

Corporate Strategies in Global Investment Business*

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ABSTRACT: The article deals with topical issues of the development of corporate strategies for businesses. We proposed the classification and defined the ways to implement corporate strategies. We also analysed the current trends in the development of global corporate strategies mainly implemented through mergers and acquisitions.

KEYWORDS: strategies, strategic management, corporate strategies, strategies of corporations, business unit strategies.

Introduction

Comprehensive strategy is one of the important features of present-day international corporations. The modern international corporate management practices are influenced by rapid internal and external changes which undoubtedly affects the quality and stability of corporate strategy development and implementation. Strategic decisions are those that are crucial for business operation and, if implemented, have long-term and irreversible consequences. This means that the implementation of strategic decisions changes the potential of international corporations, and even if it is possible to return to the previous state of the asset managed, it requires a significant investment of time, resources and efforts¹.

Strategy was first mentioned at the time of Alexander the Great. Soldiers were the first to use the strategy concept. The term *strategy* (Greek – *stratis* meaning ‘army’ + *ago* meaning ‘leading’)², or *strategos* meaning ‘art of a general’³ borrowed from military vocabulary and meaning planning and implementation of the policy of a country or military and political alliance by using all resources available⁴.

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¹ V. V. Makedon, Strategies for Formation of Integrated Structures of Multinational Corporations via M&A. e-resource [access mode]. http://www.nbu.gov.ua/portal/Soc_Gum/Vamsu_econ/20111/Makedon.htm

² L. M. Kulikov, *Fundamentals of Sociology and Political Science: Coursebook* (Moscow: Finansy i Statistika Publishing House, 1999), 336 pages, page 211. [in Russian].

³ M. H. Meskon, M. Albert, *Fundamentals of Management: Translated from English* (Moscow: Delo Publishing House, 1993), 702 pages, page 257.

⁴ A. N. Liukshynov, *Strategic Management: Coursebook for high schools* (Moscow: UNITY-DANA Publishing House, 2000), 375 pages, page 12. [in Russian].

In writing, the term *strategy* was first used in China as the first state was formed there in the 14th century B.C.¹. Later, the concept of strategy was used in Japan. The Bushido, the code of moral principles which the samurai were required to observe, also refers to the strategy of training and art of war². It should be noted that it was Japan that made closer to military strategy other areas of life that are not directly related to war.

In economics, the term *strategy* was first used in 1962 by A. Chandler Jr. to determine one of the types of a commercial enterprise management: strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources³. It was the beginning of the stage of businesses' strategic planning in market economy.

The references analysed show that the majority of strategic management researchers are focused on progressive organisations such as large corporations (I. Ansoff⁴, R. Koch⁵ et al.). Such organisations are mainly focused on the development rather than growth and competition, which depend on the choice of the strategic conduct. This allows diverting from the classical paradigm and encourages forming an effective strategic management system aimed to develop and implement the overall corporate strategy. A significant contribution to the contemporary scientific view of strategic management and corporate strategy was made by: M. Porter⁴, I. Ansoff⁸, R. Koch⁹, A. Thompson and A. J. Strickland⁵, Cynthia A. Montgomery⁶ and others. Corporate management issues are studied by the following Ukrainian scientists: V. Gerasymchuk⁷, L. Dovgan⁸, Ya Zhalilo⁹, L. Fedulova¹⁰ and others.

¹ Sun Tzu, *The Art of War* (Moscow: AST Publishing House, 2002), 558 pages. [in Russian].

² *The Bushido Code. Hagakure. Hidden by the Leaves* (Moscow: Eksmo Publishing House, 2003), 432 pages.

³ A. D. Chandler Jr., *Strategy and Structure: Chapters in the History of the Industrial Enterprise* (1962), 455 pages.

⁴ M. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, Trans. from English by A. Oliynyk and R. Silskyi (Kyiv: Osnovy Publishing House, 1997), 390 pages.

⁵ A. A. Thompson, A. J. Strickland, *Strategic Management. Crafting and Executing Strategy: Coursebook for high schools*, Trans. from English, ed. L. G. Zaytseva, M. I. Sokolova (Moscow: Banks and Exchanges, UNITY Publishing House, 1998), 576 pages.

⁶ David J. Collis and Cynthia A. Montgomery, *Corporate Strategy: A Resource-Based Approach*, Trans. from English by Yu. Kostrubov (Moscow: Olimp-Business Publishing House, 2007), 400 pages.

⁷ V. G. Gerasymchuk, *Strategic Enterprise Management. Graphical Modelling: Coursebook* (Kyiv: The Kyiv National Economic University's Publishing House, 2000), 360 pages. [in Ukrainian].

⁸ L. Ye. Dovgan, Yu. V. Karakai, *Strategic Management*, Coursebook (Kyiv: Tsentr Uchbovoyi Literaturny Publishing House, 2009), 440 pages. [in Ukrainian].

⁹ Ya. Zhalilo, *Theoretical and Practical Aspects of Forming of Effective State Economic Strategy: Monograph* (Kyiv: National Institute for Strategic Studies, 2009), 336 pages. [in Ukrainian].

¹⁰ *Corporate Structures in Ukrainian National Innovation System* [Text]/[L. I. Fedulova et al.]; ed. L. I. Fedulova, Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine (Kyiv: UkrINTEI Publishing House, 2007), 811 pages. [in Ukrainian].

Modern Approaches to Interpretation of Corporate Strategy Category

There are many definitions of corporate strategy in specialist literature. According to A. A. Thompson and A. J. Strickland, corporate strategy is defined as a process whereby a diversified company approves its activity principles in various fields, as well as the activities and approaches aimed to improve the company's operation¹. R. Koch uses the corporate strategy term in two approaches: first of all, it is regarded as directions for strengthening the society's competitive advantages and better increasing its value, and then it is used to describe the top management activities². I. Ansoff, the representative of the strategic planning theory, defines corporate strategy as a complex relationship between the portfolio and competitive strategies and their components. He stresses that portfolio strategy is associated with a group of a company's principal activities, while competitive strategy is related to operational issues in certain areas. The author names principal activities as strategic business areas that operate in the same system³. M. Porter substantiated basic strategy concepts which determine the formation of individual competitive strategies of enterprises with due regard to their internal and external environments⁴. Richard Lynch states that corporate strategy is a set of basic goals, directions, key plans, or policies to achieve them, set to determine which business a company operates or intends to operate in, and what type of company it is or intends to become in the future. When considering actions, each organisation should manage its strategies in the following three areas: organisation's internal resources, external environment and ability to create value⁵. According D. Stechenko, Zh. Zhygalkevych and N. Tymoshenko, an effective corporate strategy is an ordered set of five elements (vision, goals and objectives, resources, businesses and organisation) which all together as a system give rise to the benefits that create economic value. For maximum effect each element must depend on and support each other to work in harmony⁶.

