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The Mergers. Their importance in the current competitive environment

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Abstract

Over the last decades, a competitive business environment has led firms to make a great deal of changes. Several business strategies have been implemented to keep consistency and even growth faced by strong global economic forces. Agreements and joint ventures are today's common actions to look for strength, a bigger share market or new markets, access to new technology, etc. These agreements are negotiated among businesses in all regions and countries all over the world. Actual economic conditions clear the way for some alliances to end as acquisitions of the strongest firms. Mergers, understood as the union of two or more firms to build a new enterprise to make several ends meet, constitute a present phenomenon nowadays. In some cases, firms are merged as a common agreement. Some other cases are a result of hostile acquisitions, as opportunities to expand or as newcomers to other regional markets. A merger involves productive, distribution, and commercial activities reorganization. Goals are increasing efficiency, wider possibilities for innovation, and a better market position. Our purpose is to outline fusions' relevance as an entrepreneurial and strategic partnership for organizations in an actual competitive environment. Firstly, merger history examples are outlined and a theoretical presentation is aborded on concepts, types, reasons to go through, and success and failure factors. Several fusion cases are shown and a final reflexion is outlined.

Keywords: fusions, reorganization, entrepreneurial association

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INTRODUCTION

The rapid changes in the global economic environment have led to transformations in countries and economic organizations. In the 1980s, the opening of economies, the subsequent reduction of trade barriers, and favorable conditions for foreign capital entry marked a significant shift. In the 1990s, the formation of regional blocs and the proliferation of productive links, such as alliances and subcontracting processes, further characterized this evolution.

This progression has rendered obsolete the political division of the world with customs protecting markets. New conditions determine the creation of new corporate strategies that recognize the strengths and weaknesses of organizations, production methods, ways of thinking, and the business environment. Threats, risks, and opportunities are acknowledged.

Technological innovations in information technology and telecommunications are integral to these changes. The introduction of new technologies signifies the transition from bureaucratic and rigid organizations to decentralized and dynamic ones. Technological advancements contribute to the creation of network relationships within and among companies. These relationships foster cooperation between companies of all sizes and even different nationalities to achieve greater stability and growth.

Mergers, defined as the union of two or more companies to form a single entity, represent a strategy employed by businesses to ensure their survival in a competitive and globalized environment. Mergers enable increased competitiveness, broader market coverage, risk-sharing, and resolution of financial problems, among other benefits.

This paper aims to highlight the importance of mergers as a form of business and strategic association in the competitive environment. The work is organized as follows: firstly, historical background on mergers is presented; subsequently, a theoretical approach is taken, addressing their conceptualization, types, advantages, disadvantages, success and failure factors, as well as reasons for or against their implementation. Finally, mergers in Mexico are discussed.

HISTORICAL BACKGROUND

The phenomenon of mergers and acquisitions has a markedly cyclical nature. It is not a continuous but rather irregular movement that arises in very different periods, highly relevant in some and barely significant in others. The cyclical nature of this phenomenon does not mean that it moves in tandem with the general fluctuations of the economy. Mergers and acquisitions during times of crisis aim to contribute to restructuring a sector that may suffer from excess capacity (Ballarin, 1994).

In the economic history of the Western world, three major stages can be distinguished in the movement of mergers and acquisitions. Ballarin (1994) describes the following: the first dates back to the early decades of this century and is primarily recorded in the United States. It consists of a wave of horizontal mergers in which some major companies from various sectors (automobiles, banks, oil companies, etc.) acquired smaller companies to consolidate their sector and gain a certain market power. This period saw the creation of large companies in the United States[24]. However, the possibility of excessive concentration of economic power in a few hands led political and economic authorities, driven by strong popular pressure, to limit these operations through "anti-trust" legislation, which peaked during this time. The characteristic of this first significant wave of mergers is that they involve operations among companies within the same sector with significant rivalry.

The second period of this phenomenon began in the mid-1950s in the United States and continued in Europe with less intensity until the first oil crisis. The main characteristic of this second wave of mergers is the dominance of vertical integration operations, unlike the horizontal mergers of the early century. In a way, the phenomenon that occurred before the Great Depression of the 1930s in the United States, where efforts were made to secure the supply of raw materials through significant improvements in the communication network, is repeated on a larger scale. After World War II, this trend gained even more momentum.

One characteristic of vertical mergers in the 1960s was to try to overcome difficulties created by regulations imposed by the public sector in certain sectors of the economy, such as minimum prices or limited production quotas. By directing part of a company's production to domestic consumption, it was possible to eliminate controls imposed by government bureaucracy.

