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Research on the Problem of Interbank Competition of Subsidiaries in the Process of Merger and Acquisition and Integration of Companies

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Abstract: In the context of economic globalization, mergers and acquisitions (M&A) have become a key means for enterprises to expand markets, acquire resources and enhance competitiveness. Nevertheless, especially when large firms acquire small firms and involve the integration of subsidiaries, the problem of inter-firm competition has become an unavoidable challenge. The core task of this paper is to explore in depth the competition problem among subsidiaries during M&A integration and its impact on the success of integration. Through analysis, this paper reveals that subsidiary competition not only affects the reallocation of market share, but also leads to business overlap, resource waste and management complication. Taking Baowu Group as a case study, this paper thoroughly researches how it copes with and solves the subsidiary competition problem in M&A integration, and proposes effective strategies to manage peer competition. The conclusions of the study show that successful M&A integration requires optimizing resource allocation while avoiding internal competition in order to improve the competitiveness and market performance of the integrated enterprise.

1 Introduction

Under the circumstances of global economic integration, a important measure, mergers and acquisitions (M&A), is shown for market share expansion, strategic resources acquirement, operations delivery and competitiveness improvement. Recent years, as M&A activities become more frequency, a focus issue has drawn much attention that how to realize synergies in the process of M&A integration not only in the academic but also in the business communities. However, to enhance overall performance, M&A integration are utilized by resource sharing, market expansion, and technological synergies, but the unexpected challenges will show up while inter-subsidiary rivalry in the process.

Inter-subsidiary competition generally occurs among different business units under the same company, especially when they operate in similar or overlapping markets. It may not only bring waste of resources, but also cause an internal erosion of market share, weakening

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the overall profitability both for the company and subsidiaries. It may not only bring duplication and waste of resources, but also cause an internal erosion of market share, weakening the overall profitability both for the company and subsidiaries. Meanwhile, realizing expected synergies would be interrupted and even the M&A integration failure by the excessive internal competition. There is fragmented research on subsidiary rivalry in M&A integration for now, and no fully exploration about the complexity of this phenomenon among the related theoretical frameworks and papers. Therefore, it is significant for both theoretical research and corporate practice to deeply analysis the impact mechanism of subsidiary inter-competition in the process of M&A integration and its long-term impact on overall corporate performance.

Baowu Group is utilized to explore the causes, manifestations, and effects of subsidiary interbank competition on the overall corporate performance of large firms in the process of M&A integration, combing and analyzing the existing literature in this paper.

This paper will discuss the reasons for the emergence of inter-subsidiary competition in the process of mergers and acquisitions (M&A) and integration of large companies, and study how to solve the problem of inter-subsidiary competition after the M&A through the strategies of business reorganization, branding integration, market segmentation, and resource sharing. Then, through actual case studies, it will understand the success and failure of enterprises in solving the problem of inter-subsidiary competition, and test the effectiveness of the above strategies empirically. Finally, optimization suggestions based on the research results are proposed to provide actionable guidelines and strategies for enterprises to solve the problem of inter-subsidiary competition in the process of M&A integration.

2 Literature review

Mergers and acquisitions (M&A) integration refers to the process by which enterprises integrate their resources, expand their market share, and enhance their competitiveness through mergers or acquisitions of other enterprises. In the global economy, the background of M&A integration mainly includes market globalization, technological progress, industry consolidation, and intensified competition. Enterprises can rapidly enter new markets, acquire key technologies or resources, and strengthen their market position through M&A integration. In addition, globalization makes cross-border M&A an important means for enterprises to expand their international influence. The importance of M&A integration in the global economy is reflected in the promotion of industrial structure optimization, the promotion of technological innovation, the improvement of enterprise efficiency and competitiveness, and also to a certain extent, the global capital flow. However, M&A integration also faces cultural conflicts, integration risks, and regulatory challenges, and how to effectively manage these issues is the key to ensuring the success of M&A.