¹ A. A. Thompson, A. J. Strickland, *Strategic Management. Crafting and Executing Strategy*: Coursebook for high schools, Trans. from English, ed. L. G. Zaytseva, M. I. Sokolova (Moscow: Banks and Exchanges, UNITY Publishing House, 1998), 576 pages, page 159.

² R. Koch, *Strategy: How to Create, Pursue and Deliver a Winning Strategy*, trans. from English by R. Koch, 2nd ed. (St. Petersburg: Piter Publishing House, 2004), 320 pages, page 85.

³ *New Corporate Strategy*, trans. from English by I. Ansoff (St. Petersburg: Piter Kom Publishing House, 1999), 416 pages. (The Theory and Practice of Management).

⁴ M. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, Trans. from English by A. Oliynyk and R. Silskyi (Kyiv: Osnovy Publishing House, 1997), 390 pages, page 122.

⁵ *Richard Lynch Corporate Strategy* (Pitman Publishing House, 1997).

⁶ D. M. Stechenko, Zh. M. Zhyhalkevych, N. Yu. Tymoshenko, *The Aspects of Corporate Strategy Structure Formation*. E-resource, access mode: http://www.nbuv.gov.ua/e-journals/PSPE/2011_3/Stechenko_311.htm.

In practice, different approaches are used to formulate and implement a strategy by taking into account a company's development stage and distinctive features (fig. 1).

A strategy covers the interrelation between the enterprise and its environment; however, there are a lot of key management principles not affected by a strategy. 'A strategy, in principle, does not address the issues of employee incentives, finance, accounting, production volume or stock control. However, all these areas may affect the strategy and vice versa'¹.

The purpose of a corporate strategy is to form the conditions in which a company can create added value and deliver it to the consumer, and to ensure the company's ability to timely adapt to changing conditions and create value in the future. The techniques for adding value form the basis of a corporate strategy.

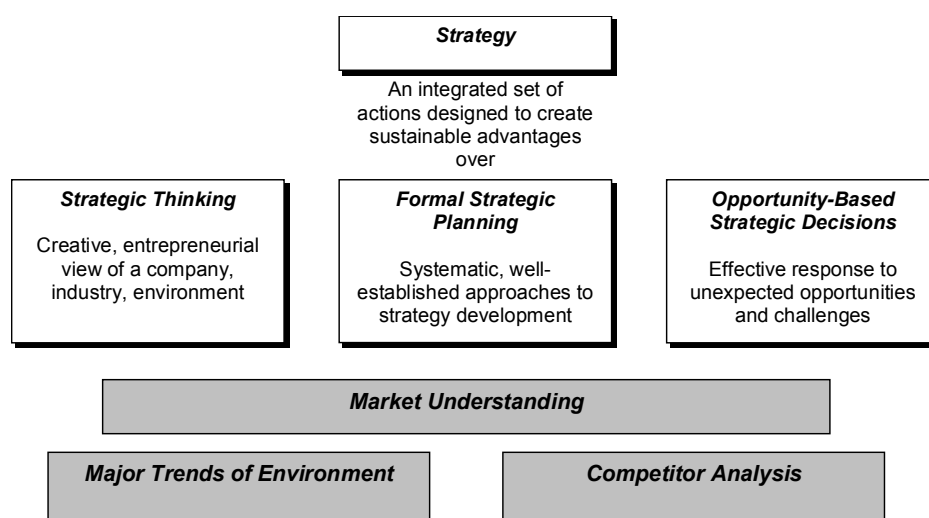


Fig.1. Possible approaches to strategy concept interpretation²

A corporate strategy is aimed to create a brand new way forward based on all resources and skills available opposed to the environment and its limitations. It should be emphasised that a successful strategy is rarely copied. It is based on the efficient implementation of what competitors are unable to do at all or right away.

¹ Richard Lynch Corporate Strategy (Pitman Publishing House, 1997).

² Frederick W. Gluck, Stephen P. Kaufman and A. Steven Walleck, *The Evolution of Strategic Management* <http://www.mckinseyquarterly.com/>

Corporate Strategy Hierarchy

A corporation's corporate (general, portfolio) strategy determines the general direction of its activities and is formed by the top management and has three main tasks:

a) to form (select) the principal direction of activities of a corporation and its strategic business units (SBU);

b) to determine (set) a specific role of each SBU and division in the implementation of the corporate strategy;

в) to determine the size and methods of allocation of resources (investment) among SBUs and other divisions¹.

The main strategy should also ensure synergy. Synergy is the most important feature of complex systems which means that the overall result of interaction of a company's divisions and business units exceeds the sum of simple effects of their activities. For example, a company buys a distribution network whereby dramatically increases its sales in several business units that previously had no access to new customers. The overall result is significantly higher than the sum of earnings of the distribution network and business units if they act separately.

Therefore, the main strategy does not mean the sum of strategies of a company's divisions, as managers sometimes try to work out in practice, but a synthesis of the development strategies of a unit which should be used as a benchmark to reach a new development level.

The development of such strategy is the most difficult task of strategic management. It requires determining the extent and combination of activities, making a business portfolio, selecting markets, identifying key priorities, formulating main ideology, engaging and allocating managers for key positions.

It should be noted for the corporate strategy structure that structure is an invariant (inalterable) aspect of any system. It reflects the internal formation depending on the composition of the elements and a set of their relationships. With its name and list of elements each link states what they form. Therefore, many researchers define the structure as a network of links among the system elements specifying the internal structure concept².

An effective corporate strategy is best imagined as an integrated system with consistent basic elements³.

¹ M. G. Saienko, *Business Strategy*: Coursebook (Ternopil: Ekonomichna Dumka Publishing House, 2006), 390 pages, page 132. [in Ukrainian].

² L. Ye. Dovgan, Yu. V. Karakai, *Strategic Management*, Coursebook (Kyiv: Tsentri Uchbovoyi Literaturny Publishing House, 2009), 440 pages, page 137. [in Ukrainian].

³ David J. Collis and Cynthia A. Montgomery, *Corporate Strategy: A Resource-Based Approach*: Trans. from English by Yu. Kostrubov (Moscow: Olimp-Business Publishing House, 2007), 400 pages, page 253.

Multi-business (multi-industry, diversified, making various types of products) companies use a five-level strategy which includes: a corporate strategy, business unit strategies, competitive (business) strategies, functional strategies and operational strategies.

A corporate strategy is closely related to and actually determines a competitive (business) strategy which ensures the implementation of the corporate strategy.

Single-business (non-diversified, making single-type products) corporations bring these two types of strategies together — a corporate strategy is a competitive strategy (or vice versa). Such corporations use a four-level strategy¹.

