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THE IMPACT OF THE SUBPRIME CRISIS ON THE COURSE OF CROSS-BORDER CONSOLIDATION PROCESSES

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Abstract: The subprime crisis limited the investment activities of economic entities. The manifestation of the crisis was the decrease in the quantity and value of cross-border consolidation processes. These trends were especially visible in the developed countries. The main reasons for the reduction of mergers and acquisitions were the restrictions of access to external capital due to the collapse of stock markets, banks crash, the decline of private equity activity and decrease of the financial health of businesses as well as market pessimism. In addition to reduction and therefore cancellation of several mergers and acquisitions, these factors forced certain actions upon the consolidating companies. Among other things, they led to restructuring activities aimed at reducing costs. They also contributed to a number of divestments. Since the second half of 2009, there has been a noticeable improvement of the financial situation of enterprises, as well as of general economic indicators (GDP). However, these phenomena are still accompanied by unregulated financial markets situation, inter alia, concerning the regulation limiting the emergence of financial crises, including relation to the activities of private equity funds. Therefore, it is difficult to determine whether the period of crisis in relation to transactions of consolidation is over, and if we can talk about recovery in the course of these processes.

Introduction

Cross-border consolidation processes have become the dominant form of development of foreign economic entities since the mid-nineties. It was conditioned by factors such as: the liberalization of world trade and financial flows, technical and scientific progress, increasing global competition. During the time of grow-

ing value and number of mergers and acquisitions transactions, there were periods of collapse in dynamics of consolidation processes. Recent collapse took place in 2008 due to the financial crisis which with time turned into the economic crisis. The reasons which are considered to be the cause of fall in the quantity and value of mergers and acquisitions are: restriction of access to external sources of funding—as a result of the collapse of share prices on stock markets, decline in business activity of private equity funds, bank crash, fall in the financial health of businesses and the general pessimism of the investment. However, since the mid–2009 year there have been noticeable signs of improvement of the overall economic situation.

The aim of this paper is to investigate the impact of the subprime crisis on the course of cross-border consolidation processes, as well as an attempt to determine whether the end of the subprime crisis can be seen within the consolidation processes.

Characteristics and reasons for the subprime crisis

In the economic history there were several crises¹. The last one was called the subprime crisis which began in 2008². The main reasons for its appearance are considered to be: rapid changes in the distribution of economic forces in the world and imbalance accompanying them, processes of financial globalization, erroneous economic policy of the United States (*Rok kryzysu. Co dalej?* 2009, p. 8).

One of the causes of the crisis refers to the dynamic and uneven distribution of economic forces across the globe. The uneven distribution is made up of two factors. The first one refers to the disparities in development between different regions in the world. And so, for the last quarter of this century GDP of the Far East grew sevenfold (China) and fourfold (India), while in the United States and Western Europe only twofold. The second factor was related to the uneven distribution of financial resources. The United States funded its development largely taking out loans from abroad. By contrast, the countries of the Far East saved money and financed the United States, providing loans for increasing consumption of the United States. As a result, this has led to creation of huge debts of the U.S. in relation to the rest of the world.

¹ Financial crisis is understood as a strong disturbance in the financial system which causes decrease or deepening of the decline already occurring in production. Financial crises may be of different nature e.g. the banking crises, exchange crisis, stock market crash (Mishkin 2002, p. 275).

² The collapse of Lehman Brothers is considered to be the date of the beginning of the subprime crisis.

Another reason for the subprime crisis is visible in globalization processes, especially in the financial sphere³. In general, financial globalization is associated with the reduction of the possibility of supervision over the activities of financial institutions, more and more difficult assessment of the investment risk, easier process of forming and maintaining long-term imbalances and increasing the risk of spread of financial crises through ‘contagion from other countries’ (*Kryzys na rynkach finansowych* 2009, p. 4). Rapid development of derivative instruments and the creation of the speculative bubbles are believed to be the most important causes of the crisis subprime, resulting from the globalization of financial markets.