2.1 Theoretical framework of M&A integration

The relevant theoretical foundation of M&A integration can be traced back to Corporate Integration Theory (CIT), which focuses on how firms achieve synergy through integration in the M&A process. Haspeslagh proposed four basic models of the integration process: absorption, protection, retention, and reorganization, which provide a basis for understanding post-merger integration behavior [1]. In addition, the Resource Dependence Theory (RDT) provides a framework for studying resource sharing and competitive behavior after M&As, emphasizing that firms enhance their competitive advantage by acquiring external resources.

2.2 Peer competition and firm performance

Five Forces of Competition model states that peer competition is one of the major competitive pressures firms face and directly affects their market strategies and performance [2]. In the context of mergers and acquisitions (M&A) integration, studies have shown that peer competition between subsidiaries and parent companies or other subsidiaries may weaken overall synergies. The study indicates that inter-industry competition may lead to wastage of resources, internal depletion of market share, and decline in profitability [3]. On the contrary, the Internal Market Competition Theory (IMCT) suggests that moderate internal competition can stimulate innovation and improve overall performance.

2.3 Post-merger organizational structure and peer competition

After a merger or acquisition, the adjustment of organizational structure is one of the key factors determining the degree of interbank competition among subsidiaries. The Multidivisional Structure Theory proposed by the study suggests that a decentralized multidivisional structure can effectively reduce inter-industry competition among subsidiaries [4]. However, the paper emphasizes that excessive decentralization may lead to conflicts in resource allocation among subsidiaries, which may further exacerbate competition [5]. In addition, the integration of corporate culture is also one of the factors affecting intercompetition among subsidiaries, it point out that cultural differences may lead to strategic inconsistencies among subsidiaries and increase the risk of internal competition [6].

3 Baowu Group M&A history

China Baowu Iron and Steel Group, as China's largest iron and steel enterprise, has demonstrated distinctive features in its M&A history, while certain contradictions also exist among its subsidiaries. Overall, the M&A history of Baowu Group reflects the characteristics of state-led industry integration, rapid expansion and optimal allocation of resources, but it also faces internal contradictions such as corporate culture differences and management conflicts in the process of integration.

First of all, the M&A journey of Baowu Group has obvious state-led characteristics. Since the merger of Baosteel Group and Wuhan Iron and Steel Group to establish China Baowu in 2016, the group has merged and acquired a number of large-scale iron and steel enterprises, such as Maanshan Iron and Steel Group, Chongqing Iron and Steel, and TISCO, under the guidance of the national industrial policy. These mergers and acquisitions not only aim to enhance the enterprise scale and market share, but also to respond to the national supply-side structural reform and the steel industry to go to the call, aimed at optimizing the domestic iron and steel industry layout, enhance international competitiveness.

Secondly, Baowu Group's M&A demonstrated rapid expansion and scale effect. Through a series of mergers and acquisitions, Baowu's crude steel output has climbed rapidly to become the world's largest steel producer. This scale effect helped reduce production costs and increase bargaining power, while gaining advantages in technology development and product diversification. However, rapid expansion has also brought management challenges. How to effectively integrate the resources and capabilities of various subsidiaries and bring synergies into play has become an important issue for the group [7,8].

In terms of resource optimization and allocation, Baowu Group has realized the extension and improvement of its industrial chain through mergers and acquisitions. The addition of steel companies from different regions and product lines has made the Group's product portfolio richer and its market coverage broader. In addition, technology, talent and market resources can be shared within the group to improve overall operational efficiency. This resource integration not only enhances the group's profitability, but also strengthens its ability to withstand market risks.

However, during the M&A and integration process of Baowu Group, some conflicts have emerged among its subsidiaries. The first is the difference in corporate culture. The subsidiaries originally had different corporate cultures and management modes, and after being incorporated into the Baowu system, it was a major challenge to achieve cultural integration and establish unified values and codes of conduct. Secondly, the issue of resource allocation and coordination of interests also triggered internal conflicts. Competition and conflicts may arise when subsidiaries compete for resources, projects and market share within the group, affecting the overall synergy effect.