Business line, or business unit, strategies are developed where a company has independent businesses and autonomous or semi-autonomous strategic business units. A business unit is a company's division that has a full functioning cycle, including marketing, production, sales and, in some cases, research and development. Business units are highly autonomous: their managers independently determine the production, pricing, marketing, promotion, staff recruitment and production development strategies. Different companies can impose restrictions on certain decisions made by SBU managers. In fact, a SBU is a company within a company, yet even with its high autonomy it must observe such restrictions. An SBU may not independently:

- change its type of business and production profile;
- sell equipment and technology;
- borrow more money than set by the company (for example, more than 10% of an SBU's total assets);
- dismiss its managing director and key managers.

Each SBU's strategy must be developed based on the company's main strategy.

Competitive (business) strategies are subject to a corporate strategy, outline the ways to achieve the set goal in each SBU and represent a long-term plan to gain strong, competitive positions (advantages). These strategies are also known as business strategies, or competitiveness strategies.

Functional strategies are intended to ensure the implementation of a company's strategies and those of its business units. Such strategies are created based upon both corporate goals and business units' development tasks. Many companies mistakenly believe that they can do without these strategies and only use the major strategy and business units' strategies. However, in this case their goals and objectives 'hang in the air' as there is uncertainty as

¹ M. G. Saienko, *Business Strategy*: Coursebook (Ternopil: Ekonomichna Dumka Publishing House, 2006), 390 pages, page 13. [in Ukrainian].

to activities and responsibilities, which tasks should be prioritised and how task implementation should be coordinated.

These strategies are most often classified by a company's functional units. Another approach involves strategy classification by principal activities. For example, in the following form: marketing strategy, financial strategy, innovation strategy, production strategy, social strategy, organizational change strategy and environmental strategy¹. It should be noted that the approach based on the development of strategies for functional units is more specific since it is clear who is responsible for the development and implementation. In addition, each functional unit develops innovation, organisational change, social and other strategies. A marketing strategy should be developed by a marketing department, but it is unclear who should develop social, innovation and a number of other strategies and be responsible for their implementation. It should also be mentioned that each strategy must be innovative. Functional strategies are lower level strategies, so they should be very specific. In all cases, managers should develop strategies for the development of functional units because they have a great influence on the formation of corporate and competitive strategies.

Strategic management experience has shown that the company's strategy will be effectively implemented only if the overall top-level strategic goals are turned into strategic goals of lower level employees who actually implement the strategies.

In a bureaucratic approach, an operational strategy is determined by the top management and mechanically cascaded to lower management levels. It does not ensure the consistency of a company's general development strategy with the strategies of its divisions, groups, teams and employees. This approach creates a strategic gap where the strategic goals are set by the management, but the strategies are ineffective due to absence of links between a company's higher and lower level strategic objectives and lower level employees' motivation for reaching such goals. Strategic management ensures interrelations of a company's all level strategic goals. Figure 2 shows the hierarchy of corporate strategies and relation of a functional production strategy with the strategies of two production divisions, workers, task group and team which were formed to improve quality and implement a new process.

The importance of the fifth-level strategies is now higher due to the development of self-management and self-organisation in the companies with the centre of gravity of managerial actions and decisions is shifted to the network structures of the team, task groups and directly to workers who implement the strategies.

¹ *Strategic Marketing*, Ed. A. N. Petrov (St. Petersburg: Piter Publishing House, 2005), 496 pages. pages 252-253. [in Russian].

Each of these higher-level forms a strategic framework for a lower level restricting it in some way.

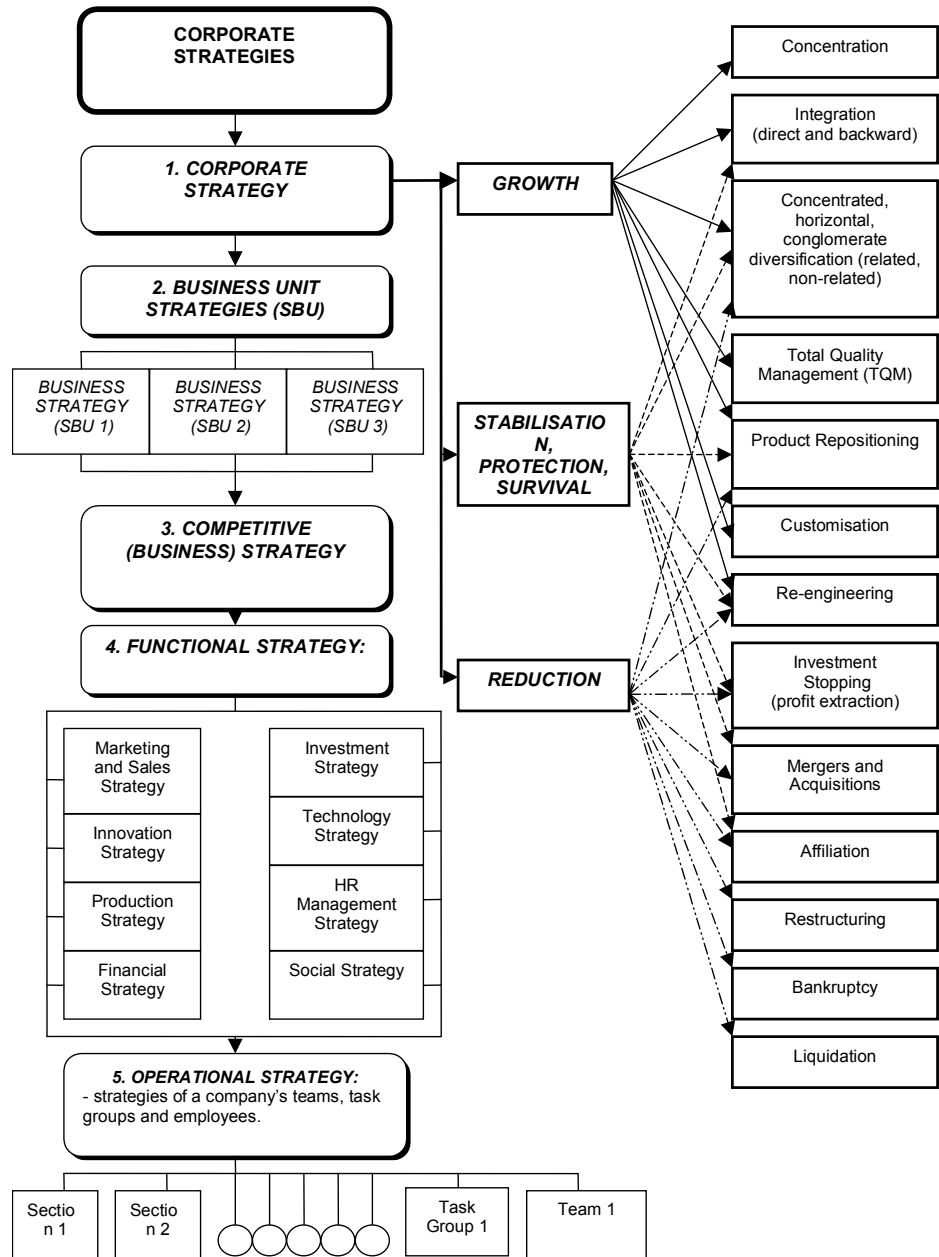


Fig.2. Corporate Strategies Hierarchy, Types and Implementation Techniques

Types of Corporate Strategies and Implementation Techniques

The classic approach to strategies classification by the type of a company's development includes dividing strategies into groups¹:

- growth strategies which include concentration, vertical integration and diversification strategies;
- stabilisation strategies;
- protection strategies, which include harvest, turnaround, divestment, bankruptcy and liquidation strategies.

