

Shevchenko T.E., Dovbysh N.O.

ENSURE THE COMPETITIVENESS OF THE WINE INDUSTRY ENTERPRISES IN UKRAINE

The paper analyzes current trends and problems of the wine industry of Ukraine. The recommendations on competitiveness trends of wineries.

Keywords: competitiveness, competition, globalization, high-tech products, production, innovation.

Aneta Sokół, Anna Owidia Surmacz

PhD; Department of Enterprise Economics, Faculty of Management and Economics of Services; University of Szczecin, Poland

ASSESSMENT OF THE EFFECTIVENESS OF MERGER PROCESS ON THE BASIS OF THE EXPERIENCE OF THE POLISH TRANSACTORS

The article presents the nature and complexity of the merger and acquisition process – transactions resulting from selection of an external development path by enterprises. In addition, the basic grounds for undertaking these projects in the context of their influence on the broadly-understood development, long-term effectiveness as well as growth of the organization's value have been described. The purpose of this article is to present the basic activities (stages and phases) connected with the mergers / acquisitions process necessary for achievement of success and desired economic and non-economic advantages by participants of the transactions. Furthermore, to describe the market of mergers and acquisitions in Poland in the greatest possible detail, the theoretical reasoning has been complemented with results of an empirical study (opinions of merger transactions participants themselves have also been presented).

Keywords: developing countries; mergers and acquisitions of enterprises; economists; strategy planning; international research methods.

Introduction. Mergers and acquisitions are complex economic projects requiring coordination of actions in the following areas: economic, legal, technical, social, cultural, political and organizational. They initiate long-term changes in the functioning of all parties of transaction. Moreover, merger process of enterprises is expensive and requires differentiated competencies, and therefore, one of the conditions for successful mergers and acquisitions of economic entities is an appropriately prepared merger process, conduction of business negotiations and implementation of companies.

In the literature of the subject matter, in view of the complexity of merger and acquisition process, the different classifications of phases (structures of merger process) are presented. Sample phases (stages) of mergers and acquisitions from the point of view of various authors are presented in table 1.

Before making a decision on selected merger/acquisition as a development path for economic entity, it should be: (Strategor, 1997, p. 229)

- clarified what strategic role they will play,
- proper moment to complete the transaction should be set,
- special teams for merger be created,
- the list of potential candidates prepared and candidates selected.

All those actions constitute essential elements of preparatory phase of merger and acquisition process. Before taking merger-related actions, it is recommended to prepare a detailed plan of the project, taking into account all phases of merger and their deadlines for obtaining the compliance of all merger-related actions with the law.

Based on the experience of many companies it results that the lack of diligence in this scope on the part of companies may foster delay or blocking of the transaction. (Szymański, Ogorzałek, 2003, p. 14).

Setting the right moment to make a merger is the next step of preparatory phase which depends mainly on strength and weakness of the company, its current competitive position and directions of future development. However, in order to obtain high flexibility in managing the merger/acquisition process, the merger teams which will consist of experienced managers having respect in the economic environment must be created. Such teams should be for the company a source of knowledge and skills necessary for searching for the opportunities of merger or acquisition, their assessment and negotiating contractual conditions. Then, following the motives of consolidation/acquisition, an economic entity determines a set of partial criteria for selecting potential candidates (table 2) and for creating a so called profile (model) of enterprise to be merged. This model is very useful in the final stage of preparatory phase – selection of enterprises.

Creation of restricted list of candidates for merger/acquisition is a result of selection stage deepened by strategic analysis. (H. Chwiściecka-Dudek, 2003, p. 6) This analysis covers the performance of many studies related among others to evaluation of candidate's ability to generate income, impact of profit-making potential of targeted company on price-earnings ratio (P/E) and EPS ratio (earnings per share) and management verification. (Frackowiak, 1998, p. 142).

Acquisition is considered an attractive transaction, if it manages to keep the following ratios: (M. Dubicki, 2000, p. 34).