The diversification of activities began in the 1960s in the context of a booming economy, during which conceptual approaches proliferated in an attempt to justify the rationality of diversification actions (the so-called business portfolio models). However, the crisis of the 1970s halted the momentum of this type of merger. The third period is situated in the 1980s with a notable growth in corporate diversification actions; primarily in the first half of the decade - until 1987 - in the United States and in the second half of the decade in Europe.

The reasons for the boom of this phenomenon are different in the European and American continents. In the United States, the movement gains strength as a result of a revitalization of free enterprise and the deregulation movement in various economic sectors. In Europe, on the other hand, the trigger is the single market. The need to internationalize operations and readjust productive capacities to the new dimensions of the European market has driven unprecedented growth.

THEORETICAL APPROACH OF MERGERS

MERGER CONCEPTUALIZATION

The development of companies has a limit. That is, with the characteristics they have at a given moment, they cannot continue to grow; changes in production organization, distribution, marketing, etc., are necessary. A company that wants to expand can do so in three ways: internal growth, external growth, and through the establishment of networks.

[24] In the United States of America, there were over two hundred automotive and parts companies, some of which ceased to exist while others were acquired by General Motors in the early 1920s (El Financiero, January 18, 2000).

Internal expansion involves direct investment in facilities, machinery, and equipment. This should be done with the best possible technology, keeping in mind that managing a larger company is different. External growth involves the purchase of companies or their divisions already operating in the market. Thus, mergers and acquisitions are another means through which companies can expand and strengthen. These are associated with the search and need to improve companies' positions in the markets in which they operate or as a means of accessing certain resources or assets controlled by another company. They are also a means to quickly reach new markets - including geographical ones - and to face competitive pressures in a globalized economy.

In general terms, a merger has been understood as the union of two or more companies to create a single organization. The absorption of one company by another implies the acquisition (purchase) of another (Soldevilla, 1985)[25]. According to Penrose (1962), the term merger refers to any method of combining existing companies in the following ways:

- The absorption (acquisition) of one company by another.
- The combination of two companies on similar terms.
- The acquisition of one of another company's businesses.
- The reorganization of an entire industry through the integration of all companies.

Other contributions state the following:

"A merger between two companies consists of the acquisition of one company by another and the absorption of the acquired company by the acquiring company" (Ballarin, 1994).

"It is the combination of two or more companies in which one retains its initial identity and simply absorbs the others" (Gitman, 1993).

"It is a special case of dissolution of companies by which a company is extinguished by the total transmission of its assets to another pre-existing company or one that is constituted with the contributions of the assets of two or more companies that merge into it" (Mantilla, 1996).

In summary, a merger refers to the union of two or more companies to form a new organization aimed at achieving various objectives, including strength and the ability to enter new geographical and product markets, achieve a size that protects against competitors (both real and potential), and reduce financial costs, among others.

[25] According to Soldevilla, absorption admits various forms of organization: Cartel, consists of companies that group and belong to the same production cycle. It retains its management autonomy; trust: a vertical coalition of companies with different phases of the production cycle aiming to achieve a more efficient organization and broader market coverage; holding, a company that controls other societies; conglomerate: it's a concentration of companies that combine various activities under a single company direction

TYPES OF MERGERS

Once the concept of merger has been established, it is important to note that mergers do not have the same characteristics. Depending on the direction they take in the production chain, they can be horizontal or vertical.[26]

HORIZONTAL MERGERS

These occur between two companies in the same sector with relatively similar product lines. Mergers like those between Banco Santander and Grupo Financiero Serfin, or between Grupo Bancomer and BBVProbursa, carried out in 2000 in Mexico, are examples of horizontal mergers.

The objectives pursued through a horizontal merger are related to economies of scale, i.e., achieving a larger size that gives the new company greater market power, as well as a volume of operations that allows for cost reduction (Cabral, 1997).

VERTICAL MERGERS

The second type of merger is called vertical merger and occurs when companies join forces to operate at different levels of the activity chain within the sector (Cabral, 1997). For example, in the petroleum sector, there are four basic activities: exploration, production, refining, and marketing. A vertical merger occurs when an exploration company decides to merge with a refining or distribution company. In Mexico, this is not the case, as Petróleos Mexicanos (PEMEX, by its acronym in Spanish) is a monopoly with a wide range of integrated activities.

Vertical mergers respond to a different economic logic than horizontal mergers: "They involve vertical integration upwards or downwards. The reasons are numerous, some related to supply security; others, to costs; others, to access to distribution channels; others, to the use of a brand image" (Ballarin, 1994). Companies like Toshiba, Hitachi, and Sony, leaders in electronics, leverage their highly valued brand image across a wide range of products, allowing them to share costs among different business units.