The original purpose of derivative instruments was protection against the risk, including exchange risk connected with financial transactions carried out by the operators on the international scale. However, these instruments have become a form of rapid, profitable but risky way of making a profit and sometimes a speculative instrument. Their multi-level structure, which is related to the profit depending on the price of others assets, blurs the level of risk. High rates of return which are possible to achieve encourage more investors to invest in futures, options, swaps, etc. However, excessive use of derivatives has led to the phenomenon of ‘global leverage’, which resulted in situation that limited real income and properties providing the basis to generate higher values of many financial assets (*Kryzys na rynkach finansowych* 2009, p. 4).

The globalization of financial markets contributed also to the creation of the speculative bubble whose ‘burst’ caused the crash on the stock exchanges and the rise of the subprime crisis. Generally, financial assets should be a realistic reflection of the real economy and the security of income derived from them should constitute incomes worked out in the real economy and accumulate real wealth. However, since the eighties, there has been the phenomenon of ‘global leverage’, and hence financing by debt to purchase financial assets exists. As a result, based on the limited income and real estate financial markets have generated many more resource assets (the same income and assets hedged many of the assets at the same time). In addition, in the years 2002–2007 an overly optimistic assessment of market development opportunities appeared. The scale of reevaluation of assets, especially stocks and real estate prices that occurred over the past several years in the U.S. as in many other countries around the world, was huge and led to the formation of the massive speculative bubble.

Wrong economic policies, especially in the United States, contributed to the phenomena connected with the crisis subprime arising on the financial markets.

³ Globalization is understood as a long-term integration of the activities at the level of economies, industries/sectors and enterprises across national borders, by extension, deepening and intensifying various connections (trade, investment, cooperation, information), which leads to the formation of an interdependent economic system on the world scale, namely to creation of the global economy (Zorska 1998, p. 17).

In the face of the huge increase in the value of assets, appropriate secure regulations for derivatives and financial institutions (notably investment banking) were not introduced. In addition, an erroneous monetary and fiscal policy was carried out. An example of that is reduction of interest rates to the lowest level for decades in 2002–2005 (in the period of the huge speculative bubble). Also in the same period instead of restricting the scale of the deficit in the United States economy, a veritable explosion of budget deficits occurred, partly due to the irresponsible decision of tax cuts.

The crisis was growing during these years until the collapse of Lehman Brothers that caused an explosion of the open and deep financial and economic crisis. Global financial markets practically froze and many big financial institutions requested assistance from the government. A number of countries stood on the brink of bankruptcy (the first one was Iceland), asking for help from the International Monetary Fund. Banks, which were busy saving their own existence, ceased to extend credit facilities to companies and that fact only deepened the recession phenomenon. Production began decreasing, unemployment- increasing and widespread recession broke out in the world. The recession was also reflected in the activities of economic entities.

The causes of decline of consolidation processes as a result of the subprime crisis

Subprime crisis has affected business entities by reducing their investment activities, including mergers and acquisitions. The immediate causes of decline in consolidation transactions were: limiting external and internal sources of financing, market pessimism and aversion to risk investment.

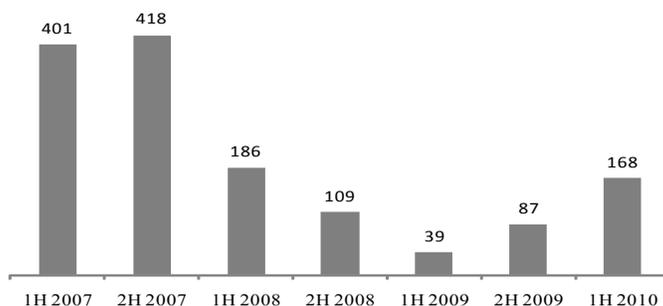
It seems that the most important cause of the collapse of the cross - border mergers and acquisition were the restrictions on sources of funding. This difficulty is primarily related to external sources of capital. The subprime crisis influenced also the stock market. In 2008, the indices fell by 40%⁴ on average. This situation contributed to a drastic drop in the new issue of shares. In the period of downturn, business entities delayed decisions on rising capital from the financial market because this involved lower amount of capital and was burdened with higher risk that the issue would not be effected. According to PricewaterhouseCoopers in 2008, the total number of IPOs on European stock markets fell by 59% compared to 2007, while in 2009 by 55% compared to 2008 (in relation