- P/E ratio of the buyer is higher than P/E ratio of entity being taken over,
- EPS growth rate of acquired company is higher than of the buyer's,
- EPS of the candidate to be taken over is lower than of taking over party.

The analyses of this type enable to assess positive and negative sides and to provide an initial evaluation of each targeted enterprise and they are defined as due diligence, meaning the investment audit.

Selected structures of merger/acquisition process

Phase	Frąckowiak	Sudarsanam	Perkins	Gomez And weber	Jackson And schuler
I	<ul style="list-style-type: none"> determination of ways of growth determination of strategic motives and purposes of external growth searching for and evaluation of candidates 	<ul style="list-style-type: none"> development of merger/acquisition strategies, of rules of creating values and criteria of transactions searching for candidates strategic evaluation of a candidate for merger 	<ul style="list-style-type: none"> concept preparation 	<ul style="list-style-type: none"> determination of strategic objectives 	<ul style="list-style-type: none"> before merger
II	<ul style="list-style-type: none"> analysis of merger cost-effectiveness submission of an offer and negotiations 	<ul style="list-style-type: none"> development of a bid strategy financial assessment and valuation of the company – objective negotiations, financing and conclusion of a transaction 	<ul style="list-style-type: none"> evaluation of a detailed concept 	<ul style="list-style-type: none"> searching for and screening (obtaining information) 	<ul style="list-style-type: none"> merger
III	<ul style="list-style-type: none"> integration of transaction parties assessment of the results of merger and control 	<ul style="list-style-type: none"> assessment of cultural and organisational adjustment development of integration methods strategic, cultural and organisational adjustment assessment of the results 	<ul style="list-style-type: none"> offer development 	<ul style="list-style-type: none"> valuation 	<ul style="list-style-type: none"> consolidation and assessment
IV	-	-	<ul style="list-style-type: none"> negotiations 	<ul style="list-style-type: none"> conclusion of a transaction – proper execution 	-
V	-	-	<ul style="list-style-type: none"> project completion 	<ul style="list-style-type: none"> integration – proper implementation 	-
VI	-	-	<ul style="list-style-type: none"> implementation 	-	-
VII	-	-	<ul style="list-style-type: none"> operating activities 	-	-

Source: Own elaboration based on: (Pocztowski, 2004, p.29-31)

Partial criteria for selecting candidates for merger

CRI TERI A	SUBJECT OF ASSESSMENT
Product, business line, market	<ul style="list-style-type: none"> - product lines, range of products - served market segments - profile of suppliers and customers - strength and dynamics in the development of competition
Business size	<ul style="list-style-type: none"> - sales and its market share - value of the assets - volume of employment - distribution network - supply system - territorial content
Geographical barriers	<ul style="list-style-type: none"> - areas preferred in respect of the market or costs - areas avoided for the general conditions of the activity
Operational efficiency	<ul style="list-style-type: none"> - return on sales, assets and equities - use of production capacity - turnover of the assets - level and structure of the costs - operational risk
Management	<ul style="list-style-type: none"> - level of organization and management - management quality and motives - position of trade unions
Financial standing	<ul style="list-style-type: none"> - financial structure - financial risk - dividend policy - earnings per share, price-earnings, book value per share ratio
Investment and development needs	<ul style="list-style-type: none"> - fixed and current assets - debt reduction - social guarantees
Merger payment method	<ul style="list-style-type: none"> - expectations of candidate's stakeholders - price ceiling - payment in cash, by stock or shares, mixed forms - legal restrictions on terms of payment

Source: Own elaboration based on: (Trocki, 2004, p. 106)

Diligence (PWN- Oxford, 2002, p. 321) is the term which means eagerness, industriousness, carefulness. Due diligence indicates the performance of something with due care. (Maczyńska, 1999, p. 12; Fołtyn 2001) In the context of transactions related to mergers and acquisitions it means verification of a selected economic entity with due care in order to obtain information necessary and useful for making a merger of enterprises successful.