In addition, conflicts at the management level are also issues that cannot be ignored. Organizational restructuring and staffing arrangements after M&A may lead to changes in the power and status of the original management, triggering internal games and dissatisfaction. Failure to properly handle these issues may affect the stability and development of the group.

Overall, Baowu Group's M&A journey has achieved remarkable results in promoting corporate scale and industry integration, but it has also been accompanied by conflicts and integration challenges among subsidiaries. In the future, how to deepen internal integration, resolve conflicts, and realize real synergies will be the key to Baowu Group's sustainable development [8].

4 Problems of competing subsidiaries

Baosteel and Wuhan Iron & Steel, the core subsidiaries of Baosteel and Wuhan Iron & Steel, respectively, were once important competitors in China's steel industry. The two companies have overlapping major businesses, both focusing on the production and sale of steel products, especially in the high-end steel market, such as automotive plates and ship steel, with similar market positioning and customer groups. This competitive landscape has further intensified market pressure against the backdrop of an overall surplus in the steel industry, prompting both companies to seek breakthroughs in improving efficiency and reducing costs.

As China's steel industry enters a period of structural adjustment, the industry's overall overcapacity, serious product homogenization and environmental pressures are becoming increasingly prominent. To address these challenges, the state has begun to implement supply-side structural reforms and advocate mergers and acquisitions in the steel industry, with a view to optimizing the allocation of resources and improving the competitiveness of the industry through industrial consolidation. Against this backdrop, the merger of Baosteel Group and WISCO became an important event in China's steel industry.

In 2016, Baosteel Group and Wuhan Iron and Steel Group officially announced their merger to establish China Baowu Iron and Steel Group. This merger not only marks the increased integration of China's steel industry, but also reflects the country's determination in promoting the reform of state-owned enterprises and optimizing the industrial structure. Baosteel shares and Wuhan Iron and Steel shares as the core subsidiaries of the two groups, after the merger of the parent company, also entered the integration stage.

Although the two companies already belong to the same group, there is still a certain amount of internal competition due to the high degree of overlap between the two business layouts in certain product lines or market areas. For example, in the high-end steel market, such as automotive plate and ship steel, both companies have a strong technical and market base, which makes internal integration more difficult. To meet this challenge, China Baowu Iron & Steel Group, after the merger, has gradually promoted the coordination and integration of the two companies' businesses to optimize the allocation of resources and reduce internal competition.

Eventually, through this series of integration measures, the product lines of Baosteel and WISCO were optimized, internal competition was gradually reduced, and the market competitiveness of China Baowu Iron & Steel Group as a whole was enhanced. This process not only strengthened the new group's position in the industry, but also provided valuable experience for the further integration and development of China's steel industry.

5 Countermeasures and insights for resolving interbank competition of subsidiaries

The issue of internal competition was a key challenge during the merger of Baosteel and WISCO. To address this issue, China Baowu Iron & Steel Group has taken a number of measures. After the merger, China Baowu Iron & Steel Group reduced duplication and homogenized competition by integrating the businesses of Baosteel and WISCO. Specific measures include re-planning and repositioning product lines with a high degree of overlap, clarifying the market division of labor and product characteristics of each subsidiary, and avoiding direct market competition. For example, Baosteel focuses on higher-end automotive sheet products, while Wuhan Iron & Steel focuses on areas such as steel for ships. This clear division of labor and positioning not only reduces internal competition, but also optimizes the allocation of resources and the direction of technology development [9].

China Baowu Iron & Steel Group has integrated the resources of the two companies in procurement and supply chain management, realizing scale effects and cost savings. By establishing a unified procurement platform and supply chain management system, the Group was able to centralize the negotiation and procurement of raw materials, resulting in lower procurement costs and higher bargaining power. This approach not only reduces operating costs between the two companies, but also enhances overall market competitiveness [10].