⁴ Decline in the share price was comparable in most developed economies: the U.S. S & P 500 Index recorded a 41% decline, in the Euro zone DJ Euro Stoxx 50 has fallen by 44%, while Japan's Nikkei index fell by 44% (UNCTAD 2009, *WIR*, p. 11).

to 2007 up to 81.5%)⁵. The year 2010 (the first half) noted the increase of new issuance. The detailed data on the number of IPOs offers on the European markets is presented by the figure 1.

A drastic fall on global stock markets and turmoil in other segments of financial market (e.g. the interbank market) affected the activities of financial institutions that finance the transaction consolidation. Banks which limited lending should be listed as the first ones. On the one hand, as a result of the subprime crisis banks suffered losses from the depreciation of assets, but also decreased their opportunities of income-earning from the possession and trading of these assets⁶. On the other hand, in the conditions of the crisis banks hesitated to make credit decisions on financing high volume of investment, including cross-border mergers and acquisitions. According to Dealogic, the value of syndicated loans in the world in 2008 fell by half (UNCTAD 2009, *WIR*, p. 38).

Figure 1. Number of IPOs offers on the European markets over the period 2007–2010 (semi-annually)



Source: own study based on IPO Watch Europe, <http://www.pwc.com/pl/pl/ipo-watch-europe/index.jhtml> (situation at 01.03.2011).

Share price declines on world stock markets and restrictions on lending had also an impact on the activities of financial institutions financing consolidation transactions. Among these institutions, the biggest importance was put on the decrease of private equity funds. Private equity funds are in fact one of the major sources of funding for mergers and acquisitions. However, in 2008 the value of

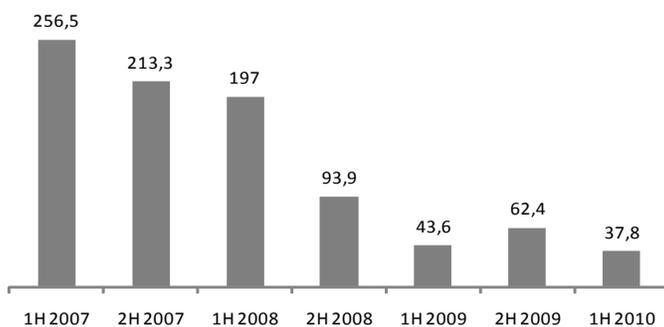
⁵ In 2007, the number of IPOs on European stock exchanges amounted to 819, in 2008 – to 337, and in 2009 only 151 bids.

⁶ Banks became the victims of the crisis as well. Some of them lost the liquidity and experienced huge losses. Acquisition became salvation for them, such as Bear Stearns by JP Morgan, as well as state aid (partial nationalization) such as Roskilde Bank or Citigroup (*Back to the domestic future. From strategic expansion to rapid contraction in financial services M&A in EMEA*, 2009, pp. 6–7).

investments made by funds operating in Europe decreased by 18% compared to 2007, while in 2009 by nearly 60% compared to the previous year⁷. The detailed data on the value of cross-border mergers and acquisitions purchases by private equity firms in half-year periods 2007–2010 are presented in the figure 2.

Decrease in the activity of private equity funds concerns mainly the use of leveraged buyouts to finance mergers and acquisitions. These funds, in connection with the subprime crisis, encountered barriers in accessing credit. The value of syndicated loans connected with leveraged buyout in 2008 fell by more than 60% (UNCTAD 2009, *WIR*, p. 38).

Figure 2. Cross-border mergers and acquisitions by private equity purchases firms (value in billion U.S. dollars) in the years 2007–2010 (semi-annually)



Source: UNCTAD 2009, *WIR*, s. 26; UNCTAD 2010, *WIR*, p. 13 (data from 2010, January–May only).