An investment audit is a kind of international standard, known and used worldwide, including Poland since the first half of the eighties (mainly in connection with conducted privatisation processes). While these analyses were not called due diligence, their method and nature, however, complied with this audit. At present, investors (strategic and financial) order to carry out pre-investment analyses of potential subject of the merger. There are of course different types of such audit, e.g. financial, legal, operational and executive, of human resources or

environmental, and its participants are among others an investment bank, consulting companies, law offices, human-resources consulting agencies, research institutes, etc. Due diligence is usually conducted at the pre-investment stage within business negotiations, but should also cover the integration phase. This allows to evaluate the results of merger and, if need be, to withdraw from the project by transaction parties without incurring high costs.

After due diligence, valuation (current state, changes in value as a result of merger and values of synergetic effects) of analysed economic entity, the parties enter into business negotiations within the negotiation phase of the merger process. These negotiations involve establishing the price for taken over enterprise, conditions and terms of payment. The success of business negotiations depends substantially on reliable performance of previous steps. It is important to maintain discipline and not to get carried away by emotions during negotiations. In case when earlier conducted analyses indicate the project being unprofitable at a certain price, then it should be renounced. The final step of negotiation phase is signing a proper merger agreement being a legally binding version of all arrangements currently made between the transaction parties. (Chwistocka-Dudek, 2003, p. passim)

In the investment projects, as mergers and acquisitions are, a special role is attributed to the last phase, i.e. integration, because the success of merger of enterprises depends in principle on it. This phase is called the post merger integration (PMI) or implementation one. It requires great effort from the top management and the implementation results are visible after a longer period (3 years) (Chwistocka-Dudek, 2003, p. passim) and they are often not subject to conclusive assessment. The integration phase according to A. Pablo is connected with the implementation of changes in all areas of functional activity, organisational structures and systems and cultures of merged entities for the purpose of accelerating and making their integration into one organism easier. Integration enables to take the chances of merging activities of so far independent enterprises. The company integration level itself in various fields of activity depends on the type of mergers and peculiarity of entities of the transaction. (Pablo, 1994, p. 56).

Table 3

Merger of companies in relation to cultural compatibility

CULTURAL FEATURES OF TAKING OVER COMPANY	CULTURAL FEATURES OF POTENTIAL PARTNER DEPENDING ON THE TYPE OF MERGER		
	Desired	Problematic	Undesirable
Power	-	Power	Function, Task, Person/support
Function	Power, Function	Task	Person/support
Task	Power, Function, Task	Person/support	-
Person/support	All	-	-

Source: Cartwright, Cooper, 2001, p. 60-63.

Too high or too low level of implementation not necessarily will bring an expected increase in the value of merging companies and it may even destroy it. The following are considered the main determinants of successful integration of companies: (Chwi stecka- Dudek, 2003, p. passi m)

- the time conditioning the speed of actions aimed at having profits on the merger,

- caution and consideration allowing for planning the integration process calmly taking into account the interest of all interested parties,

- psychological, cultural and behavioural factors.

The last factors, including psychological ones, seem to be extremely important. The integration process itself causes very strong tensions among employees, which may result for instance from¹

- line work overload of personnel and carrying out additional integration tasks concurrently,

- fatigue of managers at the middle organisational level caused by ongoing meetings and appointments,

- struggle for maintaining current positions, or

- discussions of the board on the choice of particular solutions or options.

The employees' reluctance to changes being a consequence of merger of enterprises is one of the greatest (quoted in many scientific studies) sources of risk² of this phase of merger/acquisition process.

The last stage of integration is the introduction of adjustment corrections and assimilation. This stage depends to great extent on the peculiarity of both companies, and therefore, each case should be approached with reserve and attention. Changes designed to achieve a target model of integration may be divided into:

- structural

- operational

- cultural

Structural changes, and so related to flattening an organisational structure, change of the name or even withdrawal of some products from the market are the introduction to operational and organisational integration.