Vertical mergers are less problematic than horizontal ones for two reasons: the first one has to do with the integration process. A horizontal merger usually involves workforce adjustments of some of the companies, as well as a consolidation of production or manufacturing capacity. In contrast, a vertical merger usually does not entail this type of decision, as the companies involved are clearly complementary. The second difference is that governments tend to be more flexible towards a vertical merger because the risk of increased monopoly power is lower. Furthermore, in the context of the European Community, authorities' concern has been to avoid excessive concentration within a particular stage of the production process (Ballarin, 1994). The type of mergers conducted depends on the needs and conditions of the environment in which the company operates.

[26] Some authors consider a third type of merger, conglomerate mergers, or groups of unrelated companies, meaning companies that operate in clearly different industrial sectors. This type responds to diversification decisions ranging from traditional or basic activities to new businesses whose relationship with the former is more or less close.

Some of the reasons for which mergers can be carried out are addressed in the following section.

REASONS FOR CONDUCTING MERGERS

Companies may desire to undergo a merger for multiple reasons. The ultimate purpose is to increase the market value of the company. Some reasons that lead companies to merge include the following: (Sudarsanam, 1996; Mascareñas, 1993)

ACQUISITION OF ASSETS AT A PRICE LOWER THAN THEIR REPLACEMENT COST

Sometimes a company will become a candidate for a merger or acquisition because the replacement value of its assets is considerably higher than its market value.

ACCESS TO INPUTS

To gain access to raw materials to ensure a constant supply; access to technology, the latest innovations, or to cheap and productive labor.

EXPLOITING UNIQUE ADVANTAGES

To exploit companies' trademarks, prestige, design, production, and administrative capabilities, among others.

DEFENSIVE PURPOSES

To diversify products and markets to reduce profit instability, reduce dependence on exports, avoid political and economic instability in the country, compete with foreign rivals, and bypass trade barriers in other countries.

KNOW HOW

There are companies whose assets are the knowledge, skills, and experience of their staff. In these cases, the ability to work as a team, the "know-how" incorporated into the continuous work of many people in a particular company, the talent of innovators, or the management skills of executives are factors that can drive a decision to merge companies.

ECONOMIES OF SCALE

The pursuit of economies of scale is one of the most common and significant reasons for conducting a merger. Economies of scale are achieved when the average unit cost decreases as production volume increases. "This allows for large-scale investments, allocation of research and development costs over a base of higher sales and assets, for example, achieving economies in the production and marketing of products.

Additionally, Mascareñas mentions that an important factor contributing to achieving economies of scale is indivisibility, which can be found in individuals, infrastructure, or equipment. The specialization of men and machines can also lead to achieving economies of scale through learning, and even administrative costs can be reduced through the coordination of related activities.

ELIMINATION OF INEFFICIENCIES

In this case, every acquiring company must ensure that there is potential for significant improvement in yields through good management in the company being acquired. Some products and companies have a low potential for generating yields due to inefficient management. Furthermore, it may be considered that decision-making regarding the risks assumed (too conservative or risky) is not appropriate and that another management could assume better strategies.

UNUTILIZED TAX ADVANTAGES

A company with losses that can be carried forward for tax purposes may wish to acquire one or more profitable companies to utilize that movement. Otherwise, the ability to carry forward losses may expire at the end of the five-year period due to a lack of sufficient profits to use it in its entirety. For this reason, a company may be willing to acquire a profitable enterprise. It should be clarified that the reverse could also occur, that is, a profitable company acquires a less profitable one with the idea of reducing its profits and, therefore, its tax payment.

COMBINATION OF COMPLEMENTARY RESOURCES

Many small companies are acquired by larger ones because they can provide components that are necessary for the success of the resulting merged company and that the acquirer lacks. The small company may have only one product, but it lacks the necessary production and distribution capacity to produce it on a large scale. The acquiring company could develop the product from scratch, but it is faster and cheaper to acquire the small company. In this way, both companies are complementary and are more valuable together than separately. This also occurs between large companies, but the real gains of this nature are more common when large companies acquire small ones.

GROWTH

A company may not be able to grow at a fast rate, or sufficiently balanced, based on its internal expansion. It may be found that the only way to achieve the desired growth rate is through a merger or acquisition with another company.

PERSONAL REASONS

Owners of a fairly controlled company may want their company to be acquired by another that has an established market for its shares. They may have too much of their wealth tied up in the company, and by merging with a company whose shares are held by the public, they obtain a significant improvement in their liquidity, allowing them to sell some of their shares and diversify their investments.

