

MOTIVATION AS AN INTEGRAL PART OF MERGERS AND ACQUISITIONS

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Mergers and acquisitions are often the preferred approach for companies to exit in a foreign market and to take permanent placement in it. They are often used for external and internal strategic growth of organizations. This suggests that mergers and acquisitions are taken for various reasons (**motives**) and factors from the companies operating with such type of transactions.

In the international theory and practice as main driver is displayed the emergence of *synergistic effect* as a result of mergers and acquisitions.¹

Synergy (from Greek *συνεργία*, *synergeia* - cooperation, partnership) can be defined as a joint activity of two or more parties, as a result of which is creating additional impact / outcome of their interactions, which is in addition to results obtained from activities of the facility, separately.

Within the classical theory of synergy in the market with corporate control, synergy occurs in the form of additional value for integrated participants in mergers or acquisitions (the value of combining participants is greater than their value separately).

The value of $AB > \text{Value A} + \text{Value B}$, or otherwise interpreted $1 + 1 > 2$.

The reason for that is the wide range of benefits used by the integrated participants, resulting from the integration after mergers or acquisitions (acquisition of experience and technology, cost reduction, etc.).²

In the context of synergistic theory as motifs also stand out the increasing of the value of the participants in the process of mergers and acquisitions at the expense of more effective management and elimination of duplicate functions (as a consequence, a decrease of costs), and consolidation of the participants leading to cost savings, attract additional resources for investment and increasing the capitalization of the organization.³

Each company and its owners have established mission and development strategy. In other words there is particular purpose and methods for its attainment. Integration is a form of realization of the strategies and decision-making for its implementation must be justified.

The common synergistic theory makes possible to grouping individual motives for integration of business activities due to mergers or acquisitions, as: operational, financial, investment and strategically.

First should be considered motives related to the current, operating business of the company (manufacturing, the supply chain), namely financial motives.

They stand out in the formation of the company's financial resources, funding sources, calculation of obligations, etc. Motives related to the investment activity of the company will be included in the investment group.

Within the strategic motives are pointed such areas as increasing the efficiency of corporate management, market research, relationships with partners / competitors, etc. It could be noted that these groups and the resulting of them individual motives are interrelated with other elements.

¹ Брейли, Р., Майерс, Принципы корпоративных финансов, М, Олимп-Бизнес, 1997, с.380.

² Bradley, M., Desai, A., Kim, E., Synergetic gains from corporate acquisitions and their division between the stockholders of target and acquiring firms. // Journal of Financial Economics, 1988, №21, p. 3-40.

³ Зусманович, К.А., Покупка, поглощение и слияние компаний, 2005, с.1-2

Operational motives

First in that group should be attributed motives, such as economies of the company.⁴ Participants in the process of mergers and acquisitions have differentiated complex functional subdivisions such as accounting, finance, marketing, advertising, research and sales ones.

Duplicate functions can be avoided, if it is set up a common host center for managing of the optimal activity. It will result in a significant reduction of inter-company expenses. As higher is the share of fixed costs of the participants in the integration, as better is the positive effect which can be obtained. But here it is necessary to consider, that the fixed costs can vary depending on the intermittent growth of production volume. On the next position, may be placed motifs such as economies of integrations performed. Such possibility occurs in *horizontal* and *vertical integration*. *Horizontal integration* leads to lower part of the production costs and as a result of unification is possible to eliminate duplicate manufacturing functions. *Vertical integration* of other hand is characterized by lowering transaction costs and increases the efficiency of the overall process.

Another option of the examined motives is the growth of resources and market presence, leading to a growth of market share and / or decreased competition.

The participants in the integration after the mergers and acquisitions are seeking to increase their share in sales of the corresponding branch and to enhance their marketing infrastructure (Network Sales), which complements their strong points.

On such segmented markets, where participants compete among themselves, appears opportunity to conduct more effective pricing.

Not the least for that group of motives can be displayed, splitting and combining of transversal resources in the integration after mergers or acquisitions.⁵

Performing the integration in this case is explained by the presence of complementary resources among participants, contributing to the discovery of new opportunities and prospects.

The resulting savings is not only the value of those resources, but is also result of the additional costs and time required for their receipt. Some participants in the transaction are able to create the necessary elements for the existence and competitiveness of their companies, but often more effective method is their integration with other companies.

