

Cross border merger and acquisition marketing essay



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Introduction

Merger and acquisition is a common way to expand business in growth strategy that corporation can grow externally by expanding its operations both globally and domestically. As the trend of globalization, cross-border merger and acquisition have been on a rise since the last decade and presenting. First of all, merge here means two or more different companies combine and form a new one. While acquisition is a firm purchase another firm in terms of buildings, shares and businesses.

Cross-border merger and acquisition could be the key of enter into foreign market. Acquiring a foreign existing company allow the company obtain its resources which include knowledge base, technology, human resources and gain access of its existing market in the foreign country as well (Shimizu, 2010). Besides, the integration of the acquirer and acquired firm is also creating a value strategy. Researchers usually examine stock market reactions to merger and acquisition announcements. But there are also some situations which the stock value decreased after merger and acquisition announcement. In long-term, merger and acquisitions will bring in a new management and operation system of improving efficiency and competitiveness (Mody, 2010).

The purpose of the assignment is to perform an in-depth analysis of the organizations cross-border merger and acquisition. First, we will go through on literature review on this topic, follow by the background of chosen company. The next is the analysis and recommendation of the topic, which is include the analysis and evaluation of the company implementing such

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strategy, pros and cons. Finally, we will provide a conclusion by summarizing our discussion.

Along the project here, we will provide a thorough discussion about the merger and acquisition process and also include the post merging. Post merging and acquisition is very crucial to the companies involve because this is where the culture, synergy, people and business will combine as a whole. Thus, even if the merge or acquisition is successful and fail to maintain after the that, it is still a waste of time and energy. So, there are also solution or guidelines provided in this project to maintain the newly form firm.

Literature Review

Whenever company merge and acquire, the process does not guarantee that it would success. There are failure case as well. In the literature review, the issue that will be focus will be pre, current, post merger and acquisition, cultural issue, implication and synergy gain from them. The findings is being discuss below.

Employees

After the merging and acquisition process, the employees need to work with each other (other company) well. They will need to perform the task with different kind of people and maybe will cause conflict between them. Hence, the employees may face the chance of termination by company as they work at the pressure environment. On the other hand, before the merging and acquisition occur, the team a company at before may possess good coalition with each other but after the process, they will have to mix with other

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employees, in the end, the alliance between them maybe reduce. As a result, the performance might reduce.

In order to solve the problems faces, the employees of the two companies must try to maintain good relationship and compromise. A good team is not just measured how talented or capable the member. In fact, a good team is evaluate that the team member would work in harmony and solves the problems together. So, the employees must try to realize and understand each other and try to make the relationship more consolidate. If these can be succeed, conflict, working in pressure environment, and employees distrust could be overcome. Therefore, the employees would not be a passive and they mindset will not have like this company is not theirs. They will try their best to do well for current company.

Leaders

For post merge and acquisition, leader play an essential role in the new organization. He will need to plan again the position and task of jobs. Leader need to make well relationship with new employees and relationship between the new employees and current employees (Gerri Knilans, 2009). Leaders also need to solve the conflict of employees as soon as possible. As an example, leader may face the problem of many employees want to quit and cause shortage of employees. Leadership is very important to each department, because be a leader must have power able to manage and lead the each member of team(Gerri Knilans, 2009).

To cope the problem, first, the leader must plan well and make sure there is enough time to perform. For example, leader is necessary to retain skilled
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employees (Gerri Knilans, 2009). He must choose the right person to stay at company. To do that, he must be able to identify which of them is beneficial to the company. The leader must also address the emotional challenges of the integration and speak truth to each of the employees, because it can reduce the suspicion among employees (Gerri Knilans, 2009).

Both the employees and leaders

After the merger and acquisition, the main problem will be face is communication and the relationship with each other. If there is no common objectives being set, the goals and thinking of both will be different and disagreement will arise. Some employees will try to blandish the leader make he/she feel satisfaction but not on the performance after that the leader will treat those employees best than other employees.

Both of employees and leaders must work together and clearly understand the need for both of the party. Both of them can be more supportive and participative in terms of doing project together or having a meeting. The leader must try his best to set good goals, use correct strategy and lead the employees well. On the other hand, employees also need to be cooperate with leader. If employees does not obey leader instructions, no matter how good the leader is, it is still useless. Consequently, employees and leader need to form a strong relationship especially after the merging and acquisition.

Pre, current and post of M&A

The majority of crossborder M&As are not successful.