SUCCESS AND FAILURE FACTORS IN MERGERS

Not all mergers have the same characteristics or seek the same objectives; therefore, the success or failure factors can be different. Some of the most relevant success factors are

(Ballarin, 1994; Mascareñas, 1993; Del Toro, 1992; McCann, 1990; Schein, 1990; Sudarsanam, 1996):

- Achieving economies of scale as the company's activity volume increases. This means reducing unit costs as the company's size increases.
- The existence of economies of scope derived from the possibility of sharing costs or investments in various lines or different business units. Brand image, the development of basic innovation processes applicable to many products, or managerial capacity are examples of investments or expenses that can be distributed across several business units or different product lines.
- Achieving certain market power – allowing a market fee to reduce unit costs or charge higher prices – or improving bargaining ability with suppliers or customers.

There are also factors that lead to failure. Some mentioned by various authors are:

- Clash between management styles and cultures due to differences in both systems of values and convictions. In some cases, especially by foreign companies, new executives appointed by the acquiring company are not experts in the sector. This has led to failures in the integration process and, ultimately, mediocre or negative results, particularly in sectors with very special characteristics.
- The company is undervalued by the market relative to its real possibilities probably due to its slow and apparent poor performance. One reason for this undervaluation is that markets only look at the short term, while there are companies with a large investment in R&D, whose results will be observed only after a few years.
- Differences in wage scales, supplementary benefits, pension plans, career paths, or economic incentives.
- Expectation by the acquiring company that the executives of the selling company take on more risks than they actually could or would, i.e., lack of initiative in assuming risks.
- Demanding information from buyers to sellers, as the latter consider that information is the only source of power that executives have in an unbalanced situation of power. The company being bought considers information extremely valuable when the other company tries to handle it at its convenience. For this reason, many executives, when carrying out a merger, do not want to share all important information with the acquirers.

There are cases where some companies do not want to merge. Under current economic conditions, the financial environment leads to the value of companies' stocks decreasing to the point of becoming an attractive target for a hostile acquisition. Other companies may see the purchase of another troubled company as an opportunity. Administrators or owners of companies that become merger targets have to decide whether to accept, reject, or resist. The best defense is to prepare. Defenses can be prior or subsequent.

PRE-MERGER DEFENSES

Pre-merger defenses can be internal or external. Internal defenses are those decisions and actions that modify the internal structure or nature of the company's operations. External defenses are measures taken to influence third-party perceptions of the company and provide warning signals about potential "hunters" (Sudarsanam, 1996).

Some methods of defense are presented in the following tables:

TABLE 1

DEFENSIVE STRATEGIES

INTERNAL	
ACTION	**OUTCOME**
Increase operational efficiency and reduce costs.	Improved Earnings per Shere (EPS), higher stock prices, and increased company value.
Enhance strategic focus through restructuring, divestment, etc.	Increased EPS and higher company value. It becomes difficult for the buyer to dispose of assets.
Change ownership structure, e.g., dual-class shares, high leverage, share buybacks, "poison pill."[27]	Buyer control becomes difficult. Limited scope for Leveraged Buyout (LBO) acquisition.
Change management structure or incentives, e.g., staggered board, "golden parachutes."[28] Strengthen relationships with organizational groups such as unions and the workforce.	Buyer's control is delayed and the cost of the offer is increased. Useful alliances against the buyer, support for actions from pension funds, etc.
EXTERNALS:	
Strengthen relationships with shareholders and investors, e.g., use investor relations advisors to report on performance, prospects, and company policies.	Ensures loyalty and support during the merger from key shareholders.
Inform analysts about the company's strategy, financing policies, and investment programs.	Reduces the risk of undervaluation of stocks and increases the cost of the offer.
Make strategic defense investments, e.g., joint venture/company shareholding mutual participation with other target companies.	Buyer's control in hindered.
Monitor share registry to detect unusual purchases of share packages: force disclosure of buyers' identity.	Early warning signal about potential buyers.
EPS: Earnings Per Share LBO: Leverage Buyout Source: Sudarsanam P. S. The Essence of Mergers and Acquisitions, Prentice Hall, 1st edition Mexico 1996	

The pre-merger defenses aim to create conditions that discourage the intentions of potential buyers.

[27] It is a strategy used to make a firm less attractive as an acquisition target. For example, incurring debt portrays the company as more financially risky.

[28] It is a form of financial burden in which certain executives of the company are offered compensation packages (quite burdensome) in case they lose their jobs as a result of a merger or acquisition.