Apart from external sources of funding, operators have difficulty in financing their own investment funds. The time of crisis is a period of decline in profits and hence the possibility of their reinvestment. This situation applies also to financing of mergers and acquisitions. Losses created by the enterprises S & P 500 reached 182 billion U.S. dollars in the fourth quarter of 2008 and this was the worst result since 1935. In Europe, 310 companies from the DJ Stoxx 600 lost 2,2 billion USD in the fourth quarter of 2008, whereas in the same period of the previous year they earned 75,1 billion USD (Les Echos, 18 March 2009). Considering Transnational Corporations (TNCs), in 2007 the level of reinvestment, in which the reinvested earnings are calculated as percentage share of income, amounted to more than 15% in 2008 and approximately to 10% in 2009

⁷ In 2009, the value of investments by venture capital funds in Europe amounted to 22 690 468 euros, while in 2008 – 52 674 787 euros (*Central and Eastern Europe Statistics 2009*, July 2010, p. 7).

(UNCTAD 2010, *WIR*, p. 21). In the period of downturn, business entities focus on the reduction of losses and take care of financial liquidity reducing investment.

Apart from financial determinants, decrease of transaction consolidation was caused by market pessimism and related with that reluctance to invest due to high assessment of investment risk. Market pessimism is connected with data on the economic decline of global production and forecasts of its further reduction. According to the World Bank data, there was an increase in global GDP by 1.9% in 2008, but in 2009 a decrease by – 2%⁸. This was the first such a big drop in global GDP since the sixties. Bad mood among traders / investors is reflected on indicators examining attitudes towards investment. Thus, the rate of Info World Economic Climate Index, published by the German Info Institute for Economic Research quarterly since 1987, in March 2009 reached the lowest level in its history. The survey conducted among the transnational corporations showed that in 2009 the level of pessimism associated with the investment plans was as high as 47%. In 2010, it decreased to the level of 36% (UNCTAD 2010, *WIR*, pp. 21—22). Market pessimism during the crisis leads to reluctance to make investment. Crisis is a period of difficulty in access to capital and problems of enterprises with selling the products, which in turn result in decrease of accounting profits. No wonder that faced with such conditions business entities evaluate high risk of further investment. According to a study by UNCTAD, 86% of large transnational corporations have indicated that the financial crisis and credit crunch had negative and very negative impact on their investment plans. However, economic downturns are negative and adversely affected 79% of the businesses surveyed (UNCTAD 2009, *WIR*, p.7).

It should be also noted that in 2008 due to the subprime crisis cancellation or interruption of the privatization transactions of companies such as Kuwait Airways (Kuwait), La Posta (France), TeliSonera (Sweden) took place (UNCTAD 2009, *WIR*, p. 12).

Cross-border consolidation processes and the subprime crisis – empirical data

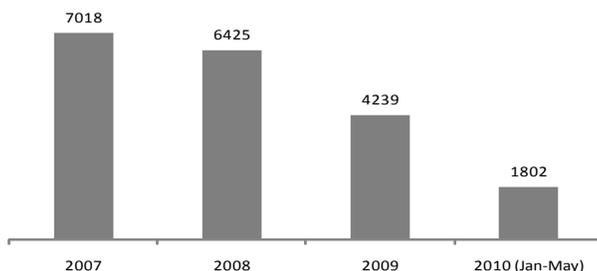
Analyzing the statistics from the eighties, there is an upward trend in international mergers and acquisitions. In each five-year period, we can observe the average annual growth of transaction values which reached 32% in the second half of the eighties (1986–1990), 17.7% in the first half of the nineties (1991–1995) lower as a result of the global downturn. In the second half of the nineties (1996–2000), the value of mergers and acquisitions carried out on the international scale increased again, reaching the volume of 62.9%. After 2000,

⁸ The report concerned the year 2008, so the year 2009 was based on forecasts.

the trend collapsed. In 2001–2003, we can observe the decrease in the growth of international mergers and acquisitions: in 2001 down to – 48.1%, in 2002 it was – 37.8% and 2003 –19.6%. The second wave of increase in acquisitions and mergers began in 2004 and the growth amounted to 37.6%, in 2005 to 91.1%, in 2006 to 38.1% and 62.1% in 2007. In 2008 and 2009, there was further collapse on the market of the cross-border mergers and acquisitions as evidenced by the decrease of the transactions carried out at –30,9 (2008 year) and – 64,7% ((UNCTAD 2010, *WIR*, p. 9).

