

# A drastic reorganization of industry in the world. What is the driving force for the reorganization?

~ Visiting professor **Shinji Naruo** (Faculty of Business and Administration)

**Abstract:** The purpose of this paper is to show the method and model to analyze the driving force to reorganize the industry. Due to the global economy, many large scale M&A and affiliations are happening in the world. The business alliance and integration are happening in the advanced countries, the transition countries, and the developing countries. There are some factors to impact the reorganization of industry. One is government policy. Another is the market economy. The government has the industrial policy. It guides and leads the industrial structure of the country. Advanced countries had experienced the advancement of industrial structure. On the process of industrial structure advancement, the country improved national income (GNP). Through the process, the enterprise in the industry had experienced integration and separation in the industry. The theory of industrial structure supports the framework of this approach.

On the other hand, the market economy also had influenced to the reorganization of industry. Business cycle, competition, and innovation had influenced the reorganization of industry. In capitalism, the shareholder of the company pushes the company to maximize the profit. The shareholder's pressure could influence the decision of M&A.

The theory of industrial organization supports the framework of this approach.

The enterprise is in the business environment. Top management of the company is responsible to make a decision to merge or acquire the company. However, the decision is affected by other factors out of business environment. The shareholder influenced the individual enterprise decision. The government policy influenced the industrial structure. This could impose the enterprise to accept the amalgamation in the industry. Both of two influence the reorganization of industry.

**Key words:** Industrial policy, M&A, Privatization, global economy, Industrial structure advancement.

## 1. Introduction

**1.1 The definition of the reorganization of industry.** The global economy

changes the world. It changes the economic structure, social institution, industrial structure and the life of national people. It has the aspects of both of positive and negative in the society.

The enterprise is one of the major players in global economy. In order to survive, the enterprise must compete with competitor. However, in some situation, the enterprise decides not to compete with competitor. It is the reorganization of industry.

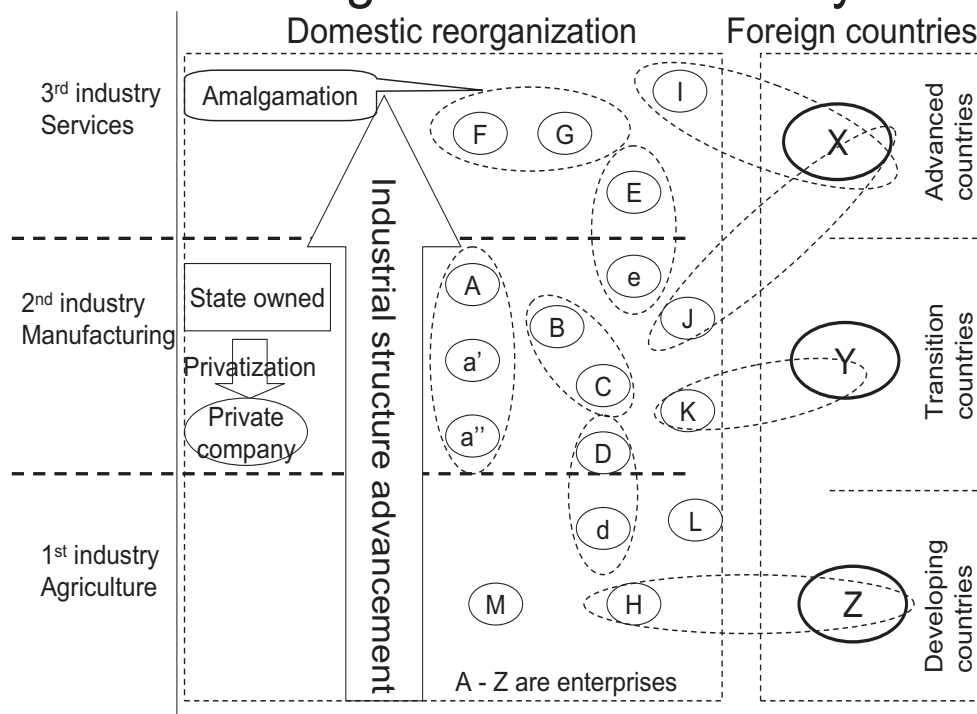
There are 2 kinds of reorganization. One is the horizontal amalgamation in the same business field; another is the vertical amalgamation on the production line.