During the integration of companies it is impossible to indicate only one and effective way of making it and creating universal rules of dealing with participating entities, because of unique and specific nature of each merger or acquisition. As much different the premises and objectives of such transactions and potential candidates are, as different ways of successful merging of enterprises are. Also their structure may look differently (more or less complex).

The above presented phases of the merger/acquisition process are some kind of model (standard) activities carried out by economic entities. It should be added that it is possible to make a merger in a simplified manner, which is governed by

¹ Article published by PriceWaterhouseCoopers, Integracja przedsiębiorstw po fuzji, [in:] portal www.finanse.info.pl.

² More information on the influence of integration on the behaviour of employees [in:] (Cartwright, Cooper, 2001, p.60-63).

relevant legal provisions. In some cases shortening the entire merger process is less expensive and faster for the companies. In this connection, it is recommended that the analysis of profitability with the use of simplified procedure should be made already before commencing the merger.

The evaluation of the course of mergers by its participants. The analysis of the problem was based on literature and empirical study based on different methods of processing materials and their structuring. An attempt to assess the course of mergers of the companies selected by the participants was carried out in two ways: from the perspective of the parties to the transaction (based on the received surveys containing open and closed questions) and own observations and interviews. The empirical part of the assessment was carried out taking into consideration the research perspective of 2-3 years after the transaction, as well as before its implementation. This analysis allowed for a comparison and indication of major changes, both positive and negative, of the sources of funding for the process of merger and acquisition. Polish and foreign source literature of the subject, both coherent literature and periodic press, was used.

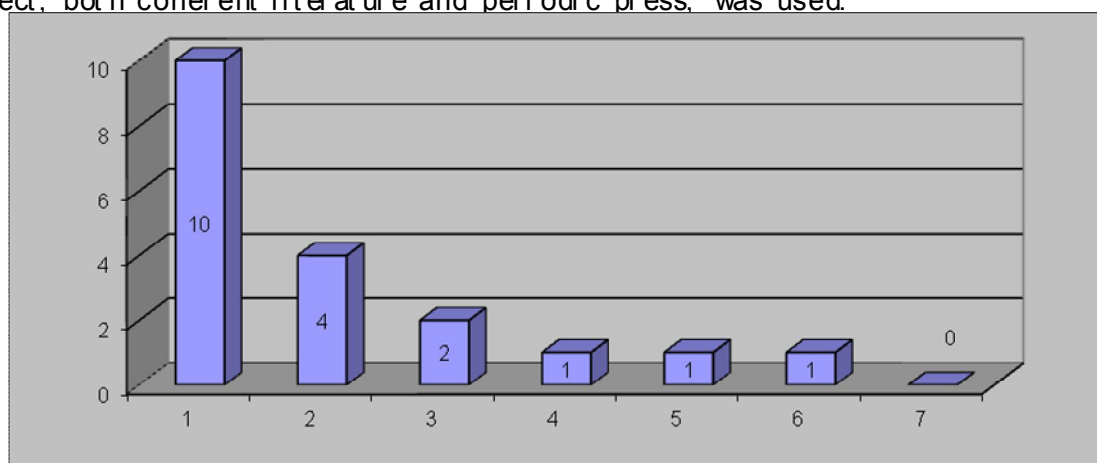


Figure 1. Steps of the process of merger causing greatest difficulties for businesses

Legend

1. Integration (VI)
2. Identification of development needs and the choice of the way of merger (I)
3. Monitoring and evaluating the effects (VII)
4. Searching and initial analysis of candidates (III)
5. Cost-effectiveness analysis (IV)
6. Submission of the offer and negotiations (V)
7. Defining the criteria (II)

Source: Own analysis on the basis of research results.