When considering the period from 2007 (after which the subprime crisis began,) the number of transactions of international mergers and acquisitions declined as it is shown in the figure 3. In 2007, their number remained at a historically high level: over 7,000 completed transactions. In 2008 the number decreased by 8.5% to 6,500 transactions. The year 2009 experienced another drop in the number of mergers and acquisitions by 34% and reached the level of 2,000 transactions. The data for 2010 include only five months (January–May). In comparison to the same period from the previous year, the number of transactions was at the similar level (1,800 transactions).

Figure 3. Number of transactions of international consolidation in the years 2007–2010



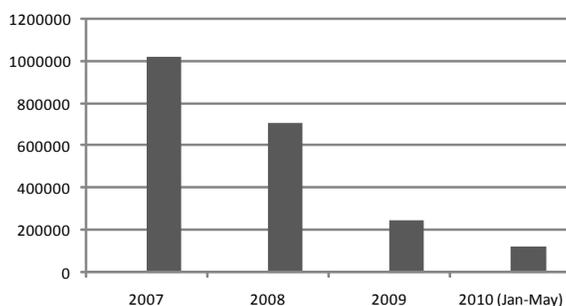
Source: UNCTAD 2010, *WIR* (situation at 01.03.2011) http://www.unctad.org/sections/dite_dir/docs/wir2010_anxtab_15.pdf.

The situation was shaped similarly regarding the value of transaction consolidation, with the exception to the fact that the declines in individual years were more sharp. And so, after 2007 which saw a record level of mergers and acquisitions (1,022 ,725 million USD)⁹, it decreased by 31% (to 706,543 million USD) in 2008 and in 2009 again – up to 65% (to the level of 29,732 million USD). The data for 2010, similarly to the number of mergers and acquisitions,

⁹ Such high value of consolidation transactions in 2007 was influenced by a record in terms of the transaction for an amount of 71.1 billion dollars. It was the acquisition of ABN-AMRO Holding NV by the consortium, RFS Holdings BV (Royal Bank of Scotland and Banco Santander & Fortis) (*FS M&A in Europe's developed and developing markets*, 2008).

concerned only 5 months (January–May). The value of transactions in this period was slightly higher than in the corresponding period of the previous year.

Figure 4. The value of the transactions of cross-border consolidation (in million U.S. dollars) in 2007–2010



Source: UNCTAD 2010, *WIR*, (situation at 01.03.2011) http://www.unctad.org/sections/dite_dir/docs/wir2010_anxtab_14.pdf.

Decrease in the quantity and value of mergers and acquisitions affected mostly developed countries (decline in the value of transactions amounted to 77% in 2009 in comparison with 2007). However, the relative share of these transactions in developing and transition economies were rising on a world scale (in 2007 it amounted to 22%, in 2008 and 2009 to 23%).

When considering a sector basis, there was a decline in cross-border mergers and acquisition activity in both manufacturing and services. In manufacturing sector, the value of cross-border consolidation sales fell by 3.3% in 2008, and by as much as 77% in 2009. The decline was very uneven in industry. The most apparent decrease was recorded in industries: non-metallic products and metals and metal products, where due to decrease in demand and low profit margins in 2009 consolidation processes were neglected. The significant decrease in the automotive industry (by 90% in 2009 compared to 2007) and chemical products (by 72% in 2009 compared to 2007) was also recorded. Both industries felt the negative impact of the crisis since its very beginning. An interesting situation occurred in the food, beverages and tobacco industry, in which the value of mergers and acquisitions increased in 2008 by 164% (to 132 billion USD)¹⁰, while in 2009 decreased by 92% (to 10 billion USD). In contrast, cross-border mergers