There are some kinds of relations on the amalgamation. If both of enterprises A and B agreed on equal base relation, it is the amalgamation on an equal base. If the larger enterprise absorbs the other enterprise, it is M&A. In case of M&A, it could cause some conflict between A and B enterprise. If opposite enterprise disagree the amalgamation, it could be hostile takeover.

The reorganization of industry includes all kinds of integration that has the impact to the market. M&A is one of the reorganization of industry. The privatization is also one of them. The industrial policy of the government also causes the reorganization of industry.

The government encourages the enterprises to become more profitable. It should contribute national economy. From the viewpoints of global competition, the government tries to strengthen the industry in the country. In order to strengthen the industry, the government leads the integration of industry. If the market is undue competition, the government guides some enterprises to merge in one group in order to compete with competitor in the world.

## The reorganization of industry



### 1.2 The theory of industrial structure and industrial organization

As above, there are 2 approaches to analyze the reorganization of industry.

One is the theory of industrial organization. J.S Bain's study had contributed in this field. It analyzes the market structure, market conducts and market performances. This study focuses on the enterprise.

Another is the theory of industrial structure. It analyzes industry. There are three groups of industry, 1st group is agriculture, 2nd group is manufacture, and 3rd group is service industry. W.Petty, C.Clark, S.Kuznets, and K.Akamatsu had contributed the study. It analyzes the industry form

the viewpoint of macro economy. It shows the relation between the industry and national economy.

Those two study fields are the theoretical framework of this paper.

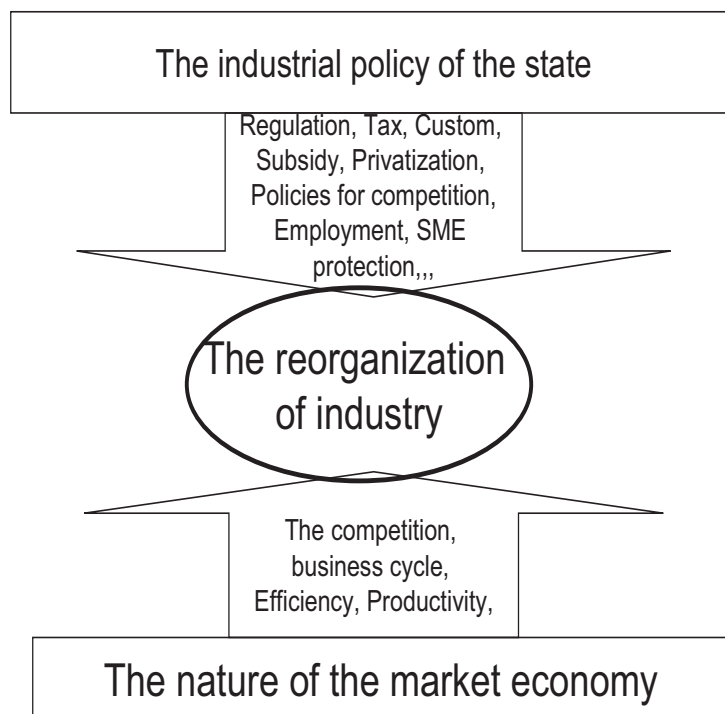
### 1.3 Method for analyzing the reorganization of industry

The purpose of this paper is to show the method and approach to analyze the reorganization of industry.

In other words, the purpose of this paper is to find the driving force to reorganize the industry.

In this paper, I take the analysis model as below.

What is the driving force to reorganize the industry ?



This shows 2 factors to influence the reorganization of industry.

One is the industrial policy of the government. This is the policy for industrial structure. The theory of industrial structure inspires this approach.

Another is the nature of the market economy. This is the competition in the market. The enterprise competes with competitor in the market. They must survive and maximize the profit of the company. Stock company is owned by shareholder in capitalism. The company must satisfy the entire stakeholder. Business cycle is also the nature of the market. In some situation, the depression

pushes the enterprises to integrate.