In order to reduce duplication of R&D investment and enhance the overall technology level, China Baowu Iron & Steel Group encourages Baosteel and WISCO to cooperate in technological innovation and share technological achievements and R&D resources. For instance, a joint R&D center focusing on the research and development of new materials and high-end steel has established by the Group, making technological synergy and innovation ability promotion [11].

It is shown by the integration of Baosteel and WISCO case that integrate business and clarify the division of labor positioning are effective to reduce internal competition and enhance overall efficiency in the situation of overlapping resources and overlapping markets. It can also be referred for enterprise groups in other industries, focusing on business synergy and optimization during the integration process to avoid the waste of internal competition. The importance of supply chain synergy is proved as well. The measure, harmonization of procurement and supply chain management, can reduce costs and improves the stability and efficiency of the supply chain as well. Therefore, it is necessary to focus on the supply chain optimization and integration in the process of business merger and integration. By taking the measures, technology sharing and R&D synergy, enterprises, the R&D investment duplication can be avoided and the usage of resources can be maximized, which is particularly important for other large enterprise groups, especially those in technology-intensive industries. To improve the overall technological innovation capability, it should be implemented to explore the establishment of joint R&D platforms or sharing mechanisms.

For the mergers and state-owned enterprises reorganizations, it provides important lessons by this integration process. Firstly, the resolution of internal competition and achieve synergies should be focused on in the integration process, by resource optimization and business restructuring. Secondly, it is an important measure to reduce internal competition that technological and market synergies. Finally, M&A can not only be considered as the integration of capital and resources, but also the deep integration of management, culture and strategy. It should be focused on in the process of merger and reorganization in order to truly achieve the effect of “1+1>2” for enterprises that the adjustment and optimization of internal management.

6 Conclusion

There’s an important and complex challenge in the M&A integration process of large firms, the subsidiary peer competition problem. To reveal the roots and manifestations of this phenomenon and its impact on overall firm performance, the subsidiary peer competition problem in the M&A integration process of large firms have been examined in this paper.

First, subsidiary rivalry usually stems from different business units while operating in the same or overlapping markets. Not only the resources could be reused and wasted, but also the overall market share could be eroded and the overall profitability could be weakened both for the company and subsidiaries by such internal competition. In the process of M&A integration by resource sharing and market expansion to realize synergies, this phenomenon particularly occurred. However, these synergies realization may be interrupted and even failed by the influence of excessive internal competition.

Take Baowu Group as case, it is illustrated that how large firms can deal with the practical challenges of peer competition from subsidiaries in M&A integration in this paper. An issue showed up, that overlapping subsidiaries in product lines and market segments for Baowu Group after acquiring Baosteel and WISCO. Initially, problems with resource allocation and market share occurred by the internal competition. After several efficiency measures, re-planning and repositioning product lines, clarifying market segments, and integrating procurement and supply chain management, were implemented, internal competition was reduced, resource allocation was optimized, and overall market competitiveness was improved for Baowu Group.

It can be suggested through Baowu Group that clear division of business, resource optimization, and technology sharing are efficiency measures to reduce competition among subsidiaries in the M&A integration process. Direct market competition can be effectively avoided by clarifying the positioning of subsidiaries in different product lines and market segments and the internal conflicts can be reduced relatively. Additionally, establishing a unified procurement platform and supply chain management system is a efficiency way to realize scale effects and cost savings and improve overall market competitiveness. Meanwhile, repeated investment can be avoided and technological level and innovation capability can be enhanced through encouraging technological innovation and R&D cooperation. Therefore, the adjustment and optimization of internal management should be noted for successful M&A integration to achieve the effect of “1+1>2”.

All in all, although there’s a significant challenge, the issue of competition between subsidiaries in the same industry, in the M&A integration of large enterprises, there are still effective strategies and measures to handle these challenges to achieve the improvement of expected synergies and overall performance. A valuable reference, the experience of Baowu Group, for other large-scale enterprises has been given for other large-scale enterprises, especially in technology-intensive industries and state-controlled enterprises, and it is crucial to solve internal competition problems, optimize resource allocation and strengthen technical cooperation to achieving successful integration.

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