¹⁰ In 2008 four mega deals of more than 10 billion USD each drove the increase of the value of cross-border consolidations in this industry. Stichting Interbrew (Belgium) acquired Anheuser Busch, a United States brewery, for 52 billion USD, and British Imperial Tobacco bought Altadis, a Spanish cigarette company, for 18 billion USD (UNCTAD 2009, *WIR*, pp. 16–17).

and acquisition sales rose in the industry of electrical and electronic equipment (by 28% in 2009 in comparison with 2008).

In the services sector, cross-border mergers and acquisitions deals declined by 53% in 2008 and 57% in 2009. Most of the large services that were hit by a similar extent, with the exception of construction whose value of deals in 2009 grew by 400%. Last year the largest decrease in the value of mergers and acquisitions was recorded in the business services sector (by 87% compared to 2008). Equally significant declines occurred in financial services, where the value of cross-border consolidations declined by 73% in 2008 (compared to 2007) and 87% in 2009 (compared to 2008)¹¹.

During the crisis, the primary sector was characterized by considerable instability in the consolidation. In 2008 the value of deals of cross-border consolidations in this sector increased by 17%, but in 2009 fell by 47%. The main reason for the collapse of the course transactions of M & A in the past year was the sharp decline in investment in the energy sector due to financial difficulties and weakening demand (in 2009 consumption fell for the first time since 1981) (UNCTAD 2010, *WIR*, p. 10).

In conclusion, the statistics of the analysis above illustrate the negative impact of the subprime crisis on the value and number of cross-border merger and acquisition transactions carried out. The impact of the crisis became noticeable in 2008, but its most significant effects were visible in 2009.

Activity of consolidating business entities in the time of economic crisis

The crisis has not only influenced the inhibition of the consolidation processes. It has also forced a change of existing business entities. The crisis, apart from problems associated with obtaining funding and decline in mood among investors, is the period of decline in business activity as a result of the collapse in

¹¹ Nevertheless, there were several large cross-border acquisitions in North American and European banking sectors. Very low stock prices offered the chance to step into markets that had formerly been difficult to enter. In Europe, there were two large mergers and acquisitions transactions involving intra-European targets and acquirers. The banking operations of Belgian/Dutch bank Fortis SA/NV were acquired by BNP Paribas, and Banca Antonveneta, an Italian affiliate of Banco Santander SA, was bought by the Italian BMPS for 13,2 billion USD. In the United States, several large banks that were on the brink of collapse were acquired by other United States institutions, supported by government funding. Foreign banks took the opportunity to acquire equity stakes in several large banks in the United States. Toronto Dominion Bank (Canada) and the Japanese Mitsubishi UFJ Financial Group increased their holdings in the United States Commerce Bancorp (for 8,6 billion USD) and in Morgan Stanley (for 7,8 billion USD) respectively (UNCTAD 2009, *WIR*, p. 17).

demand associated with shrinking markets and pushing out the weakest business which cannot meet the requirements of the new reality. Thus, apart from the time lag of investment, companies often must focus on activities related to liquidity and ‘the care’ about financial results. These activities are associated with searching for possible sources of savings. Popular sources of ongoing cost reductions are renegotiations of the price of purchased materials and services, accelerating the cycle of materials (reduction of purchases in the warehouse), reduction in employee wages, forced free holidays, dismissal of workers (*Kryzys na rynkach finansowych* 2009, pp. 30–35).

However, apart from instant cost reduction enterprises undertake restructuring activities which in the long term can lead to savings. In the case of business entities, which are undergoing or have already undergone consolidation transactions, these activities may be related to the search for synergies. Generally, it is considered that the main reason for mergers and acquisitions is to obtain synergies¹². However, research shows that in the globalizing world the aim of international mergers and acquisitions was mainly the search for new markets¹³. During the intense and big scale consolidation processes in new enterprises (after consolidation), organizational change is not always that significant, though it could contribute to reducing costs. These opportunities exist both in terms of horizontal and vertical mergers. And so, in the case of horizontal consolidation, there is a possibility of combining some fixed costs (e.g. associated with the management or marketing costs, which may be common for combined partners) and working out economies of scale¹⁴. In turn, the vertical connections can be made to reduce transaction costs through an integrated process, supply, production and sales. The period of crisis is exactly the time when business entities can focus on the implementation of presented activities.