This classification is now being widely used in strategic management training systems. However, present-day conditions require a different approach. The composition of strategies should be expanded to include new strategies that have been used over recent years and multi-purpose basic strategies. Managers should consider the possibility of using the same type strategy, such as diversification, reengineering and others, for both a company's growth and stabilisation or protection. This approach provides flexibility to use certain features of individual strategies and meets the real conditions of use. Reengineering is often done in high-performance companies to ensure growth, while in less successful companies it is used to improve their sustainability. Following diversification, distressed companies can improve their market positions though without gaining additional revenue².

The growth strategies are intended to expand market activity, increase assets and grow investment. In many cases, a company's management deliberately chooses high-risk growth strategies, because no one can guarantee that a rapid increase in goods and services will bring expected gains in highly competitive environment.

These strategies can be divided into the following groups depending on the development rate (earnings, sales, assets growth):

- the super-growth or hyper-growth strategy is used by the companies that achieve high growth pace over 10 years reaching their total sales of more than \$1 billion³ or gaining dominant market position;
- the dynamic growth strategy helps a company become one of the leading businesses in terms of development pace without gaining market dominance. This strategy is only possible if the average market growth is higher than normal and in case of accelerated development;
- the abrupt increase (leap) strategy is used when a company enhances its development rate within a short period of time;

¹ L. W. Rue, P. G. Holland, *Strategic Management: Concepts and Experiences*, 2nd ed. (N.Y.: Mac Graw Hill, 1989).

² Yu. A. Malenkov, "Company Strategy Classifications," *Emitent. Sushchestvennye Fakty, Sobytiya, Deistviya* Magazine.42:173 (2006). E-resource: [access mode]: <http://www.cfin.ru/management/strategy/concepts/classification.shtml>.

³ R. Cartright, *Strategies for Hypergrowth* (Oxford: Capstone Publishing, 2002).

— the moderate growth strategy means that a company adapts to the average market growth rate;

— the slow growth strategy means that a company has an increased economic potential, development rate below market opportunities and the average market increase rate.

— the slowdown strategy is used for increased profits, sales, absolute assets, however the rate of increase in these indicators becomes lower compared with the previous periods. This strategy can be associated with both a company's exhausted opportunities and lower market development potential or the company's maturity.

The stabilisation, protection and survival strategies are used by large corporations which already have market dominance to maintain their market niche and market share. Under these circumstances, the main task is to search for internal reserves and favourable market opportunities with minimal risk.

This strategy is used as a core corporate strategy by the corporations that operate in stable technology areas, manufacture goods with mature product life cycle (PLC), where owners and managers are generally satisfied with their company's situation.

The reduction strategies are mainly aimed to minimise a company's costs for unprofitable business areas. Under these circumstances a company's profits are minimal; it has low profitability and often incurs losses. Managers must ensure a radical change within the company such as complete reorganisation, change in business activities, switching to strategies 1 or 2. If managers fail to do so, the company should exit the market with minimal closure losses.

A company can cause its growth, stabilisation and reduction in different ways by using the following strategies (table 1):

In the existing approaches to strategy classification, the strategies such as integration, diversification and some others are referred to either the growth category or the protection/stabilisation category. But in fact, many of the third level strategies are multi-purpose. As shown in fig. 1.1, they can be used for both a company growth and for its protection or reduction. In this sense, the diversification and re-engineering strategies are the most universal as they can be used in any environment.

Today, differentiation is one of the main drivers in achieving strategic competitive advantages, yet it is the most risky strategy. This is because the quality improvement and differentiation strategies typically require large expenditures for research, design, development, market testing, marketing and changes in production technology. If these strategies are unsuccessful, a company may lose its market share and even become bankrupt. That is why in practice most companies seek to use a well-balanced quality improvement strategy while limiting costs.

Table 1. Strategy Implementation Methods

<i>Types of Corporate Strategies</i>	<i>Strategy Implementation Methods</i>
The growth strategy	<p>– concentration – increase in production of primary products or services. There are some variants of this strategy: horizontal concentration based on acquisition or opening of companies that make the same products; concentration based on the market development – increasing market share and market rating; concentration based on product development – quality improvement, product family expansion;</p> <p>– integration (direct and backward), also known as vertical integration, means increased control over consumers and suppliers by acquiring or creating companies that are in the top and bottom link of the production and distribution chain. Direct integration occurs when top link companies are acquired or opened which will consume the corporation's products or services, e. g. a steel plant purchases a car factory. The backward integration strategy is used when companies of the bottom link of the technological chain are acquired or opened. For example, a company purchases a semi-product supplier;</p> <p>– diversification involves the production of goods and services other than those included in a company's basic range. Diversification can be related and non-related. The related diversification strategy means the production of new goods and services that are directly or indirectly similar to the basic ones. Non-related diversification means that a company produces goods and services that are not related to its principal business activities. For example, non-related diversification occurs when: an engineering equipment manufacturer opens a food production line. Non-related diversification is also known as conglomerate diversification. Concentrated diversification takes place if a company expands its production with new areas, but its goods and services remain close to the basic ones;</p> <p>– TQM (Total Quality Management) is the business development strategy that uses quality of products and services as the main objective and priority criteria for assessment of the development effectiveness. The quality improvement strategy permeates the entire company from its management to employees. Each innovation is primarily assessed in terms of its impact on the improvement of products and services quality. The quality level is monitored on a daily basis. The main objective of a company's personnel under TQM conditions is to reach the zero defects level. A company develops a complex system for internal planning, monitoring and control of product quality at all stages of the production cycle from selecting vendors to supplying to end users. Staff training occurs on a continuous basis and periodical audits are conducted to check the performance of the company and its divisions;</p> <p>– the repositioning strategy is based on a change in consumers' perception of a product through advertising, change in some of the product properties and/or price. As a result, the product is transferred from one segment to another. This strategy reflects the principle of transition to higher positions in a new segment. If a product cannot achieve a leading position in its segment, it can become one of the leaders in new segments;</p> <p>– customisation involves increasing a product value by linking it to consumers' individual needs and peculiarities. Customisation has different forms. For example, it may take the form of attracting consumers in the production of a product or service through individual selection of its components or designing the end product.</p>