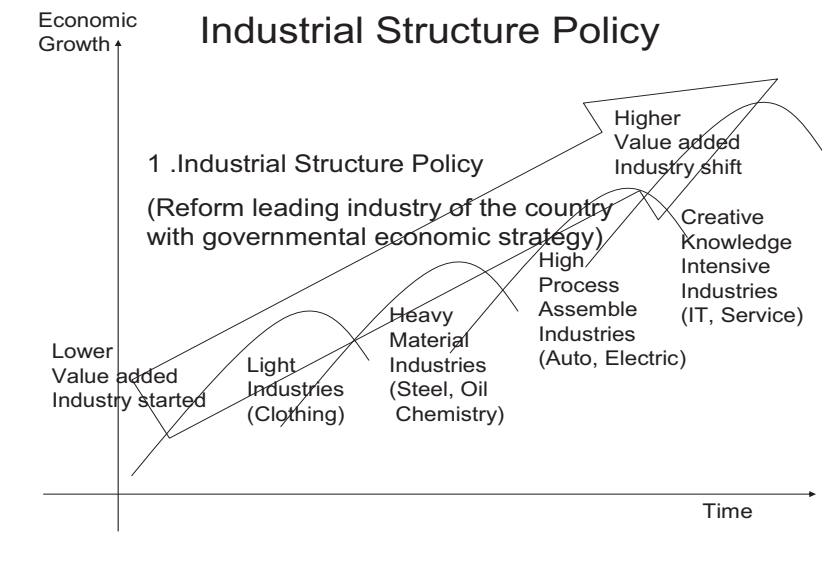
Both of industrial policy by government and the nature of the market economy influence the reorganization of industry.

## 2. Basic components of the model and method

In order to develop the model and method for analyzing the reorganization of industry, there are some key components.

### 2.1 1<sup>st</sup> key component.

It is industrial structure policy. The government has policy to guide the industry.



In order to improve the national economy, the government leads to shift the national core industry from 1st category (Agriculture) to 2nd category (Manufacture) and 3rd category (Service).

Clark,C, Hoffmann,G., and Kuznets,S., had studied those field of industrial structure advancement in the past.

This had also big impact to reorganize

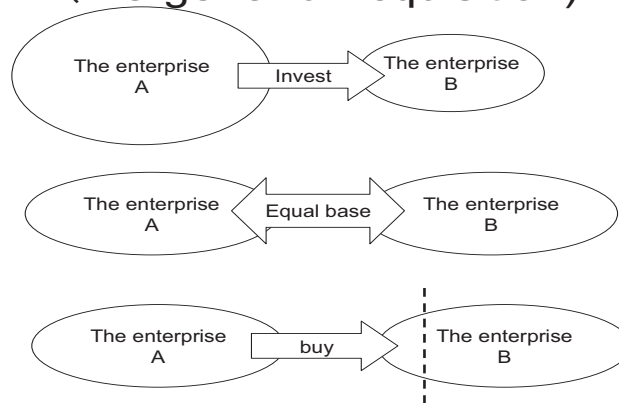
the industry.

Many developing countries started from 1st industries, and then the government tries to shift to 2nd and 3rd industry.

### 2.2 2<sup>nd</sup> key component.

It is M&A (Merger and Acquisition). This is the field of the theory of industrial organization.

## M & A (Merger and Acquisition)



As a nature of capital, the enterprise pursues much higher profit. In order to get higher profit, the enterprise competes with other enterprise in the market. In some cases, they realize better way to get much higher profit. The enterprise may prefer alliance to competition. If the enterprise finds the opportunity to merge the competitor, the enterprise may offer to merge the competitor.

The M&A between the enterprise A and B depend on the relation. If enterprise A is definitely stronger than B, then A merges B. However, If enterprise A and B are same level of the business, then the M&A will be equal base.

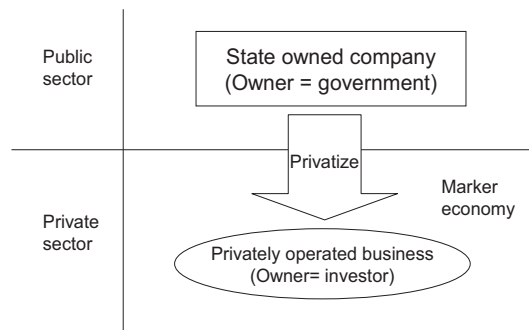
If they could not achieve the mutual agreement, the M&A could be hostile takeover.

Due to the economic recession, the enterprise restructured some division of the enterprise. In the case, enterprise A buys the part of B.

### 2.3 3<sup>rd</sup> key component.

It is the privatization. The state owned public sector like railway, electricity supply, water supply, Gas supply, and telecommunication. In the socialism, those are owned by the state. In case of capitalism, those public sectors were operated by the governmental organization.