Among «ready» empirical material there will also dominate: market presentations and publications (market annual sets, stock lists, annual reports, newsletters, monthly bulletins), the statistics published by the PAiIZ [Polish Information and Foreign Investment Agency], the institutional documentation (legal acts, financial statements and other financial and non-financial data) published, among others, by UOKiK [Office of Competition and Consumer Protection], exchange companies as well as capital market institutions. The

empirical material which comes from own research will be obtained through the use of: research survey, observation, interview (telephone and written correspondence).

The assessment of mergers/acquisitions in terms of financing the transaction was made on the basis of several positively completed concentration processes in Poland. These entities were active in the market of mergers and acquisitions, and often most of them carried out more than one merger operation in a given period, acting as the acquiring party (in case of capital acquisitions).

Merger of companies is a complex economical process, consisting of series of actions (steps, phases). Diligent and proper conduct of each step of the process is one of the factors of success in the scope of mergers/acquisitions of an organization.

For the largest number of companies (10) the troublesome phase appeared to be the phase of integration of entities and only for one of the companies the greatest difficulties included: searching and initial analysis of candidates, the analysis of profitability of the project and submission of the offer and negotiation. However, an identification of development needs constituted a problem for 4 companies, monitoring and evaluation of the effects of a merger for 2 companies. None of the participants of the merger had problems with defining the criteria of the transaction, which could result from a good preparation and/or knowledge of the candidate to acquire or practice in the field of mergers and acquisitions.

The occurrence of the formal and legal constraints in carrying out mergers was another important element in assessing their progress. It was observed that for a group of 85% of the respondents they did not constitute a problem. This demonstrates the good preparation of the parties of the transaction and the ability to interpret relevant legislation. For the remaining 15% there were formal and legal barriers, which could result from the complexity of the process of acquisition/consolidation and the difficulties in drawing up relevant documentation.

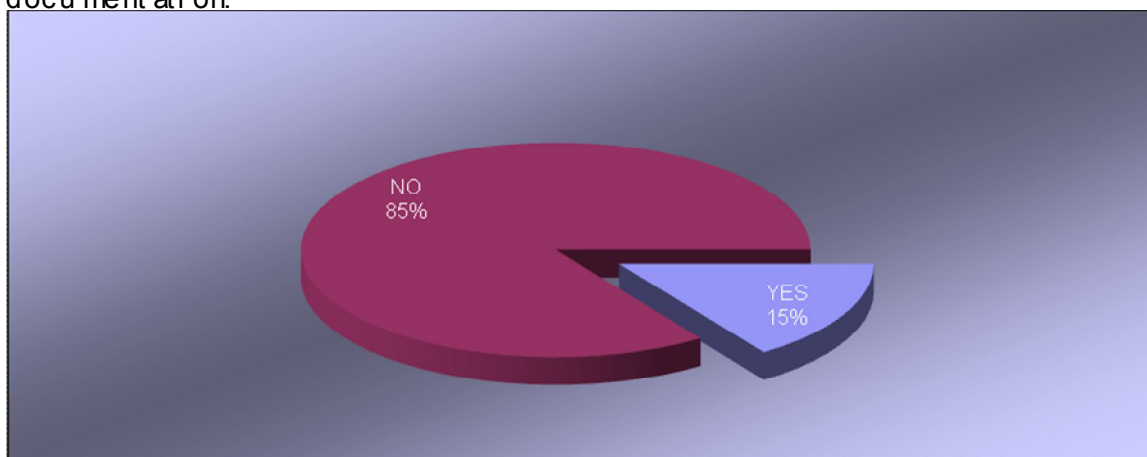


Figure 2. The occurrence of formal and legal constraints when carrying out mergers

Source: Own analysis on the basis of research results.

Undoubtedly, making use of specialized institution services which act as an intermediary in case of mergers (62% of respondents) contributed to the success of such ventures or possible elimination of any formal and legal barriers associated with them. Other companies – 38% did not use any intermediaries in capital mergers/acquisitions, probably due to a smaller scale – the number and value of transactions carried out (of less formal complexity) or having and use of the knowledge of their own staff of advisors – investment experts.