<i>Types of Corporate Strategies</i>	<i>Strategy Implementation Methods</i>
<i>The stabilisation, protection and survival strategies</i>	<ul style="list-style-type: none"> – <i>re-engineering</i> means a complete restructuring of an existing business. All products and services, business processes and management functions are reviewed and revised. The main purpose is to create a new, more efficient production, marketing and management system. Unlike modernisation or innovation that influences a company's individual subsystems, re-engineering fundamentally alters its appearance. It should be noted that many companies cannot reach the effect from using of this strategy because they are not ready to take risk and go for radical changes, and partial re-engineering is not efficient enough. But even separate results are stunning. For example, instead of 10 to 15 days needed for product delivery of receipt of an order, after re-engineering many companies were able to reduce this time to 3 days and cut costs dramatically. A company can become a market leader following a successful re-engineering process; – <i>restructuring</i> means a change in a company's internal structure primarily due to getting rid of unprofitable and non-core operations, redundant management links. Restructuring usually leads to a 20-40% reduction in number of employees and is often associated with new owners and managers, and formation of a new structure that is simpler, more efficient and productive; – <i>the investment stopping</i> strategy is based on discontinuation of investment in the development of a company and its subdivisions when all earnings are withdrawn and the business is prepared for sale, reorganisation or liquidation. This strategy is used where it is difficult to compete, a company is losing its market position and new investment cannot be secured; – <i>merger</i> occurs when companies combine into a single business entity. This strategy is often the only way for a low-performance company to avoid bankruptcy. But this strategy often takes the form of <i>acquisition</i> or <i>takeover</i> when a company acquires the controlling interest of a competitor and deprives it its independence in order to eliminate competition. Hostile takeovers represent an acute problem in the global economy when agreements are entered into and transactions are made at dramatically increased speeds by using electronic communications. What differs mergers from acquisitions is that mergers are based upon voluntary decisions of both parties. On the other hand, acquisitions are regarded to be an unethical method of competition; – <i>affiliation</i> means that one or more companies cease their activities to transfer all their rights and obligations to an existing company.
<i>The reduction strategy</i>	<ul style="list-style-type: none"> – <i>bankruptcy</i> is used by companies in a difficult financial situation that cannot repay the debts they owe to creditors. In the global practice, declaration of bankruptcy means that a company can have a deterrent of debt repayment and freeze creditors' claims for a certain period, sometimes up to 3 years, which gives the company a respite to increase its performance. – <i>liquidation</i> is the last stage of a company's life cycle. Upon liquidation, it loses all its assets, ceases to exist and repays the debts it owes to creditors. The liquidation strategy makes sense when it is more reasonable to create a new entity rather than to invest in the restructuring of an unprofitable product line.

Differentiation is easier to implement in market segments with a low elasticity of demand, where there is no competition with producers who lower prices. These are typically the customer segments with high demand for quality.

It is most difficult to define a strategy for customers with an elastic demand and high quality requirements. The competition in this area is the most intense and different manufacturers offer customers a huge selection of virtually identical in quality and similar in price groups of goods and services that only differ from each other by certain characteristics. It is difficult to choose and follow a particular generic strategy in these market segments as competitors will react immediately and use weaknesses for their benefit. For example, they can start lowering prices to press on a company that uses the differentiation strategy, or can drive out a company that focuses on cutting costs due to reducing quality by using aggressive marketing strategies and improving their quality.

It would be wrong to assume that there is always only one way to address strategic problems by choosing single-type strategies. I. Ansoff in his strategic management principles suggested the multiple element hypothesis which rejects the assumption that one management component, whether it includes key managers, structure, culture or system, is the main prerequisite for success. Instead, a company's success is the result of the interaction and complementarity of several key elements (although under certain conditions one or more components may become dominating¹).

Strategy development and selection is a complex, creative process that cannot be squeezed into a set of predefined templates and recommendations. This process cannot be standardised as with designing technical products. Market leadership can only be achieved by using a tailored, creative strategy.

Global Corporate Strategies Dynamism and Trends

In the mid-1980s, global corporate strategies were formed that are mainly implemented through mergers and acquisitions. For a long time, transnational corporations (TNCs) could acquire other companies' strategic assets, monopolise markets, achieve synergy, expand themselves and diversify risks, enhance their financial potential to meet personal interests of the top management, etc.²

¹ New Corporate Strategy, trans. from English by I. Ansoff (St. Petersburg: Piter Kom Publishing House, 1999), 416 pages. (The Theory and Practice of Management), page 402.

² T. V. Kalchenko, *System Interaction Imperatives in Shaping the Global Economy*, synopsis of a thesis for the degree of D.Sc. Economics, specialty 08.00.02, Global Economy and International Economic Relations, Vadym Hetman Kyiv National Economic University (Kyiv, 2007), 32 pages, page 19. [in Ukrainian].

International mergers and acquisitions (M&A) — particularly involving TNCs that spend huge amounts of money to acquire firms in other countries is an absolute aspect of today's globalisation. Such deals are now a form of foreign direct investment which significantly exceeds investments in new companies (*greenfield investments*). In various areas, companies are converted into holdings, assets are acquired continuously, international corporations are reorganised and expanded¹.

Most M&A deals are entered into by industrialised countries, yet the role of such deal is increasing for developing countries (mostly in the form of acquisitions as mergers with local companies are rare). These processes are most active in Western Europe and the U.S., and least often take place in Asia and Latin America.

The revived investment processes seen in Q4 of 2010 confirm that the steep decline stopped in 2008 and 2009 and the investment globalisation process continues.

Figure 3 illustrates the inflows of foreign direct investment and cross-border mergers and acquisitions as an important FDI component. According to analysts, investment in the form of mergers and acquisitions were expected to reach about US\$ 670 billion late in 2010, a 6 % increase compared with 2009. Revived activity in the international M&A deal sector has been noted since 2007, compared with the 21 % and 53 % declines in 2008 in 2009, respectively².

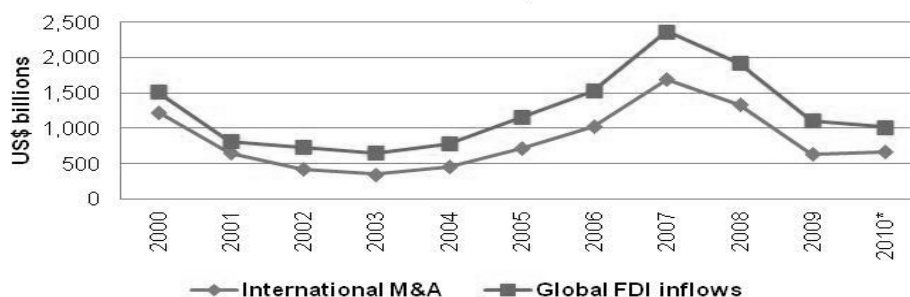


Fig.3. Global Inflows of Foreign Direct Investment and International M&A Deals in 2000 – 2010^{3 4}

Given the M&A trend and the fact that they contain a significant share of the international inflows of direct investment, their reduction

¹ V. Sychev, A. Koksharov, "Time to Merge," *The Expert Journal* (February 10, 2004). E-resource: access mode: www.expert.ru.