Post-merger defenses respond to merger proposals from companies, often presented in the form of hostile takeovers. Among the actions that target companies can take are primarily the following:

DEFENSE	DESCRIPTION AND PURPOSE
First response and priority letter	Attack the logic and price of the offer; recommend to shareholders of the target company not to accept.
Earnings Report / Projection	Report or project higher earnings for the past/current fiscal year to make the offer appear less generous.
Litigation	Enforce antitrust rules or force disclosure of nominal shareholders or strawmen.
Unions / Workforce	Obtain support for lobbying before antitrust authorities or politicians and attack the buyer's plans for the target company.
Customers / Suppliers	Obtain support for lobbying before antitrust authorities or to show that relationships with them will be jeopardized if the buyer succeeds.

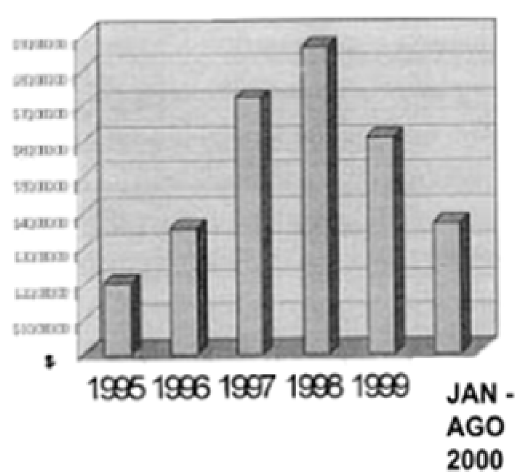
Source: Sudarsanam, P. S. The Essence of Mergers and Acquisitions, Prentice Hall. 1st edition, Mexico (1996).

In summary, the desire or necessity to carry out a merger is favored by changes in the economic environment, such as increased competition and the achievement of a strong position through a certain company size. Additionally, for example in the United States, new technologies have increased investors' preferences for companies in the new economy (technology companies, telecommunications), which, in contrast, has decreased the stock prices of companies in various industries producing consumer goods and food.

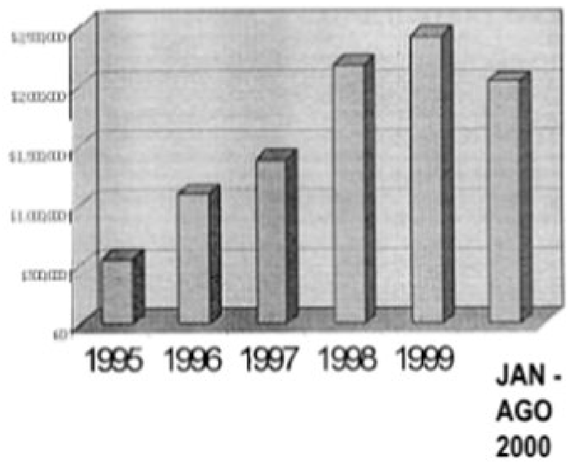
MERGERS, CREATING STRONG COMPANIES

Mergers and acquisitions take place worldwide and in almost every existing economic activity. In the Latin American context, they have been continuously developing, with noticeable growth in 1998, where investment reached a total of 86,129 million dollars. Globally, the highest investment was 2,431,155 million dollars in 1999, and by August 2000, the investment reached a figure of 2,005,754 million dollars, as can be seen in the following graphs:

GRAPH NO.1 MERGERS AND ACQUISITIONS IN LATIN AMERICA



GRAPH NO.2 MERGERS AND ACQUISITIONS WORLDWIDE



Source: Garzón Faro Marcos, "La valuación de Empresas: lujo o necesidad," article in Contaduría Pública No.338, year 29, October 2000, Mexico City, taken from Thomas Financial Securities Data.

According to data from Thomson Financial Securities Data, in 1999, these transactions reached a total volume of $68.9 trillion in Latin America, while in Mexico, the amount was $5.4 trillion. Some of the most renowned mergers worldwide are shown in Table 3, which have established themselves as powerful companies. An example is the merger between Exxon and Mobil ($86,000 million).

TABLE 3 MERGED COMPANIES (VALUE AS OF MAY 1999)

participating companies	value in millions in dollars
exxon – mobil	86,000
sbc commun – ameritech.	72,000
bell atlantic- gte	71,000
at&t – tele-comm	70,000
british petroleum - amoco	55,000

Source: Mundo Ejecutivo No. 241, May 1999, with data from Citibank Mexico.