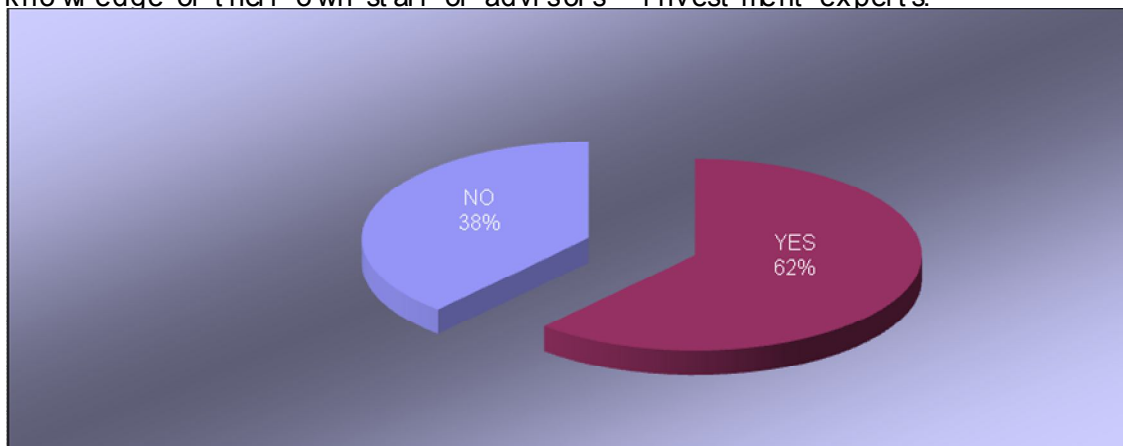


Figure 3. Using the services of intermediaries in case of mergers
Source: Own analysis on the basis of research results.

The capital phenomenon of mergers and acquisitions is relatively new and still not very widespread on the Polish stock exchange market, as it is the case in developed countries. It gives rise to much controversy, both from the perspective of participating companies and people employed in them. This is due to a number of changes taking place in various areas of business (operational, financial, investment) equal partners of mergers or acquiring/acquired entity. These changes, in economic terms, are beneficial to the organization itself but do not always seem to be such for the employed, becoming a source of stress.

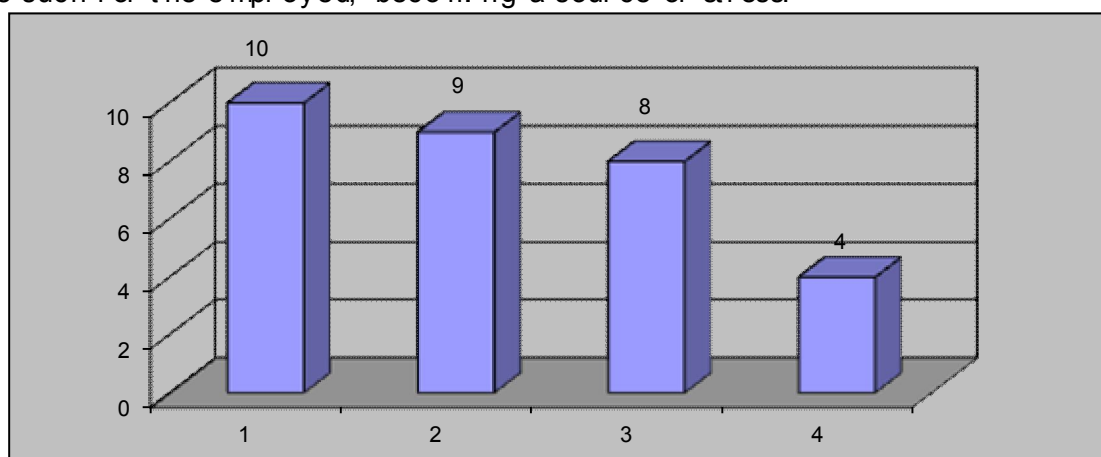


Figure 4. The transformations induced by mergers and their impact on the behavior of employees (source of stress)

Legend:

1. Developing a new strategy

2. Creating a new organizational culture
3. Implementing a new management style
4. Creating a new mission

Source: Own analysis on the basis of research results.