Another possibility of restructuring in times of crisis is a change of the activity pattern. As part of the consolidation processes in the era of globalization, business entities developed rapidly often taking over the bodies of the branches distant from the core activities. Hence, their activity has become highly diversified. In the face of crisis, some sectors turned out to be unprofitable. In addition, extensive industry activity is costly because it is difficult to develop synergies.

¹² In economics, the synergy is understood as ‘the phenomenon of mutual reinforcement, the exponentiation of two or more closely related elements (economic factors of production, business models, etc.) interacting in a single or approximately the same time and leading to the formation of cumulative effects.’ (Suszyński 1992, p. 44).

¹³ In the report, the study has been subjected to more than 7,200 people from senior executives of private enterprises from 36 countries (*Mergers and acquisitions: looking beyond the global downturn* 2009).

¹⁴ Economies of scale are understood as the effects connected with the decomposition of fixed costs on a larger production / quantity of provided services, which lead to lowering the unit cost (*Fuzje i przejęcia* 2008, p. 34).

In the view of this issue, some business entities choose divestments. They sell out assets which do not contribute to the strategy in their view. By contrast, they remain in the sectors where they are strong and have high market shares (Fandrejewska 2009).

It should be noted, however, that the crisis is not only a period of ‘tightening’ of business activities. The crisis is also the time of investment opportunities for companies with strong position in the industry and suitable amount of cash resources. The period of economic downturn usually creates numerous opportunities for acquisitions of competitors for a very attractive price (this applies to competitors who have financial problems as a result of the crisis). Thus, consolidation transactions may become the path of development of economic entities in which the crisis does not force savings measures. These enterprises, however, should remember that these transactions were the result of deliberate and well planned activities and decisions focused on achieving specific, measurable synergies associated with them.

Can the end of the subprime crisis be seen in the framework of consolidation processes?

The year 2010 and forecasts for the subsequent years do not give a definite answer to the question whether the crisis in the transactions of consolidation is finished. On one hand, increasingly positive economic indicators (as measured by GDP), rising corporate profits and share quotation should positively affect the investment activity of business entities. However, still unsustainable situation of financial markets and rapidly rising public debt in some countries cause the fact that the activity in the macroeconomic environment is characterized by great uncertainty. Hence, it is difficult to determine future directions of the investment activities of economic entities, including cross-border mergers and acquisitions.

Thus, recent data suggest that the global economy has entered a path of growth. The world economy after 2009, which recorded decline of GDP by 2%, in 2010 registered growth of 3.0%, while forecasts for 2011 mention 3.2% growth of GDP (UNSD Statistical Databases, <http://unstats.un.org/unsd/databases.htm>). Long-term forecasts point to even more optimistic growth of GDP, although they vary depending on region and country. Economies of developing countries are indicated as the ones with the greatest investment potential. The positive situation in terms of investment should be also influenced by monetary policy. It is anticipated that central banks in most countries will leave interest rates unchanged.

Increasingly high corporate profits should also have an impact on positive effects in terms of investment. It is true that according to the studies conducted in 2009 the profitability of Transnational Corporations (4%) was lower than in 2008 (5%), but the second half of 2009 was characterized by a slight increase in profits.

It is expected that in 2010 companies in the United States and Europe will increase their profits by one third, while in Japan by as much as 70%. The growth of profits will be the result of increasing demand and cost constraints in the enterprises¹⁵. Additionally, the improving situation on stock markets, thanks to which investing funds will increase their resources, can enhance investment activity within the processes of consolidation. The incentive effect of the economic situation described above may have a primary effect on consolidation processes in SMEs.

