, which worry about their survival in the face of the rapidly changing competitive conditions or which aim to grow stronger in the face of fierce competition, plan to grow by merger and even to have a say in the markets by showing themselves off on the international stage.

Consequently, companies should grow by choosing the appropriate size for an enterprise via using its existing size and capacity in the most efficient way and by increasing the activities of the enterprise in consideration with the changes in the external environment. By this way, it becomes possible for a company to become more profitable and survive.

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