For example, the transformations resulting from mergers include the following: development of a new strategy of the company (for the largest number of respondents – 10 companies were a cause of stress), implementation of a new organizational culture (for 9 companies) and a new style of management (for 8 companies) or the creation of a new mission (for the 4 companies).

In many English-language publications presenting the results of research relating to the global market for control of companies a connection of a companies' growth strategy, by mergers and acquisitions, with large personal problems occurring in these entities, such as tensions and problems in enterprises, is indicated. The fact of consolidation or incorporation of companies and the accompanying changes in different areas of the company is a factor affecting the employees, influencing the level of employment and working conditions in a broad sense. In addition, changes carried out are inevitably connected with redundancies, job restructuring, remuneration transformations, social benefits and new defining of tasks for the employees.

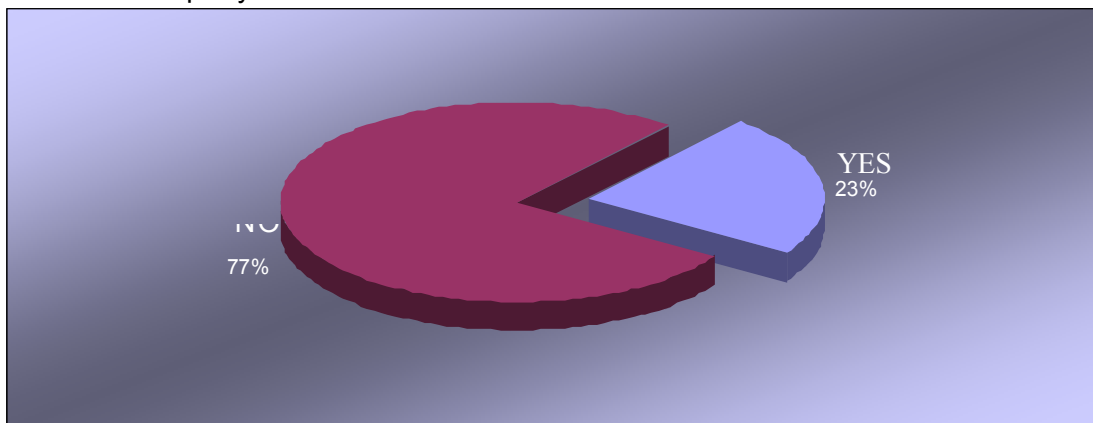


Figure 5. The occurrence of problems as a result of mergers

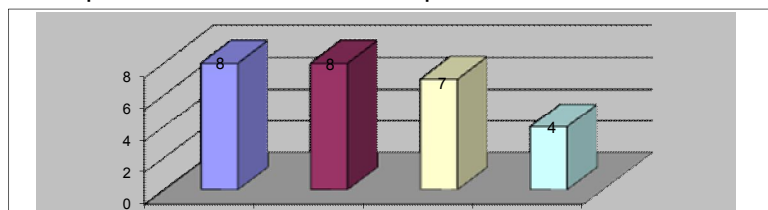
Source: Own analysis on the basis of research results.

Problems with employees, looking through the prism of consolidation actions, are present also on the Polish market; however, they are not as complex as in Western countries which are advanced in carrying out mergers. As follows from the author's own research, 77% of the assessed domestic companies did not report such a problem although for 23% of them the problem was essential. Employment in many companies within two years of the operation of merger/acquisition increased, while, according to the respondents, there was a reduction in positions. Certainly, looking at the consolidation activity from the perspective of employees, the social challenges facing the Polish economic entities should be considered. Entering the necessary transformations resulting from the merger/acquisition should take place in such a way as not to cause excessive level of uncertainty among the employees and the intensity of conflicts (which would threaten the

company's market position). Hence the real challenge for those developing entities on the basis of acquisition is to carry out these transactions in a balanced manner to minimize negative consequences for employees.