## Privatization



In the transition countries after the revolution, they had challenged many privatizations in order to rebuild business infrastructure. Some are succeeded, others are failed. However, it was necessary for the transition countries.

This also has big impact to the reorganization of industry. Those state owned company were large scale business. So, the impact of the privatization was big enough to reorganize the industry.

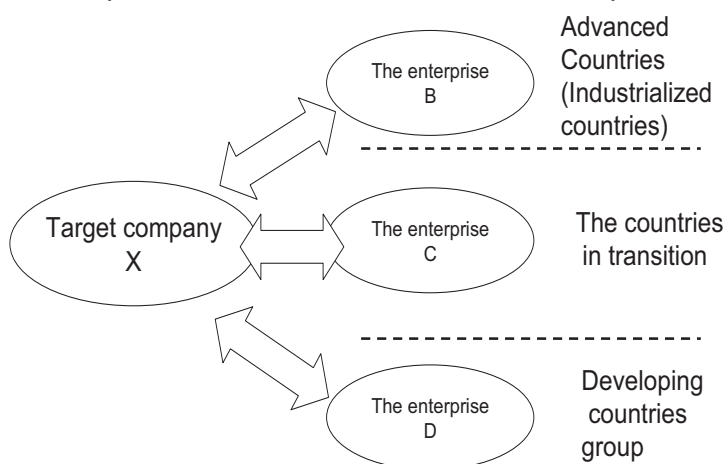
The government must be careful for the timing, process, and other conditions.

In some cases, the privatization impacts the industry positively. However, if the privatization changes the market condition, the privatization could impact the market negatively. This totally depends on the situation of the market.

#### 2.4 4<sup>th</sup> key component.

It is globalization. Due to the global economy, the enterprise diversifies affiliation. They chose the best affiliation from business tie-up, technological tie-up, sales tie-up, and capital tie-up.

### Globalization (M&A, Affiliation, Alliance, ,,,)



The enterprise optimizes their management resource for the maximization of profit. M&A were in advanced countries in the past. However, it has widespread in the world.

Advanced countries invest developing countries in order to keep the rights and interests for natural resource. This was traditional relation between advanced countries and developing countries. Now, developing countries are realizing the strategic value of natural resource. Then, they try to protect it.

Advanced countries offer joint development with the enterprise of developing countries.

Another pattern is happening in social infrastructure. Developing country starts to develop social infrastructure like transport, energy and water. Many advanced countries target such a business opportunity.

In the case, they organize new business schema with advanced countries and / or developing countries.

The countries in transition also act

actively in the reorganization of industry. China invests a lot in African countries for natural resource and other political interests. Chinese government and governmental company merge or acquire the enterprise in the world. This is the new trends that happening in the world.

These new international order stimulates the reorganization of industry in the world.

### 3. Case study: the reorganization of industry in the world

There are some aspects of the new trend. We assume global trend has common principle in the world. However, there are some common factors and some unique factors.

#### Comparison for the reorganization of industry

		Cases	Driving force
1	Japan	Panasonic⇒Sanyo, 3 major bank group, Nippon oil ⇔mitsubishi Oil	Business cycle push the company to restructure or tie-up with competitor. In other words, economic depression push the company to make a decision.⇒"Depression"
2	USA	IBM PC ⇒Lenovo, Ford⇒Volvo,	Shareholder of the company strongly request to restructure the lower profit business. ⇒"Shareholder"
3	EU	Air France⇔KLM Arcelor Mittal,	EU structure removes the border, and then it drive industrial integration. ⇒EU structure"
4	Asian countries (Korea, China)	Korea (big deal, 1998), China Investment Corp (CIC) invest	Korean government order 55 companies to merge into 5 major business group. CIC is Chinese governmental fund to invest ⇒"Government "

#### 3.1 In Japan.

There are some reorganizations of industry recently. Japan is capitalism, so the company in Japan must compete with competitor, and maximize the profit.

Recently, Panasonic merged Sanyo because of the financial problem. Mega—banks were merged in 3 major bank group. Nippon oil merged Mitsubishi Oil Company. All of these M&A were caused by depression. In order to survive in the market, they must accept the affiliation with competitor. In this

context, business cycle was the driving force to reorganize the industry in Japan.