In the automotive sector, growth and development have been favored by large-scale mergers and strategic alliances. One of the most significant mergers was between the German company Daimler-Benz and the American company Chrysler Corporation, both with a significant presence in various regions of the world. Other notable operations include "the acquisition of the Swedish heavy vehicle manufacturer Scania by its compatriot Volvo AB, where the latter sold its car division to Ford Motor Company for six billion four hundred million dollars, and now Volvo Cars is listed as another division of the American corporation, along with Mercury, Lincoln, Aston Martin, and Jaguar were also acquired by Ford in the late 20th century" (El Financiero, January 18, 2000).

In Latin America, mergers and acquisitions carried out between January and December 1998 are shown in the following table. The acquisition of the Colombian company Suramericana de Seguros by Colombian investors stands out for the amount of its operations, totaling 1.5557 billion dollars (100%). Equally important were the mergers between ABN-AMOR Holding NV (Netherlands), which acquired 40% of Banco Real de Brasil (Brazilian bank) for 2,100 million dollars, and Valores Industriales S.A. from Mexico, which acquired 47.6% of FEMSA in Mexico.

As observed, the sectors where these phenomena occurred most frequently were banking and insurance. By nationality, the companies that made the most purchases in different parts of Latin America were from the United States, Spain, and Brazil. It is interesting to note that Brazil, Argentina, and Mexico were the countries that sold the most companies that year.

TABLE 4

MERGERS AND ACQUISITIONS OF COMPANIES IN AMERICA

COMPANY	SECTOR	COUNTRY	BUYER	COUNTRY	US $ 1000	% ACQUIRED
Hoesch-Tyrevira	Chemical	Germany	Koch Industries, Imasab	Usa	3000	
Banco Real S.A	Banks	Brazil	Abm-Amr Holding Nv	Mexico	2100	40
Femsa	Beverages	Mexico	Valores Industriales S.A	Netherlands	1886	47.60
Suramericana De Seguros	Insurance	Colombia	Mexico Investors	Mexico	1155	100
Banco Exel Economico S.A	Banks	Brazil	Banco Bilvao Vizcaya Sa	Colombia	878	100
Grupo Industrial Camesa S.A	Chemical	Mexico	Grupo Privado Empresarial	Spain	815	60
Banco Pontual S.A	Banks	Brazil	Banco De Credito Nacional	Mexico	756	100
Cei Citicorp Equity Holding	Investments	Argentina	Hicks Muse Tate & Furst Inc.	Brazil	717	32.70
Banco Garantia	Banks	Brazil	Cs First Boston	Usa	675	100
Ericcson Telecomunicacoes S.A	Telecommunications	Brazil	Sielte Sa	Usa	623	46.75
Grupo Modelo Sa De C.V	Beverages	Mexico	Anheuser-Bush Companies	Brazil	556	13.20
Ypf S.A	Petroleum	Argentina	Brandes Investment	Usa	535	
Mandeville Cable Partners	Telecommunications	Argentina	Cablevision Sa	Usa	535	100
Forestal Angol	Pulp And Paper	Chile	Empresas Cmpc	Argentina	476	50
Emdersa	Electricity	Argentina	Gpu Inc.	Chile	435	100
Supermercados Norte	Retail	Argentina	Promodes	Usa	420	49
Banco De Colombia S.A	Banks	Colombia	Banco Industrial Colombia	France	418	51
Cia Siderurgica De Tubarao	Iron And Steel	Brazil	Usinor S.A	Colombia	388	18.9
Disco/ Ahold International	Retail	Argentina	Koninklijke Ahold Nv	France	368	50
Tabacalera San Cristobal	Tobacco	Honduras	Tabacalera Cigars Int'l Sa	Netherlands	360	100
Banco Bandeirantes S.A	Banks	Brazil	Caixa Geral De Depositos	Spain		
Portugal					358	
Empresa Distribuidora Electricidad	Electricity	Argentina	Aes Corp.	Usa	350	90
Bhif	Banks	Chile	Grupo Bbv	Spain	350	55

Multicanal S.A	Media	Argentina	Grupo Clarin	Argentina	322	25
Klim (Boerden Foods)	Foods	Colombia	Nestle S.A	Switzerland	331	100
Occidente Y Caribe Cel.A	Telecommunications	Colombia	Bell Canada International	Canada	302	68.40
Occidental De Hidrocarbu.	Petroleum	Venezuela	Union Texas Petroleum	Usa	294	100
Inversiones Azteca S.A De C.V	Foods	Mexico	Panamerican Beverages	Mexico	283	24
Siembra Seguros	Insurance	Argentina	Argentaria	Spain	280	50
Corvin Investment	Cement	Colombia	Cia Valenciana Cementos	Spain	262	100
Deustche Bank Argentina	Banks	Argentina	Bank Boston Corp	Usa	255	100
Rede Barateiro De Super.	Retail	Brazil	Cia Brasileira De Distrib.	Brazil	244	100
Acesita	Iron And Steel	Brazil	Unisonor S.A	France	235	27.68
Mercadorama	Retail	Brazil	Modelo Continente Sgps S.A	Portugal	230	100
Banco Del Buen Ayre Sa	Banks	Argentina	Banco Intaur	Brazil	225	100
Femsa	Beverages	Mexico	Labatt Brewing Co Ltd	Canada	221	8
Seguros Bital	Insurance	Mexico	Ing North American	Usa	220	49
Copebras	Chemical	Brazil	Columbian Chemicals	Usa	220	100

Source: América Economía, March 11, 1999.

