THE UNIVERSITY OF CRAIOVA

THE FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION

ECONOMICS DOCTORAL STUDIES

Ph. D Thesis: Oligopolies in global markets

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Abstract

This paper will investigate upon the current evolving process of the global economy, obviously, yet almost unperceivable, dominated by massive oligopolies, which restructure each aspect of our lives. The importance of the paper consists in putting the process by which oligopolies become global into the light as well as the consequences of this phenomenon that affects among others the trends of the economy and the evolution of the companies based in Romania. The structural changes of the world's industrialised economy are being analysed taking into account the distribution of power, incomes, wealth and economic growth models. Industrial organisation models are being identified as well as the consequences on the participants to the value chain in the main global industries.

In the first chapter the ideas of the founders of the oligopoly theory and games theory are emphasised: competition by quantity, price, product differentiation, repeated interaction and collaboration. The same chapter includes strategic games, the sources of power in global competitiveness, competition strategies.

The second chapter will show the ways and means of the expansion of the oligopolies in the global economy: globalization and its factors, transition form national to transnational company, foreign investments in oligopolies, and concentration of industries by mergers and acquisitions. The third chapter will analyze the global oligopoly, the changes in competition and collaboration forms in global oligopoly and the expansion impact of the oligopolies on the structure of global industries. The final chapter of the paper shows the oligopolies in the Romanian economy.

Extraordinary changes with a critical impact on the world's economy and the economic post-ward order have occurred during the last thirty years. The first would be the increased

capital concentration in all dominant segments. Monopolies and oligopolies are not elements of novelty in the history of capitalism, but now we can speak for the first time of generalized oligopoly capitalism, which dominates all field of he economic life.

The second change is the long-term dominance of the global financial system on the real economy[1]. The financialization resembles globalization in terms of "*the increase of the role played by financial reasons, financial markets, financial actors and financial institutions in the national economic operations and global economy*". Thus, the transformation of capitalism reveals one more dimension: transfer of the power from the managers into the hands of the owners and their representatives that closely monitor the activity in order to maximize profit, a transfer "from managerial capitalism to investors` capitalism".[2] The pressure of the investors is high so as to generate the twofold increase of stocks and investment profitability year after year.

The use of the scarce natural resources in ways imposed by the economic profitability, characteristic for capitalism, leads to dangerous consequences on the long run (destruction of biodiversity, climate changes). The most critical aspect of this evolution is the millions of under qualified workers adding to the global labour force.

Globalization and technologies have eliminated the market structures that historically have defined competition. Industries are restructured, competition bases are changing. The increased market linkages that now characterize the global economy have caused considerable product and market asymmetries, many industries are now characterized by oligopolies on top and increased supplier competition at bottom. The process is sustainable because of the barriers to entry and abundant supply of labor at the bottom and the entry of new firms on the ground level even though many industries have excess global capacity.

The oligopoly has become the dominant structure of large business. The dynamics of the free market, the demands of market survival lead to a market dominated by several major companies. These new firms focus all their resources to dominate a field or several fields. Strong inter-company connections can generate oligopolistic coordination, implicit or not. Be it opportunistic or collaborative, the character of the connections can determine the form of interaction between the players in an industry.

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[1] Ronald Dore, "Financialization of the global economy", Industrial and Corporate Change 2008 17(6):1097-1112;
[2] Rakesh Khurana, "From Higher Aims to Hired Hands: The Social Transformation of American Business School and the Unfulfilled Promise of Management as a Profession". Princeton University Press, 2007.

The trend leaps toward global oligopolies, with few players, with more power. Oligopolies encourage buyers to organize them selves in oligopsonies, and this causes more consolidation of goods and services suppliers. Oligopolies go global. A structure of global oligopolies has developed in time, dominating almost all global markets, getting revenues that surpass the most countries GDP. Endgame theory describe and predict the concentration of all industries with 2-3 global industry leaders finally dominating more then 70% of the global market, allowing only top performing niche players to compete in the residual 30% of a concentrated market.[3] The oligopoly is a compromise between the interest of the society and the interest of the companies, a social adjustment to the current powerful technological development, in order to protect the huge value of the investments. Most of the R&D intensive sectors are international oligopolies, the pharmaceutical industry and biotechnologies, equipments and hardware technology, electronics, automobile and car units, oil and gas manufacturers, chemical industry.

These companies have significant influence – most often implied – on governments, by means of support, lobby, implicit threats such as removal of working places to another country, they influence subsidy policies, taxes, free trade rules, environment protection regulations, etc. Industries have been subjected to the process of global consolidation. The leading positions of the global industry have been occupied almost entirely by companies based in economically developed countries.

Another trend is the growing inequality in size and performances between big companies. Companies compete, not only one against the other but also against the industry structure progressively becoming more unequal. Cooperation between leading companies in oligopoly industries is as common as competition. Alliances are made in all forms and sizes, in purpose of vertical markets exploitation, new technologies development, entry or exit a market. Beside the cost sharing each of them benefit the competition reduction in target market.

Present transformation of global economy is determined by two processes: markets integration and economic activities relocation through „production internationalization". So, value chains get global and companies less vertical integrated. Location selection can be done activity by activity. Also, value chains can be decomposed between many companies, in the same

3 Andrej Vizjak, "*Beating the Global Consolidation Endgame Nine Strategies for Winning in Niches*", 2008). http://www.mhprofessional.com/product.php?cat=108&isbn=0071590765

location or abroad. This allows transnational companies to focus on core competencies or to exploit more efficient open innovation networks, firm activities fragmentation by outsourcing them in geographic dispersed locations. The result is the international production networks.