However, in addition to determinants conducive to investment, there are factors limiting the activity of business development. What is more, the situation on financial global markets is still not certain. It is true that the condition of the banking system is improving, largely thanks to financial support of the state (government bailouts) and improvement of the overall economic situation. However, systemic weaknesses related to the reform of world finance system, which limits the emergence of financial crises, still exists. Until the reforms regarding stabilization of the financial system are completed, it is difficult to speak of trust on financial markets, manifested by depletion of the restrictions on access to credit and constant increase of stock prices. This situation does not encourage the investors to make long-term and highly costly investments.

The situation when budget deficit and public debt are growing, especially in the developed countries, has a negative impact on investment activity. Information about the unstable level of public debt causes additional volatility on financial markets. Hence, governments take measures in order to reduce the budget deficit by reducing spending and raising taxes in the medium term. However, excessively violent actions to reduce the budget deficit can reduce economic growth (GDP). On the other hand, the lack of corrective actions, in particular in the case of increasing spending, fuels inflation and causes destabilization of the exchange rate. Thus, both actions too violent and their absence are associated with a significant level of macroeconomic risk.

In addition to the factors stimulating investment, the increase of the volume and value of mergers and acquisitions depends on the specific determinants of the consolidation processes, which include the activity of private equity funds and banks financed by the buyout process. As stated above, the situation on financial markets is still not stable and therefore the future activity of the funds using leveraged buyouts is uncertain. Statistical data show that both quantity and value of international mergers acquisitions financed by private equity funds fell in the first half of 2010 by 2% compared to 2009. In addition, the European Commission proposed directive on the Alternative Investment Fund Managers, amending the existing rules for the operation of private equity – particularly in leveraged buyouts. Generally, the new directives are intended to adopt imple-

¹⁵ For example, Japanese companies listed on the stock markets could reduce costs by 14 per cent at the end of the year March 2010, the largest decline rate since mid – 1970.

menting measures setting limits on the level of leverage that AIFMs can employ, taking into account the type of alternative investment fund, its investment strategy and the sources of leverage¹⁶. However, the proposed tightening of the rules could limit the extent of future leverage in private equity and other collective investment funds and therefore deepen their growth.

To sum up, as it was shown on the basis of the presented arguments, it is difficult to determine whether within the context of the consolidation processes we can talk about the end of the subprime crisis.

Conclusions

Periods of crisis and slowing growth in market economies are normal situations which a company must deal with and must always be ready to face them. In the course of its lifetime, there will be a decline in mood among entrepreneurs and reluctance to make investments as well as companies will encounter problems associated with financing investments. Given such conditions, some business entities resign from the consolidation transactions or postpone the decisions about them until a period with more convenient conditions. Statistics confirmed that the subprime crisis has affected the reduction in value and volume of transactions of consolidation. Its effects were particularly evident in 2009.

The economic data from the first half of 2010 concerning the level of GDP, public policy, business activity on the stock exchanges (in the new issue) and data on the financial health of businesses may indicate that the investment activity of businesses, including cross-border mergers and acquisitions in the near term, will increase. However, their development is also limited by still unstable situation on financial markets, problems with debt and public deficits in some countries and decreased activity of private equity funds. Hence, the explicit statement of the forecasts on consolidation transactions is not possible. Statistical data in terms of quantity and value of international mergers and acquisitions do not also allow to make such an assessment (the periods of January-February in 2009 and 2010 were on the similar level). However, it is generally anticipated that the factors conducive to investment will encourage investors to make big scale decisions on the development of their businesses through consolidation. These transactions will have lower values, and they will not be mega-transactions that were dominant earlier¹⁷.

¹⁶ The definitions of leverage and quantitative measures are not yet in place (European Central Bank 2009).

¹⁷ **Mega-transaction** is the consolidation of a value exceeding \$ 1 billion. While in the early nineties the share of large transactions in the value of mergers and acquisitions was about 40% in total, in 2007 it was 71%. The highly leveraged mega-deals of the 2003–2007 boom years will not probably be seen in the near future.

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