MERGERS, ACQUISITIONS, EQUITY FUNDING:
DO THEY MEAN JOB LOSSES ?

There is a fixation on the part of many workers, these days, that their jobs could well be in jeopardy as Management seeks to earn more money in the short term at the expense of long-term profits by reducing Establishment Levels.

This fixation is especially true in the United States of America, many parts of Europe, and, it is very prevalent in Japan, today.

Looking only at Japan, there was a time when, for a young graduate to join the ranks of the employees of a large zaibatsu, it meant that he would have a job for life, with the zaibatsu, looking after the welfare of its workers, something akin to a paterfamilias, looking after his progeny.

No longer is this concept the case in The Land of The Rising Sun, however, since Management of large Japanese conglomerates have adopted a similar business philosophy to that of the West.

Last week, Volkswagen A.G. announced that it would be sacking about 20,000 of its staff within the next 3 years, while, in the US, Oracle Corporation announced that it would be peeling back its Establish Level by about 2,000 workers.

The previous week, it was announced that DaimlerChrysler A.G. would be letting go some 6,000 of its managerial staff and, the week prior, Ford Motor Company announced that it would be trimming its staff by some 30,000 workers.

In all of the above cases, it was a matter of trimming off the fat from those companies in order to become – note, not to maintain – competitive on the domestic front and, hopefully, on the world stage.

There is a general misconception, today, in many quarters, to be wary of investors, taking hefty stakes in companies, be they private or public, because such actions, most likely, would lead to staff cuts in order to have the offeree company/new investor become more profitable in the short term.

Also, in the US, there is the dreaded fear, fanned by television commentators who, clearly, do not understand very much about economics, let alone the intricacies of big business, that the exportation of US jobs is not good for the country.

In fact, the opposite is the case.

If the People's Republic of China (PRC), the Philippines, Thailand, and other Asian countries stopped exporting their garments to the US, forcing US manufacturers to crank up knitting and spinning machines in order to produce those garments that Asia had been selling to the US, it would terribly inflationary – in a shot!

The fact that, today, the US consumer is able to purchase Asian-produced garments at a large discount to the cost that US manufacturers can produce similar garments, means that the US consumer has more cash available from annual budgets, enabling him to purchase other goods in the US marketplace.

The same is true of motor vehicles, television sets, electric appliances, and so forth.

There is, also, the fear in the minds of many employees that mergers are more than likely to result in jobs, being lost.

This, too, is fallacious thinking.

Statistics, produced in Germany, recently, have proved that between 2000 and 2004, more than one million new jobs were created at companies, which had received, directly or indirectly, equity funding from independent third parties.

By extension, therefore, a merger of 2 synergistic companies would result in economies of scale being produced (otherwise, it would be a fruitless exercise), which may well result in the realisation of a number of surplus workers, who, then, could be shunted to other new jobs, which would be created by the natural result of the merger.

While **TARGET** () realises that the above statements may well be open to challenge, it has been proved that, when 2 corporate entities determine to join forces for their common good, it, more often than not, requires new corporate thinking, leading to upgraded managerial systems, leading to the employment of people, who have a proven track record to manage the new upgraded systems.

Going down the line, manufacturing, quality control, purchasing, sales, public relations, human resources, etc, etc, etc, all have to be upgraded and, inevitably, more people are employed in these tasks if the entire surplus labour, created by the merger, cannot be fully retrained to take up new positions within the enlarged corporate entity.

Seldom, statistics indicate, does an enlarged corporate entity, by virtue of a merger and/or an injection of funds by an independent third party, lead to large-scale unemployment – if at all.

In cases where, following a merger, large-scale staff cuts are made, it is, probably, due to the fact that the offeror company and the offeree company were well aware at the time of the merger talks that there was a great deal of *'fat'* which would have to be cut out in order to make the enlarged company viable.

Inevitably, there will, always, be exceptions to the rule, but, generally, equity funding, either by the merging of 2 or more companies and the injection of fresh capital, or by an independent third party, entering as a substantial shareholder/equity party of a company, leads to the creation of jobs.

The most-recent losses of jobs at DaimlerChrysler, Volkswagen, General Motors and Ford may appear to be frightening, at first glance, but Asian motor-vehicle manufacturers, which were the root cause of the job cuts, have established their own motor-vehicle factories in the US, the PRC, proper, and Europe, as well as beefing up production at the home front, thus creating many more jobs than those that have been lost by the mass layoffs at these gains of the automotive industry, internationally.

However, workers in Germany and the US may not realise, at first, how new jobs have been created by their companies, losing out to Asia, because such statistics are not readily available in the short term.

Also, there is a widespread preconception that mergers and/or takeovers lead to widespread unemployment.

Nothing could be further from the truth.

Case in point: The PRC, today, manufactures most of the world's washing machines, microwave ovens, refrigerators, television sets and, within the next decade, probably, a goodly portion of the world's motor vehicles, but these industrial advances have not caused widespread unemployment in the US, which used to hold sway over the manufacture of the above-mentioned goods.

As the personal computer will, eventually, knock the fixed-line telephone out of the box, forever, as did the word processor, drive the nails into the coffin of the manual and, then, the electric typewriter, so the wheels of progress will turn, forcing out the old in order to welcome in the new.

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