The OEM business model (Original Equipment Manufacturer**)** is based on big internal production capacities avoidance. OEM only own the intellectual property, the brand owner are playing the strategic broker role, binding a network of partner firms located in low cost zones to the big consumers markets. These companies succeeded to shape the mass consumption by powerful brands and global strategies to fulfill this demand. To simplify their outsourcing operations, OEM, brand owning companies asked main contractors to expand globally. The pattern was taken up and adapted by all global industries. Companies that externalise a great deal of their output don't have to carry any longer a fixed capital, financial, administrative and technical burden; they may focus on innovating products, thus, becoming organisationally and geographically more flexible.

The most visible part of the structure stemming from industrial concentration are companies with globally acknowledged powerful technologies or brands. They are system integrators, industry value chain organisers that closely co-ordinate legally independent companies in the network - a new property & control pattern.

Michael Porter's "cluster" business spirit remains intact, various output phases will be divided among several specialised entities, but the need for geographic proximity no longer exists. The new economic strategies have developed a "global hub and global nodes*"* pattern - a new industrial organisation standard.

A significant development has been the adoption of new sourcing arrangements involving spatial reorganization of multinational company value chains from national to regional and global configuration. These arrangements are result of national disintegration of value chains and relocation of its nodal segments in multiple host countries, so that intermediate products are transferred from one nodal point to another for processing, the process is reflected in the rise of intra-firm trade. The companies replace the vertical integrated production systems with networks systems – interdependent vertically linked suppliers and distributors coordinated by integrators to produce goods or services in a flexible way in order to minimize the risk for them.

The hierarchical network allows transnational companies to reduce their costs and increase flexibility by delegating non essential activities to subcontractors, locked in the value chain in which they have little power. Transnational companies can focus on high value added activities, enjoing the benefits of control without the liabilities of ownership, because of their structural power ower their network affiliates. Control extends beyond the boundaries of ownership. An important implication is that official data on industrial concentration rates underestimate the level of strategic control exert in the international economy[4].

Extreme outsourcing has developed into a non vertical industrial landscape at the level of brand owning companies. Integrator's non vertical progress is viewed completely differently from the suppliers' perspective. In order to meet full service requirements, suppliers had to provide new competencies and to enlarge their activity scope in the context of increased quality of services and reduced costs.

In this way, brand owning firms and 'turn to key' product suppliers co-evolve in a reccurent outsourcing cycle and more complex, service supply capacities, which make the outsourcing perspective even more attractive to the firms that start considering outsourcing at a large scale. In global networks, leading firms find new ways to perform a substantial power on the market, without fixed costs and the risk of setting up giant organisations. Firms providing output services, under-contract producers, relieve brand-name owners from the obligation to invest in own fixed capital as well as in process innovation research - development. Under-contract producers' client base can share the new equipment in an effective way due to the new equipment being very flexible and relatively standardised. *Scale and speed economies,* obtained at production network level exceed a single company's economies as *they can be shared by industry as a whole.*

The aim of my thesis is to find out how could Romanian companies survive in the global concentration process of industries.

The support given by the Romanian state to mature industries, which function as oligopolies, and address saturated markets is a waste. Resources should be channelled to companies in less concentrated industries, small and average enterprises (IMM) in creative industries, to created conditions and encourage the natural creation of clusters in fields in which intangible value has the highest rate. This paper shows that the one who sells has the highest win, but markets can be dominated by those that rule over consumers` minds. Romanian companies

[4] Marc T. Jones, „*The competitive advantage of the transnational corporation as an institutional form*” international Journal of Social Economics

can start as suppliers for several integrators, but they also have the liberty to join different global value chains, and business lessons can also be learnt by Romanians. Romanian companies can survive as niche players, be it in regional or global niches. Moreover, products and services need to be adjusted to the demands and preferences of the consumers, in the so called “glocalisation”.

Having regard to clients` demands, new products, new processes and new markets can be created with 80% imitation and 20% innovation. The current context can be equally exploited by companies in small countries. It all depends on the entrepreneurial education and spirit of the population. The best examples in this direction are Finland and Singapore.

One way for Romania is orientation towards creative industries. Attention should be paid to both the technological and the non-technological sectors of the innovative industries. According to the World Bank, 7% of the world’s economy is covered by creative industries.

The change is generated by creative client-oriented industries, which change demand and create new markets by the services and products they provide. In creative industries, intangible goods are economically exploited resulting in copyright, license and brands. Creative industries are also linked to digital channel distribution. We should also keep in mind that operations in creative are tightly linked to almost all industry sectors and services, mainly by design, advertisement, marketing, communications and animation.

In order to strengthen the market sector of the small and average enterprises, our country could preferably attract small and average enterprises based in developed countries of the world that also consider outsourcing as a necessary strategy for success in the current economic context, apart from cross-national companies. The business models adopted by small and average companies in creative and innovating fields can be easily assimilated by Romanian partners, lees experimented entrepreneurs. For this type of companies it is more difficult to find flexible and suitable partners across the world. The Ministry for the Small and Average Enterprises, should be preoccupied with creating gateways and complete and up to date databases that would make small and average-sized companies more visible to potential partners or investors seeking new opportunities.