In the national context, these phenomena have also been significant. For example, in the textile industry, the manufacturer "Flexico" emerged in the state of Hidalgo as a result of the merger between the textile companies Zaga and Moore Company. This factory will create 300 permanent jobs, with additional new jobs to be added when it begins operations in the first quarter of 2001. The new manufacturer will increase textile operations in Hidalgo and boost state exports to Caribbean and Central American countries. Flexico's advantage will be to capitalize on the opportunities offered by free trade agreements with North America, the European Union, Israel, Colombia, Venezuela, Bolivia, and Chile. The merger will increase the capacity to serve the current market and capture new markets.

In the petrochemical industry, Grupo Dermet acquired Grupo Provequim, making it the largest chemical and petrochemical product distribution company in Latin America. The acquisition creates a series of synergies that allow it to grow and participate in new niches and market segments. Dermet is a leading company in the marketing and distribution of specialized raw materials, both domestically and internationally. It operates in sectors such as the food industry, animal feed, agrochemicals, and the chemical industry. The company's history dates back to 1983 when Dermet de México, S.A de C.V. was founded. The sequence of its actions is shown in the following table:

TABLE 5 CHRONOLOGY OF GROUP MERGERS

YEAR	% OF SHARES	MERGED OR ACQUIRE COMPANY
1995	51%	Alfred L. Wolff Mexico
1997	100%	Quimicos Argostal
1999	100%	Suplia
1999	100%	Grupo Provequim

Source: Mundo Ejecutivo No. 229, June 1998, Mexico City.

Within the radiophonic environment, it was recently announced the merger - in their radio divisions - of Televisa Group and Grupo Acir to form Grupo Acir-Radiopolis. Their goal is to project themselves as the most important radio consortium in Mexico, with operations in 116 radio stations covering the entire Mexican Republic. The capital structure is composed of 50.010% from Televisa and 49.990% from Grupo Acir. This strategic decision will allow them to jointly reach other Spanish-speaking markets (El Financiero, September 2000).

In the food sector, in the 90s, responding to the needs of the global market, Casa Pedro Domecq and the international firm Allied Lyons consolidated a strategic partnership to form Grupo Allied Domecq Spirits and Wine LTD, which has become one of the world leaders in the production and commercialization of wines and spirits, also with a significant retail sales market. Allied Domecq offers drinks, hospitality, and entertainment around the world, managing brands of recognized prestige for sale in America, Europe, and the Asia-Pacific region with the aim and commitment to exceed the expectations of its customers and consumers.

In the pharmaceutical industry, Aventis Pharma was created as a result of the partnership between Hoescht Ag (German) and Rhone Poulenc Rorer (French) laboratories. Since research and development of new drugs require high investments, the union of financial resources and capabilities is necessary. For example, to introduce a new drug, an investment of at least 500 million dollars and a minimum of eight years is required. The merger of these pharmaceutical companies will allow the development of substances to help alleviate and eradicate diseases (Mundo Ejecutivo, June 2000).

In the construction industry, ICA, a leading company in Mexico and one of the most important in Latin America, formed a key partnership in 1994 with Fluor Daniel to create ICA Fluor Daniel, becoming a leader in EPC (Engineering, Procurement, and Construction). ICA has made the following agreements: the merger with the French company Vivendi, the merger with Vulcan Materials, and with the Philippine company International Containers Termical Services. These are examples of mergers that have occurred in various sectors of the Mexican economy as a result of strategies to reach new markets, access technology, or according to the needs of each involved company.

Within the banking sector, mergers have been more significant than in other sectors of the Mexican economy due to the opening that has occurred in this field. Therefore, Mexican commercial banking has joined the global trend imposed by globalization to create large entities through mergers or acquisitions of financial groups, competing to consolidate leadership in the opening of new markets. New colors, more striking logos, and more sophisticated products and services are the elements that characterize today's banking system. In one year, the banking map has changed radically not only in the number of participants but also in the offering of new savings and credit placement products.