Understanding the problems and opportunities of cross-border mergers and acquisitions is an essential element in understanding most M&As, and indeed in understanding the nature of global strategy.

what not to do in cross-border deals. 1. legal problems 2. lack of internal controls over budgeting, 3. weak understanding of the fundamentals of the acquired business, and 4. overly optimistic belief in “ synergies” arising from vertical integration

Pre M&A

two companies must reach agreement on which products and services will be offered, which facility or group will have primary responsibility for making this happen, who will be in charge of each of these facilities or groups, where will the expected cost savings come from, what will the division of labor look like in the executive suite, what timetable to follow that will best generate the potential synergies of the deal,

merging companies must continue to compete and serve their customers in a competitive marketplace

keys to establishing an effective strategic logic :

How will this merger create value, when will this value be realized?

better parent

pass the “ better-off” test (more competitive, stronger cost structure, additional competencies)

Overstate the real strategic benefits

fundamental imperatives that must be underscored

During M&A

share similar or complementary operations in such key areas as production and marketing. When two companies share similar core businesses there are often opportunities for economies of scale at various stages of the value chain

checklist of key integration issues, assign personal responsibility and a timetable for dealing with these issues, and set targets that will enable the value creation

According to Cross-Border Mergers and Acquisitions(Finkelstein, 1999), how to ensure successful M&A is that

Understand that most of the value creation in an acquisition occurs after the deal is done-synergies and benefits

Plan for integration before doing the deal - time constraints, insufficient information, lack of awareness of how critical integration really is - but the alternative is to essentially guess at the sources of value creation.

Work the details

Develop a clear communication plan

Problems

Employee stress and uncertainty

Mergers create uncertainty

people often experience considerable stress during this time

danger that some of the best people in a company will leave (loss! – may be costly)

feelings of mistrust and stress

attacks on established cultural traditions

Effects

Differences among management and workers can sometimes spiral into broader community and political problems.

companies engage in a merger or acquisition to create value, and that value creation comes about through a combination of synergy realization to cut costs and competitive strategy repositioning to increase revenues and growth

Company Background

For the company our group chosen is the CIMB GROUP. CIMB GROUP is also known as Commerce International Merchant Bankers Berhad. CIMB GROUP is a commercial bank and is the second largest financial services provider in Malaysia. It is also one of the most leading banking group's in Southeast Asia. They own the motto of " To Be South East Asia's Most Valued Universal Bank" (CIMB Group, 2010). While their vision is classified below:

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We are in the business of creating value for our customers

The main significance here is value. The value provided is mainly for the customers in terms of services company provided. The more value created, the more customers will turn to them.

We believe the best way to create the most value is by enabling our people

The keyword here is “enabling”. The way the company enable the employees is to actively and effectively engage them in placing, motivating and supporting, unleashing their true potential to produce more values for the customers.

In order to protect our reputation and business, we speak and act with integrity

Integrity is the main variable here. It refers to the approaches of how the employees treat the customers’ needs and interests. It is based on how the way employees speak, and act honestly and sincerely towards customers (CIMB Group, 2010).

Behind this merging company, the background is complicated but chronologically, there are two main company whom plays an important role in forming CIMB GROUP. They are Bumiputra-Commerce Holding Berhad(BCHB) and Southern Bank Berhad(SBB). The main historical event are shown below:

1965

Southern Bank Berhad (SBB) is founded as Southern Banking Ltd. It started its business in Penang and continue to expand into other states. In the same time, the Bank Bumiputra Malaysia Berhad(BBMB) also incorporated (CIMB Group, 2010). It develop prominently with banking facilities and services throughout from urban areas to rural areas untill 1979. It was also the first to introduce the MEPS/ATM system throughout Malaysia today.

1970 - 2000

Around the 30 years, there are several different merging banks and other highlighted activities occur. In 1972, Indian Overseas Bank Ltd, Indian Bank Ltd and United Commercial Bank Ltd merge and form United Asian Bank Berhad(UAB). Then, Pertanian Baring Sanwa Multinational Berhad(PBS) was incorporated in 1974. While in 1986, Bank of Commerce Berhad(formerly known as Ban Chiang Bank) replaced Bank Pertanian as the controlling shareholder of PBS, following which its name was changed to Commerce International Merchant Bankers Berhad (CIMB) (CIMB Group, 2010).

In November 1991, Bank of Commerce merge with UAB and form Commerce-Asset Holdings Berhad(CAHB). Due to Asian Financial Crisis in 1997 hits Malaysia critically, and subsequently in October 1999, BBMB and Bank of Commerce merge to form Bumiputra-Commerce Bank(BCB) which is under CAHB control. The merge between them is the biggest merger in Malaysia's banking history that ever recorded (CIMB Group, 2010).