In terms of evaluation of mergers by the same surveyed entities, the most recent issue of debate was how to finance the transaction.

Among many possibilities of raising capital, all the companies – 8, took advantage of internal equity capital, i.e. self-financing and external equity (new issues of shares, subsidies) to cover the costs of the transaction. 7 entities chose foreign capital (credits, loans, ordinary bonds) as a source of investment financing, and 4 companies chose mixed capital.



8- INTERNAL EQUITY

8- EXTERNAL EQUITY

7- FOREIGN CAPITAL

4- MIXED CAPITAL

Figure 6. Sources of mergers financing

Source: Own analysis on the basis of research results.

Generally, equity dominated in financing of the projects in the form of merger/acquisition in the first place. Using this type of capital undoubtedly has its advantages: it allows the company to maintain financial independence (without increasing its debt) and increases its credibility and creditworthiness.³ On the other hand, in order to increase the profitability of the company it is sometimes justified to use the leverage. The possibility of increasing the efficiency of the equity – an important indicator for investors is related to the positive effect of the leverage. It should be added that the leverage is widely used in «Western» enterprises (rich in experience in capital acquisitions) in LBO supported transactions (Leveraged Buy Outs) or LMBO (which stands for Leveraged Management Buy Out). Slight use of foreign capital (bank credit, EU funds, etc.) by domestic entities affects low debt of equity of the companies and little use of financial leverage effect. There are lots of reasons for the above, among others:

- still too high cost of loans and credits,
- high requirements from the perspective of creditors,
- restrictions on access to bank credit (additional guarantees to protect the interests of the bank in the event of another insolvency of the company, bureaucracy),

³Certainly, at an acceptable level of risk (optimizing profit – risk relationship).

- fluctuations and restrictive policies of the central bank,
- weak guarantee with property of the company's debt (sometimes up to 150 percent of the value of credit),
- vaguely specified development strategy of the entity,
- entrepreneurs fear of long-term debt,
- lack of political and economic stability.

Summary

Consolidation transactions in Poland result most of all from the need to face competition of major European companies, perceived by Polish enterprises after the EU accession, and from expected further growth of this competition in the future. However, it is worth mentioning that these transactions are very expensive and complex economic projects, requiring coordinated activities in many areas: economic, legal, technical, social, cultural, political and organizational. They trigger long-term changes in the functioning of all parties to the transactions.

The in-depth analysis of the merger and acquisition process from the viewpoint of participants of these transactions, presented in this article and also constituting a fragment of the authors' basic reasoning concerning the effectiveness of the development strategy used, with the application of mergers and acquisitions by selected domestic stock-listed companies, has led to formulation of the following conclusions:

1. Mergers and acquisitions are carried out in order to achieve long-term and not rapid short-term benefits;
2. The reasons for mergers and acquisitions of companies in Poland and in western states are similar. The most frequent reasons for mergers of companies are: achievement of economies of scale, extension of the assortment and geographic range of products / services, taking advantage of market opportunities, reduction of capital cost and enhancing the organization's prestige;
3. The integration phase is the largest source of problems to the participants in the entire process of mergers and acquisitions;
4. Reliable and correct completion of each of the process stages and in particular using services of specialist institutions participating in mergers of enterprises constitutes one of the success factors in the field of mergers / acquisitions of organizations;
5. Numerous transformations that take place in the course of mergers and acquisitions have not negatively influenced the employed persons (tension and stress);
6. Investments in the form of mergers / acquisitions are covered mainly by equity.

It is worth mentioning that the conclusions presented above may be used by entities planning such investments.

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