The global trend of mergers accelerated in Mexico following the problems faced by the banking sector in 1995 when authorities considered opening the sector to foreign bank investment to inject capital into national institutions. After the financial problems in December 1994, national banks faced a structural imbalance because users could not meet their credits. Foreign investors were limited to a 30% stake in Mexican banks. This restriction was lifted in 1999, and currently, 100% of the shares can be acquired. In this way, a series of mergers or acquisitions begins in the country as part of the "wave" of strategic alliances that have materialized worldwide to compete in the opening of markets imposed by global economic globalization[29].

The following table shows the evolution that, since 1995, the Mexican banking system has experienced through mergers, acquisitions, and participation among different banks.

TABLE 5. EVOLUTION OF THE MEXICAN BANKING SYSTEM SINCE 1995

DATE	BUYER BANK	SELLER BANK	% SHARES	TYPE	NEW ENTITY
may 1995	BBV	Banco Mercantil Probursa	70%	Merger	BBV-Probursa
April, 1996	Bank of Montreal	Grupo Financiero Bancomer (GFB)	20%	Stake	
August, 1996	BBV-Probursa	Banca Cremi Banco Oriente	nd	Acquisition	
may, 1997	Banco Santander	Grupo Financiero Invermexico Banco Mexicano	51%	Merger	Banco Santander Mexicano
August, 1997	Citibank	Banca Confía	nd	Acquisition	
December, 1997	Banco Internacional	Banco del Atlántico Banco del Sureste e Interestatal	100%	Merger	
may, 1998	Grupo Financiero Bancomer	Promex	100%	Acquisition	
may, 2000	Banco Santander Mexicano	Grupo Financiero Serfin	100%	Merger	Grupo Financiero Santander Mexicano
June, 2000	BBV-Probursa	Grupo Financiero Bancomer	32.20%	Merger	Grupo Financiero

Source: Own elaboration with data from El Economista. August 2000.

[29] Luis Niño de Rivera, Regional CEO of Dresdner-Bank Mexico, considers that the new banking competition implies greater pressure on the service providers, which will contribute to intermediaries operating with lower costs and better margins of intermediation. He asserts that more than the mergers, the important aspect of the process is that the customer perceives the changes (El Economista, August 2000).

Therefore, mergers have had the following effects: they have allowed accessing new markets by the merging companies, as is the case in the radio sector, textile industry, and petrochemical sector, among others. In the pharmaceutical sector, mergers have aimed at developing new products by combining technologies, knowledge, skills, etc. It can be stated that mergers have allowed accessing new niches, new segments, and new markets, sharing information and technology, developing new products, reducing risks, and achieving longer-term sustainability based on greater competitiveness and resources.

REFLECTIONS

In the global economic context, connections between companies are becoming increasingly common. Some of them end up in mergers. Mergers provide a platform where companies can acquire knowledge and greater capabilities, develop and adopt innovations, and implement active and reliable strategies to achieve market sustainability. The different types of mergers that have taken place since the last century show that this form of association has contributed to the development of companies.

The union of two companies to form a new one often transcends the success possibilities that the companies had before merging, advantages and multiple synergies arise to share risks, information, access to new technologies, adopt a new corporate culture, and above all, a shared vision that can guide the company's activities.

However, some successful experiences and mergers and acquisitions face problems or end up being failures that still predominate. So, it begs the question: What leads a merger to failure? It is essential to have a clear and shared vision among entrepreneurs about the risks of the merger, the strategies to be implemented, and the existing organizational cultures. Otherwise, problems that a company has and are not discovered will likely be transferred to the merged company.

To properly conduct a merger, one must ask: How would the merger contribute to the company's growth? What are the potential savings, economies of scale, or other possible gains? Can unforeseen risks be overcome? Can corporate cultures be adopted? These and other questions help clarify whether a merger is advisable or not. It should be noted that organizations are very different, so it is necessary for entrepreneurs to have their intentions and strategies well-defined and to take into account important factors such as price, future results, asset quality, customer and executive opinions, economic incentives, and future projects.

Finally, mergers have grown on a global scale. This has been driven by the development of financial markets, which have led to the prices of certain companies' stocks falling, making them desirable targets for others. In the case of Mexico, few domestic companies have merged, with one of the exceptions being in the banking sector due to the opening up to foreign banks. Many of the mergers in Mexico involve transnational companies with a presence in global markets. Therefore, it can be concluded that deep and rapid organizational transformations took place in the 1980s and 1990s, and now Mexican entrepreneurs have the opportunity to strengthen the growth of their companies through decisive and bold actions.

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