#### 3.2 In USA.

IBM sold PC division to Lenove, Chinese company. Ford also sold Volvo division to Chinese company.

The shareholder strongly requests the top management of the company to maximize the profit. This is very severe pressure to the top management of the company.

### 3.3 In EU countries.

There are global reorganizations of industry. Air France and KLM were merged. EU mechanism removed state border among EU countries. This was the engine to reorganize the industry. Arcelor Mittal is also challenging the reorganization of steel industry in the world.

Those challenges are driven by EU borderless mechanism. EU mechanism has some force to drive the reorganization of industry.

### 3.4 In Asian countries.

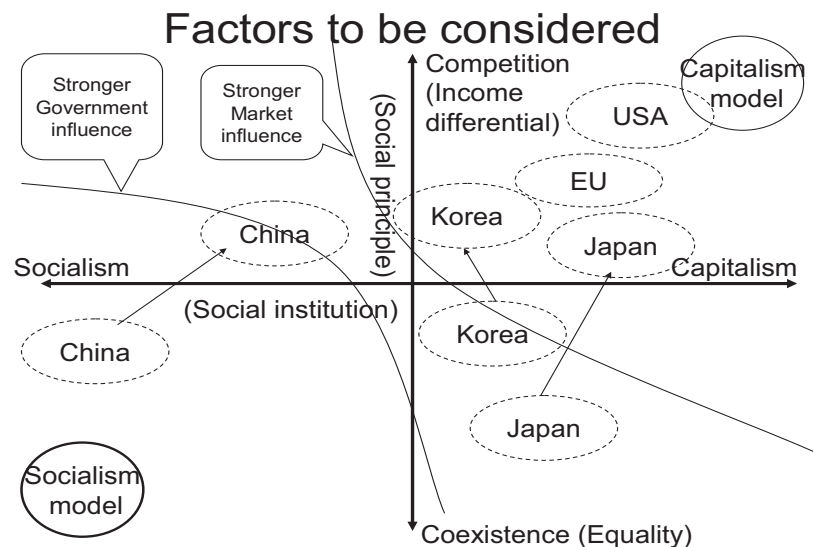
Korea and China also aggressively roll out the reorganization of industry. However,

those countries deeply depend on the governmental decision. In case of Korea, after Asian financial crisis, the government forced 55 companies to merge into 5 major business groups. It was in 1998, named big deal.

China also have strong governmental fund. CIC (Chinese Investment Corp) invest for foreign enterprise. China has also many state owned companies. Those companies are also a part of reorganization of industry. In China, government plays the major role in the reorganization of industry.

As above, we can find some different driving force.

In order to analyze the factors of driving force for the reorganization of industry, I apply the matrix analysis approach.



Horizontal line means social institution, capitalism and socialism. Vertical line means social principle, the competition vs. the coexistence. The competition generate winner and loser, this could cause income differential. The coexistence prefers equality to differential. If the country stands the principle of coexistence, the middle income layer

grows in the country. In Japan, more than 80% of national people had recognized that they were in the middle layer. This represents the equality of the society.

In this map, China is socialism political; however China implemented competition mechanism in the business field. Then, equality principle of socialism disappears in China.



Korea used to be small and stable economy. However, the government led the business to the global market. In order to compete with competitor, they strengthen their domestic operation. The government forced the enterprise to reorganize. Due to the competition, Korean society is facing to the income differential.

Japan also had shifted the gear to the principle of competition. Due to the change of social principle, Japanese society and business environment had been changed. Middle layer in Japan had been shrunk. This caused the income differential in Japan.

We studied some unique driving forces in the case studies. The chart shows us 2 aspects. One is stronger government influence, another is stronger market influence. China and Korea relatively influenced by governmental policy.

On the other hand, USA and EU countries are influenced by market mechanism.

This is the relative analysis, not absolute analysis. It is necessary to study the relation between the policy and effect. It will be analyzed in next paper.

In this paper, I point out this approach for analyzing the reorganization of industry.

This is the purpose of the paper.