2000 - 2005

From year 2000 onwards, CIMB began to actively involved in banking industry. In January 2003, CIMB Berhad had successfully listed on the Bursa Saham Kuala Lumpur(BSKL) and also launch CIMB Islamic (CIMB Group, 2010). Furthermore in 2004, CIMB acquire 70% of CTB and CAFM from BCHB. Then they were merged and become CIMB-Principal Asset Management Berhad(CPAM). In June 2005, CIMB also acquire G. K. Goh Securities Pte Ltd and Bumiputra-Commerce Group from CAHB. As a result of that, CAHB was renamed as Bumiputra-Commerce Holdings Berhad(BCHB) (CIMB Group, 2010).

2006 – 2008

After the acquisition of several banks and being listed in BSKL, CIMB Group had stabilizes its business and complete restructuring the exercise under BCHB. In March 2006, the Southern Bank Berhad Board of Directors agree to be purchase by BCHB which is under CIMB Group (refer to Appendice 1 & 2). Encapsulating investment banking, consumer banking, Islamic banking, expertise of BCB and agility of SBB, CIMB Group is able to mark itself on the Malaysian financial landscape (CIMB Group, 2010). Now, it is recognize as a universal bank. In accordance with the motto “ To Be South East Asia’s Most Valued Universal Bank”, CIMB Group are able to embark its business and putting themselves on a higher platform.

In the year 2008, CIMB are able to make strategic investment in the Bank of Yingkou, China and alos launch the CIMB-Principal Islamic Asset Management. Other than that, CIMB Group also acquire BankThai (CIMB Group, 2010).

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2009 and Present

From 2009 onwards, CIMB Group is one of the most prestigious company whom actively involve in Malaysia's banking industry. With the three main sub-brands of CIMB Group which is CIMB, CIMB BANK and CIMB ISLAMIC (refer to Appendice 3). CIMB Group can fulfill different needs of customers. Still, CIMB Group continue to thrive and engage their business not only in Malaysia but also in foreign country.

SWOT analysis of CIMB Holding Berhad

Strengths of CIMB Group

CIMB group is the second largest financial services provider in Malaysia. They also one of Southeast Asia's leading universal banking groups. Besides, they were the third largest company on Bursa Malaysia with market capitalization of RM49. 4 billion as at 30 June 2010. In general, CIMB group offers a full range of financial products and services, cover from corporate and investment banking, customer banking, treasury, insurance to asset management. Moreover, CIMB diversified their banking services to three main brand entities, which is CIMB bank, CIMB investment bank, and CIMB Islamic. These are giving customers a choice of both straightforward and Islamic solutions in banking services. In whole, CIMB contains 36, 000 employees that reach around 58% of ASEAN population and representing 80% of ASEAN's gross domestic product; with 1110 branches of CIMB bank globally, they are the largest in Southeast Asia region.

By depth, CIMB bank provides a wide distribution platform to customers with covering a local-wide network of 323 branches and over 2100 ATM machines
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and internet channels. On the other hand, CIMB investment bank Berhad has their uncompetitive strength in areas of product-market knowledge, high-quality strategic advice and transaction execution excellence and puts them highly in front position of Malaysia and Southeast Asia's corporate advisory, equity and debt capital markets. Besides, CIMB Islamic bank berhad provides Islamic products and operations with strict observance of Shariah principle under the guidance of CIMB Islamic Shariah committee, which comprises the world's leading Islamic scholars. They also recognized as leader in Islamic financial markets. CIMB ranks as one of the world's largest underwriters of Islamic bonds, or sukuk, according to data compiled by Bloomberg. The bonds are instruments structured to avoid interest payments that are barred under Islam's Shariah religious principles.

Weaknesses of CIMB

Although CIMB have many branches locally, the customer services of their employees are unsatisfied by many customers. The advise-giving from bank to customers provides wrongful and incorrect information lead to misunderstanding of banking services and cause many inconveniences to both parties. Besides, CIMB entry-level employees who are less experience and knowledge are slotted to deal with customers in field of advice and information. This may cause many problems such as misleading customers to unsafe investment, wrong-use of bank services and even personally harmed. The waiting time of customer services counter are long due to many customers and few counters or even one counter only. This causes many people loss time and chance to do their investment as CIMB has provides an investment products and services. Nation-wide of 2100 ATM machines

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provided to customers to deal problem of short of cash money, but the rates of broke-down of these machines consistently rise and the network linked often not working so the info from the ATM card cannot be read.