² International investment limps into 2011/ OECD investment.

³ OECD calculations using data from Dealogic.

⁴ OECD international direct investment database.

in 2010 was forecasted at 8 % level. In any case, such reduction can be regarded as a significant achievement in 2009 – FDI inflows declined by 19 % in 2008 and by 43 % in 2009 (fig. 4). 4)¹.

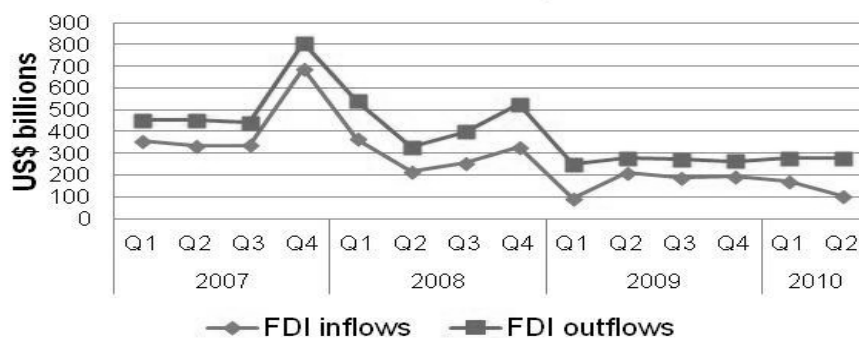


Fig.4. Quarterly Foreign Direct Investment Inflows and Outflows in OECD countries, 2007 – 2010²

The increase in M&A deals in 2010 for the first time since 2007 can be called the beginning of a new many-year cycle of mergers and acquisitions where the role of emerging markets is becoming more visible.

According to *Reuters* the volume of announced mergers and acquisitions in 2010 increased by nearly 20% up to US\$ 2.25 trillion. According to the preliminary calculations, the share of emerging markets in global terms reached the record level of 17%. Most deals were made in the energy sector³.

The Economist experts believe that the low borrowing costs, record high cash reserves, economies' tendency to grow faster and the positive market response to the large number of mergers in 2010 should encourage companies to conduct more transactions in the future.

According to *Dealogic*, a leading financial analyst, the U.S. remained the leader in the M&A sector in 2010 (fig. 5).

American companies have become the object of more than 9,676 deals worth US\$ 894 billion compared with 7,338 deals worth US\$ 797.1 billion in 2009. The UK ranked second by deal value, though by the number of transactions this place was taken by China. Most M&A deals were made in finance, while oil industry became the leader by the value of transactions. In 2010, M&A deals in the world totalled to US\$ 2.8 trillion (fig. 6), a noticeable positive trend compared with US\$ 2.3 trillion in 2009.

¹ International investment limps into 2011/ OECD investment.

² OECD international direct investment database.

³ E-resource: access mode: http://www.economist.com/node/17851583?story_id=17851583&CFID=168483589&CFTOKEN=82327000.

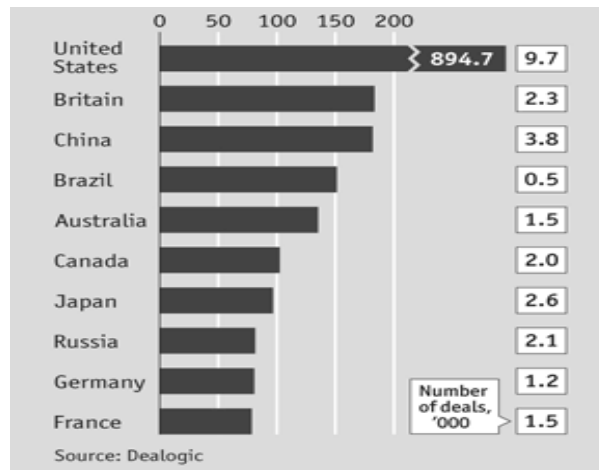


Fig.5. Value of M&A Deals in 2010, by country, US\$ billion¹

A visible revival finally occurred last year in the global investment market after a protracted crisis. In particular, according to investment banks' reports, the last quarter of 2010 saw the highest number of deals since the beginning of the financial crisis. For analysts this new boom, or a new wave of mergers and acquisitions, as it is also called, is still not an obvious trend as consolidation of companies requires significant stability guarantees that are not typical for the current post-crisis investment environment.

Many analysts tend to call unreasonable this M&A market recovery. However, despite the macroeconomic instability, a number of factors can still indicate the presence of favourable prerequisites for the growing number of mergers and acquisitions²:

— first, potential buyers have excessive financial reserves. Corporations both in the USA and in Europe have created considerable reserves during the crisis. If these reserves are not spent, investors will demand increasing dividends or begin to sell their shares;

— second, tough economic conditions have helped many corporations to strengthen their market share and market capitalisation positions.

Recently, developing countries are gaining potential as a source of foreign investment in the form of mergers and acquisitions. Their share in global inflows of foreign investment increased from 1% in

¹ E-resource: access mode: http://www.economist.com/node/17851583?story_id=17851583&CFID=168483589&CFTOKEN=82327000.

² "Waiting for a wave. A flurry of deals makes bankers salivate," *the Economist* (New York: August 26, 2010).

2001 to 20% in 2010. A large share of investment inflows is distributed among developing countries, and this situation encourages OECD countries to invest in them, too.

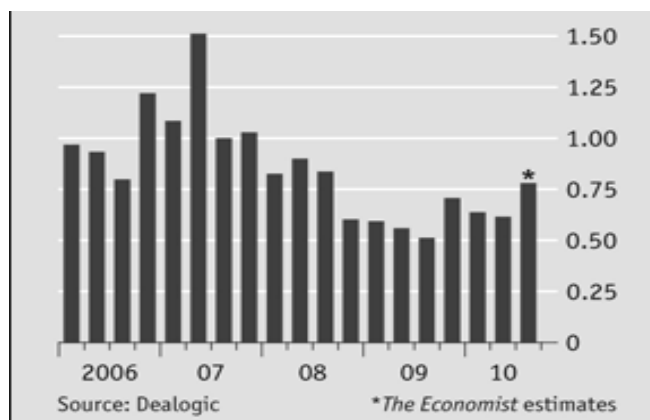


Fig.6. Value of Global M&A Deals in 2006–2010, US\$ trillion, 2006–2010¹

Figure shows the share of mergers and acquisitions which come from developing countries, and the share of deals coming from OECD countries to developing countries. In 2010, more than 50 %, or US\$ 31 billion investments in the form of mergers and acquisitions took place among developing countries. Only 20% or US\$ 75 billion investment in the form of M&A came from OECD countries to developing countries.