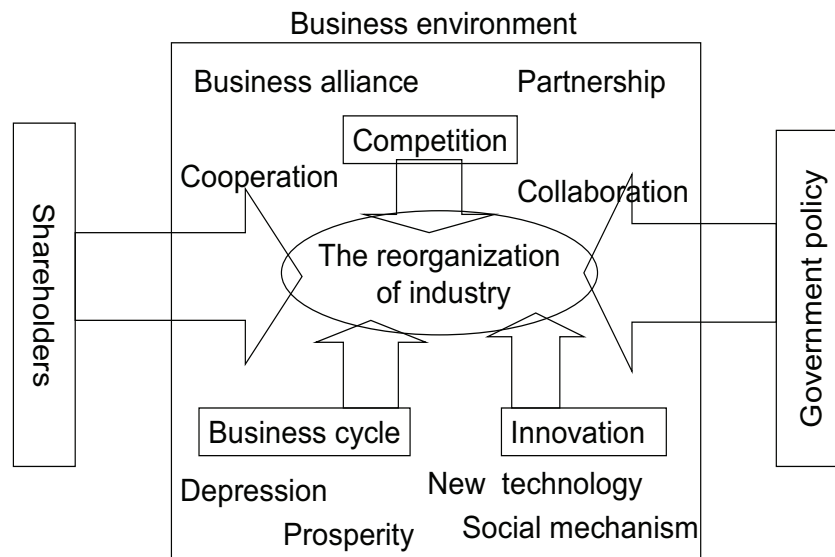
#### 4. Model and method for the analysis

There are 2 key factors to be considered in the model. One is the industrial policy of the state, and another is the nature of the market economy.

Both of two factors influence the reorganization of the industry.

The model can be drilled down in detail as follows.

### Driving force for the reorganization of industry



The market mechanism of capitalism encourages the shareholder to monitor and push the enterprise performance. If the performance is not good enough, the shareholder push the management. This could be driving force to reorganize the industry.

On the other hand, Government has industrial structure policy. If the industry of the country is not strong enough to compete with competitor in the world, the government push the enterprises of the industry. This could be driving force to reorganize the industry.

In addition to that, there is another fundamental factor. It is the business environment. The enterprise is in the business environment. There are 3 key factors in the business environment. One is the competition, 2nd is the business cycle, and 3rd is the innovation. Those 3 factors influence the reorganization of industry in the world.

The reorganization of industry is very critical economic effects in the country. In order to survive in the industry, the country must guide the enterprise. In order to survive, the enterprise must challenge the market. The enterprise must recognize the business environment, and then they can make the right decision.

The decision must be strategic decision; it must be long term view decision.

If the decision was done by the pressure

from short term viewpoint like shareholder or business cycle, it could be wrong decision.

So, the government and the top management must carefully analyze the business environment and their management resource.

## 5. Conclusion

The reorganization of industry happens in the real business environment. The competition, business cycle, and Innovation definitely influence the process of the reorganization. These are the fundamental factors to be considered.

However, there are 2 critical driving forces out of business environment.

One is shareholders. It pushes the top management of the individual enterprise. This is in the field of the theory of industrial organization.

Another is government policy, it is industrial policy. The government leads and strengthens the industry. The policy intends to improve the industrial performance, not individual enterprise. This is in the field of the theory of industrial structure.

Both of two study fields provide the infrastructure for the framework of the reorganization of industry.

For the further study, accumulating the case study is necessary. The accumulation of the case strengthens the model and method.

## REFERENCES:

1. J.S Bain, *Industrial Organization*, John Wiley & Sons, 1959
2. E.H Chamberlin, *The theory of Monopolistic Competition*, Har. Uni, Press, 1933
3. E.A.G.Robinson, *The Structure of Competitive Industry*, Camb.Uni. Press, 1931
4. J.A.Shumpeter, *Capitalism, Socialism and Democracy*, Harper & Row, 1942
5. S. Kuznets, *Modern Economic Growth: Tate, Structure and Spread*, 1966

6. **R. Caves**, *American Industry: Structure, Conduct, Performance*, 1964
7. **C. Clark**, *Conditions of Economic Progress*, 1940, 2nd ed., 1951
8. **S. Kuznets**, *Six Lectures on Economic Growth*, 1959
9. **W. W. Rostow**, *The Stage of Economic Growth*, Non-Communist Manifesto, 1960
10. **K. Akamatsu**, *World economy*, Kunimoto Press, 1965
11. **M. Shinohara**, *The theory of industrial structure*, Chikuma Press, 1976
12. **M. Uegusa**, *The theory of industrial organization*, Chikuma Press, 1982