In whole, CIMB coverage too many countries bring them to higher levels globally. Although they had achieved high ranks, their central bank are stated in Malaysia where less and even more than less resources have to manage globally huge operations of CIMB bank. Moreover, in Malaysia, labor forces that experienced and skilled getting lesser; as the result, the growth of central bank is getting slower. Due to slow growth of economy in Malaysia, CIMB could affected in many aspects, such as stock price.

CIMB has their lower share price compare to Maybank. Although CIMB had rise 128% over the past year and narrow the gap between the two stocks' market value, they still have 3 billion gaps between both parties.

Opportunities of CIMB

In Malaysia, where about 60 percent of the 27 million people are Muslims, CIMB Islamic has held a quarter of the Islamic bond market in Malaysia, as the result they are twice the share of its nearest competitor.

In recent years, there are strong annually growth rate across business and household sectors. The banking loans and outstanding private debt securities are expanding at annual rate. Although the demanding of finance is lower in business sector, the loans approval and disbursement is remain strong. These loans are come from manufacturing, retailing, and servicing sectors. Meanwhile, in household sector, demanding for personal cars and

personal loans are growing strongly too. In general, banking sectors are effected to grow too. In short, CIMB has more opportunities to expand their business.

CIMB bank has expands their financial business to many countries, include Bahrain, Brunei, Hong Kong, China, Indonesia, Myanmar, Singapore, Thailand, UK and US. In consequence, CIMB possesses expandable business globally and gain more competitive advantages compare to other banks.

Threats of CIMB

Due to economic downturn, many sectors are affected. Recession occur. Thus, salary incomes are becoming lessened and causing saving increases. Expenses are reduced and loans from bank decreases. As conclusion, bank maybe affected too when economy are downturn.

CIMB bank has many bank competitors, such as May bank, AM bank, Hong Leong bank and others. These competitors often use different strategies in order to attract more customers, thus, affecting the main business of CIMB. For example, offer lower interest rate and annual fees waiver.

The confidences of investors from foreign country are affected due to the economic downturn. CIMB maybe a victim of economic downturn, thus investors may not be confident towards CIMB business currently pursuing. So, the loss of confidence of investors from local or foreign countries causes the fallen of business of CIMB.

Reasons for Merging and Acquisition

In this current competitive world, the competition between rival are getting more aggressive. Obvoiusly, when an opponent change the strategy, the market in the same industry will not be the same again. Merging or acquisition with another firm is very common thing. It is practice that become one of the company strategy expanding their business. In fact, the current news that is seen now is the Hong Leong Bank try to acquire Eon Capital Berhad which is still in negotiations. Therefore, it is almost become one of the company strategy to diversify their business. Thus, here it include the reasons why company would enter into an agreement for merge or acquisition.

Reduce competition and for growth

Whenever a company merge, this means that the market power will gain in the industry. A company(CIMB) increase the market power will have more dominance which will make them more robust in the industry. Hence, this will provide more rooms for growth as merging will covers more section(banking, investment, securities). Growth here will increase the profitability, size and productivity of a company. According to Perry-Porter model, it explain that there is a factor of production whose total supply is fixed in the industry(Tore Nilssen, n. d.). Furthermore, if a company(CIMB) want to expand, then it will need to access to more of this factor and gain from other firm in the industry(Tore Nilssen, n. d.). For instance, they include human capital and knowledge.

Diversification

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Diversification here explain as diversify of revenues and funding (Focarelli, Panetta, Salleo, 2002). As mergers are provoked by aiming to extend the customer base for services, they must provide the best for them. Since it possess different revenue and funding, mergers like CIMB are able to lend money to large firm as it own higher stability and that is why a bank can persist. Geographic diversification is also a reason to merge. This will help to reduce the exposure to any region (Brad Myers, 2006).

Necessity

In a compelling situation, sometimes firms are being force to merge. Economy plays an important role in it. For example, when economic downturn, small company had no choice and unable to sustain, eventually, stronger firms will gain advantage by merging with them. Unless the niche company has a defensive strategy or alternative way otherwise this is one of the way for the survival of the company. While from the perspective of huge company such as CIMB, this is the opportunity for them to purchase those small company.