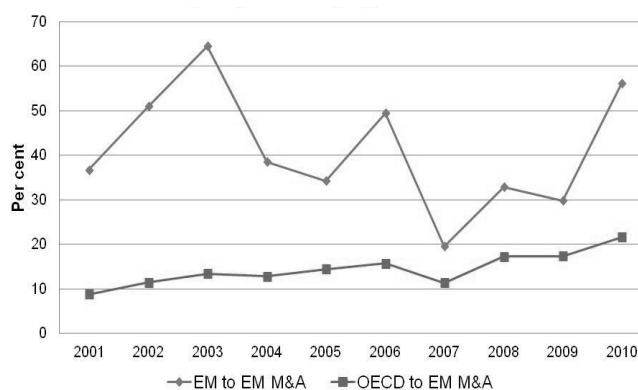


Fig.7. M&A Share between Developing Countries and OECD Countries²

¹ E-resource: access mode: http://www.economist.com/node/17851583?story_id=17851583&CFID=168483589&CFTOKEN=82327000.

² OECD calculations using data from Dealogic.

According to a new study conducted by the *Mergers and Acquisitions Research Centre (MARC)* at the *Cass Business School*, a part of the *City University London*, Asia is the region with the most favourable conditions for global mergers and acquisitions outside the traditional western markets. The *M&A Maturity Index* designed by the MARC by request of Ernst & Young evaluates and ranks 175 countries by the extent of activity of their M&A markets.

The top-rated are the markets traditional for M&A deals such as Canada, UK, USA and Japan, which is not surprising. However, particularly good results have been demonstrated by Malaysia, Israel and Chile, which is often associated with the specific character of these countries. For example, Chile takes the 24th place, while 1.4 points were given to the influence of political factors. The same number of points was given to the United Kingdom and the United States.

One of the most surprising finding of this study is that number of M&A deals tend to increase over the periods of political instability, yet only in transition economies. However, political environment and technology development have virtually no noticeable effect on the number of M&A deals in mature markets, where the key role is played by social and cultural drivers¹.

Asia is becoming the region with the most favourable conditions for M&A transactions after North America and Western Europe. South Korea, Singapore and Hong Kong have the same number of points as Australia and Germany, which indicates that the M&A markets in these countries have reached the stage of maturity.

Despite of the intense growth seen in the recent years and the economic strength of China, the index shows that the M&A market potential of this country has not been unlocked yet. A more detailed study of the data shows that, despite of the high score given to China for most criteria, factors such as political stability and regulation were ranked with 3.0 and 3.3 points, respectively. This indicates that although the Chinese market is classified as mature, the points given to China place it in the top position in the group of countries with transition economies.

As the situation in the markets is beginning to stabilise, mergers and acquisitions become more important as a tool used by companies to increase the growth rates. For many companies, this requires exploring new markets in search of potential acquisitions. The difficulties that arise in this area are associated with obtaining accurate and reliable information about regional risks and opportunities. Investors often

¹ Andree Kronimus and Alexander Roos, "M&A Back to the new reality," *A survey of companies merger and acquisitions plans for 2011*.

refer to the BRIC countries as a single 'group'. However, there are noticeable differences in the economic situations of Brazil and Russia, as well as cultural differences between India and China. The success of mergers and acquisitions depends on understanding and assessment of all associated risks and opportunities. Investors should carefully consider all aspects before making deals.

In addition to the geographical component of mergers and acquisitions, analysts from Boston Consulting Group suggest considering the qualitative deals structure forecasts 2011 made from a survey of top executives of some leading companies. Therefore, the following trends can be distinguished (fig.8):

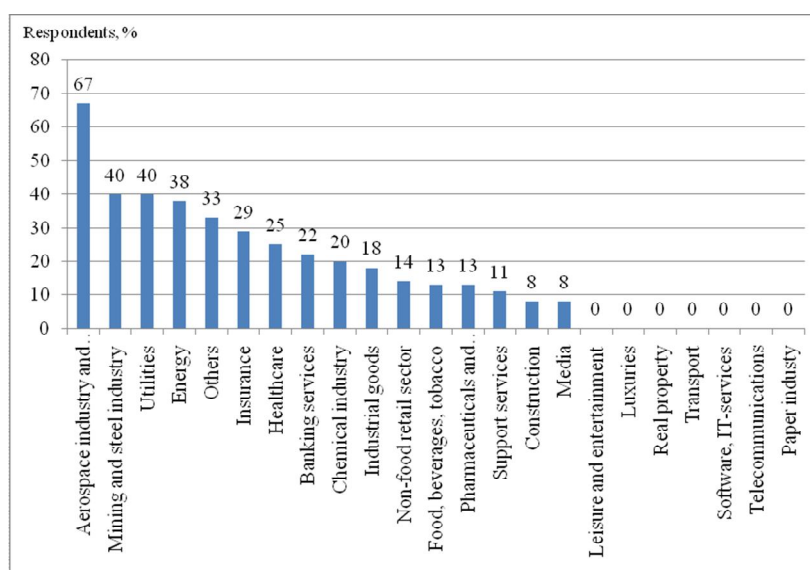


Fig.8. Sectoral structure of companies that sought to conduct large-scale mergers and acquisitions in 2011¹

- about one in six companies (16%) in 2011 intend to carry out at least one large-scale acquisition of a business worth over EUR 500 million;
- the chances of mergers and acquisitions for companies with market capitalisation higher than EUR 5 billion are twice higher than average (31%);
- medium enterprises, mainly those with market capitalisation ranging between 5 and 20 billion Euros have raised their expectations significantly: 30 % of them expect to make large-scale deals in 2011, compared with 19% in 2010;

¹ Andree Kronimus and Alexander Roos, "M&A Back to the new reality," *A survey of companies merger and acquisitions plans for 2011*.

- according to the study, the major industries in terms of large-scale M&A transactions in 2011 will include: aerospace, defence, mining, steel, energy, insurance, healthcare, banking and chemical industries.

Companies will remain very cautious despite the optimistic forecasts as to the number of M&A deals in 2011. In other words, top management will choose the least risky consolidation methods that do not require transformation of business models. In particular, horizontal acquisitions among major competitors within an industry will be one of the most popular forms of mergers and acquisitions (fig. 9). More than three fourth of companies (76%) think this type of deals is the most relevant in the current conditions, compared with 68% last year. Other types of deals are also becoming increasingly popular, in particular:

- increase in the number of costs cutting deals up to 25% compared with 19% last year;
- 20% increase in the number of deals for establishing joint ventures (10% in 2010).