Expansion

The main reasons for acquisition is for the expansion of a firm. For example, CIMB had purchase BankThai in 2008. This prove that it helps CIMB to move rapidly into an international area because BankThai is already operating there. Another example can be seen is the acquisition of Anheuser-Busch by Belgium InBev. Both are beer company and Inbev has a strong market in Europe and Latin America. After overtaking Anheuser-Busch, Inbev was a ble

to achieve a robust position in the U. S (Wheelen & Hunger, 2010). It usually engage a horizontal integration within the firms.

Gain advantage of acquired company

In acquisition, the motive is to gain advantage of the other firm. For instance, from the example of CIMB and BankThai, CIMB can learn the culture or how they perform the transaction in Thailand. This provide a competitive advantage over the competitors as CIMB will gain new knowledge and learn the pattern of how they manage the business.

Contrasting CIMB Group with competitors

CIMB Group is one of the banking industry in Malaysia. It also face a lot of challenges from its rival such as Maybank and Public Bank. They are the top competitors in Malaysia. Although three of them are established around 1960s, but the paces of business expand differently. Based on the performance and core business they focus on, they are classified as below:

CIMB Group between Maybank

In comparison of total assets and total shareholders fund, currently CIMB Group performance is poorer than Maybank. Although both of them was established around the same timeline, but the expansion is far from expected.

Employee Strength

Share price

(RM)

Total assets (RM in billion)

Total shareholder fund (RM in billion)

Maybank

39, 000

7. 700

331

26. 7

CIMB Group

35, 800

7. 450

245. 9

20. 6

(Maybank, 2010), (CIMB Group, 2010)

One of the reason it distinguish distinctively is that Maybank was listed in the BSKL(Bursa Saham Kuala Lumpur) in 1962 while CIMB Group only listed at 1987. A difference of 25 years gives a lot of advantages to Maybank.

Instead of these comparison, they still share some common characteristic as well. While focus on their own business, they also perform corporate social responsibility(CSR). The CSR scope of Maybank is emphasizes on environment. As an example, Maybank continued its animal conservation through sponsoring of tigers at Zoo Negara and Zoo Taiping. Whereas CIMB Group focus on community development, sports and education. Still, they still contribute to the society as well.

CIMB Group between Public Bank

From the comparison of monetary terms, CIMB Group is certainly better than Public Bank. But there is an obvious difference which is the name of the company. Whenever people heard “ Public”, it means open to everyone and it seems more friendly. The first impression is also an important factor as well. In the meantime, it does not mean that CIMB Group do not serve well, it is just Public Bank will take the advantage in terms of brand name.

As far as concern, if any of us are Public Bank user, we knew that there is an service counter design specifically for senior citizen and the disabled. They do not need to queue up and waiting for transaction, in fact they can directly approach for it. This show that the customer service provided by Public Bank is better than CIMB Group.

Recommendations

In our opinion, since the company chosen is CIMB Group, the recommendation should be focus on them. There are several areas CIMB Group should improve which is the service provided and business expansion.

From the comparison between Maybank and CIMB Group, the result show that CIMB Group is not as good as Maybank. One of the way to develop the business is through business diversification. This will provide CIMB Group more chances to compete with the rivals.

Since earlier the services that compare with Public Bank show that CIMB Group is not that good, they should make improvement on this. For example, CIMB Group can provide more effiecient process which include banking transction. Other than that, they also can increase the e-banking security to avoid any user security breach.

Conclusion

As we go through the organizations cross-border merger and acquisition process, from the literature review, we get to know that the main concern of M&A between its 3 stages, is the resources combination conflict which mainly on the human resources. Both of the employees and leader compatibility from different culture from every communication perspective have to be concerned. The other major concerns of M&A also have been discussed from pre, current and post M&A stages.

The company that our group selected is the CIMB Group, a commercial bank that also second largest financial services provider in Malaysia. It involve in merging process of Bumiputra-Commerce Holding Berhad (BCHB) and acquisition of Southern Bank Berhad(SBB). The timeline of the bank merging and acquiring process had been discussed in the company background. The SWOT analysis of CIMB GROUP also have been conducted analyze thoroughly.

The main reasons of CIMB Group get into the M&A process are: reduction of competition and for growth, diversification, necessity, expansion, and gain advantage of acquired company. As seen as above, the concern of CIMB Group is to gain competitive advantage, and launch the strategy before its competitor. In this current globalizing era, M&A become the choice of CIMB Group for it.

We also had analyze and contrast the position of the CIMB group with its competitors, which major are Maybank and Public Bank. As the comparison, we get to know that CIMB group performance is still below Maybank, but higher than Public bank.