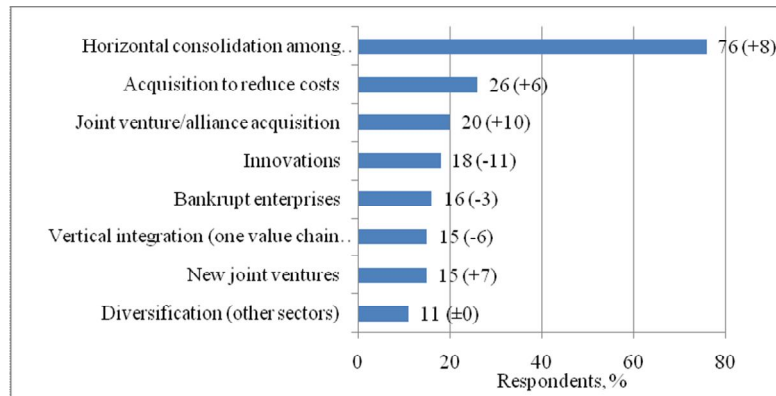


Fig.9. Predicted Types of Mergers and Acquisitions in 2011¹

Mergers and acquisitions conducted to transform business models are now less popular than in 2010. The number of seals aimed at innovations will fall from 29% to 18% in 2011. Vertical integrations will also reduce from 21% to 15%. Diversification deals in other industries are only attractive for 11% of companies.

The BCG report analyses the major barriers that in 2011 prevented companies from mergers and acquisitions (fig. 10).

¹ Andree Kronimus and Alexander Roos, "M&A Back to the new reality," *A survey of companies merger and acquisitions plans for 2011*.

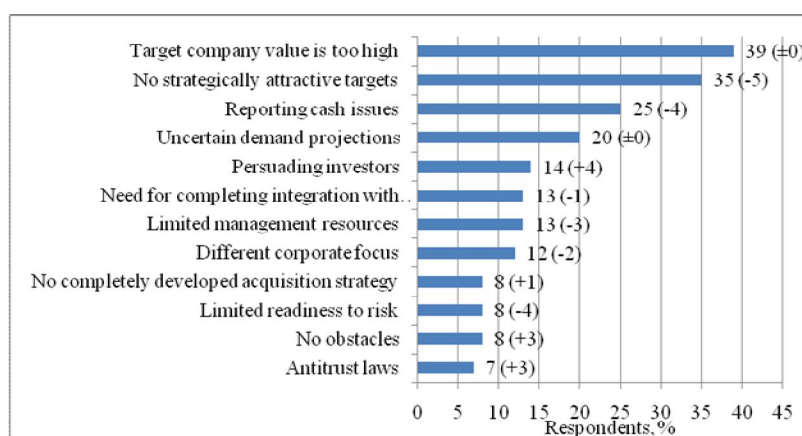


Fig.10. Major Barriers for Mergers and Acquisitions in 2011¹

Finally, it is extremely important to identify the main motives that will encourage companies to conduct mergers and acquisitions in 2011. According to surveys, growth is at present the major motive for mergers and acquisitions. Although the cost reduction motive remains important in 2011, the deals that help increase sales will be dominating. In particular, expansion of product and service ranges will be a very popular motive (over 59%). Access to new customers and distribution channels (35%) and expansion of new regions (32%) are ranked second and third among the most popular motives. Cost cutting deals take the 4th place (28%), while the restructuring motive is only attractive for 9% of companies (fig. 11).

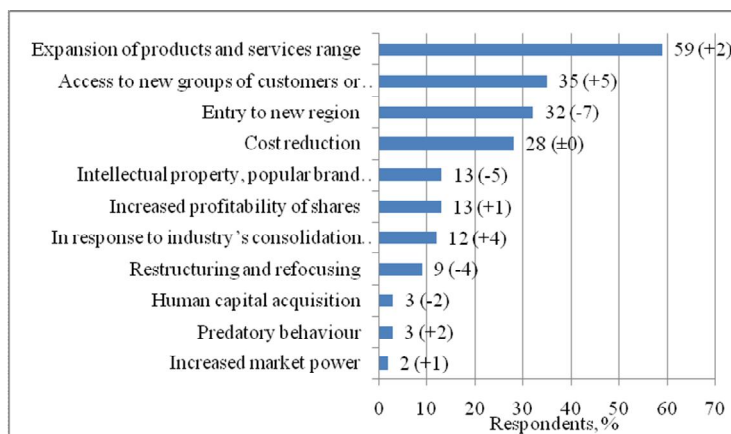


Fig.11. Major Motives for Mergers and Acquisitions in 2011¹

¹ Andree Kronimus and Alexander Roos, "M&A Back to the new reality," *A survey of companies merger and acquisitions plans for 2011*.

Based on the foregoing, we can describe the main trends in modern mergers and acquisitions:

- though the countries leading in terms of number and value of M&A deals remain the same, developing countries are becoming increasingly popular;
- developing countries both increase their share in total mergers and acquisitions and the number and scope of deals with them;
- despite the backwash of the crisis, large-scale deals were quite popular in 2011;
- the major industries in terms of large-scale deals conducted in 2011 were: aerospace, defence, mining, steel, energy, insurance, healthcare, banking and chemical industries.
- the main barriers for mergers and acquisitions included overestimation of company value and absence of attractive M&A targets;
- in 2011, the deals that help increase sales were dominating.

Conclusions

Strategy development and selection is a complex, creative process that cannot be squeezed into a set of predefined templates and recommendations. Corporate strategy is the main strategy that is regarded as an important tool for improvement of TNCs' financial performance. A company will become a market leader only if it uses reasonable decisions and innovative approaches to the strategy development and implementation.

Multi-business (multi-industry, diversified, making various types of products) companies use a five-level strategy which includes: a corporate strategy, business unit strategies, competitive (business) strategies, functional strategies and operational strategies.

Strategies are classified by the type of a company's development and include the following groups: growth strategies, stabilisation strategies and protection strategies. This approach provides flexibility to use certain features of individual strategies and meets the real conditions of their use. There are the appropriate implementation methods for each type of corporate strategies.

Global corporate strategies are mainly implemented through mergers and acquisitions. International mergers and acquisitions (M&A), particularly involving TNCs, represent an unconditional aspect of globalisation. Such deals are now a form of foreign direct investment which significantly exceeds investments in new companies (Greenfield investments).

¹ Andree Kronimus and Alexander Roos, "M&A Back to the new reality," *A survey of companies merger and acquisitions plans for 2011*.

As the situation in the markets is beginning to stabilise, mergers and acquisitions become more important as a tool used by companies to increase the growth rates. For many companies, this requires exploring new markets in search of potential acquisitions.

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