Among the complimentary resources can be identified production (expansion of the range of the assortment), financial and administrative resources, investment opportunities and technology, research development and economic effects of their combining / acquisition.

Financial motives

Often enough mobilization of financial resources is emerging as main reason for mergers and acquisitions in terms of deficit of mobile assets (cash, stocks, tangible assets and ready production) and liquidity of the participants in the transaction.

Another financial motive is the possibility of using the economic resources of the participants. This is a situation where the company generates a significant amount of funds but because of the specificity of their activities or the occurrence of unforeseen economic situations, the company may not use them.

In their desire to acquire free cash flows in existing conditions, participants may proceed with a merger, takeover, acquisition or other forms of corporate integration.

⁴ Брейли, Р., Майерс, С., Цит. съч., с. 243. ; Владимирова, И. Г., Слияния и поглощения, // Менеджмент в России и за рубежом, № 1, 1999; Иванов, Ю.В., Слияния, поглощения и разделение компаний: стратегия и тактика трансформации бизнеса, М., 2001, с.28.; Зусманович, К.А., Цит. съч., с.1-2.

⁵ Брейли, Р., Майерс, Цит. съч., с.243; Владимирова, И. Г., Цит. съч., с.33-36.

In addition to the motives for mergers and acquisitions, particularly the financial ones, should be indicate receipt of the tax savings from payments for the participants.⁶ That motive could be divided in two essential elements - tax deductions and lower tax base. In the former case it is a possibility of using tax deductions for companies with certain productions described in the tax laws of each country. Lowering the tax base, reports more using of depreciation allowances or significantly reduce the tax basis of the last year. No trifling impetus for mergers or acquisitions is to reduce the cost of financing that process.⁷ Its essence lies in the fact that the cost of attracted capital for each participant individually, as a rule, is high and can provide attracted capital to finance the process of mergers or acquisitions. As a result, the risk for the creditors and consequently, their value requirements are reduced.

Investment motives

In this group should be related motifs such as the acquisition of assets. This motive in its turn can be divided into acquisition of property, intangible assets, control rights, participation in commercial projects.

With the acquisition of rights to control over other participants in the process of mergers or acquisitions is paying attention not so much in the proportion of shares in the ownership, but the tool led to the fact acquisition (for example : the existence of obligations of the participants).

In consideration of the above motives we can treat also the acquisition of management company too, i.e. acquisition of the components of corporate governance - the business control.

During the integration after mergers or acquisitions, is possible to release of duplicated assets and their subsequent realization.

That kind of integration comes from the further sale of assets with the potential to further tax savings of property, land, etc., which shows again the interconnection of the motives leading to the performance of various forms of integration.

As a continuation of the examined components, describing the above motives is highlighted such as speculation and integration with companies, situated in a tough economic climate. Often mergers and acquisitions are in order to follow disintegration process (subsequent sale of the company's parts).

The speculative motive is possible in the prevalence of the liquidation value and not respecting the law (violation of the interests of the creditors off assets, etc.).

Strategic motives

Fundamental for those motives is the desire of owners to improve the coordination of business processes and increase management efficiency after the mergers or acquisitions.⁸ Experience shows that there are always participants who are able to reduce the costs and to improve financial results; to reorganize the management aid - the internal business process; to improve the professional level of the employees, etc. Similar problems could be solved through the acquisition of management.

⁶ Рудык, Н.Б., Семенкова, Е.В., Рынок корпоративного контроля: слияния как способ увеличения стоимости компании // Финансист, №7, 2000, с. 32-33.

⁷ Ван Хорн, Д. К., Цит. съч, с.482.

⁸ Владимирова, И.Г., Цит. съч , с. 33-36; Зусманович, К.А.,Цит. съч., с.1

This is based on the striving to obtain management services or the entire set of actions, indicating their competence in the management of certain types of companies in certain situations.⁹

The next subgroup motives crucial strategic topics, is related to customer base. Customers to a certain extent could be considered as intangible assets of the company which can be assessed, even with a large dose of subjectivity. Many companies consider the possibilities for expansion of its customer base using mergers and acquisitions especially in situations of delayed development or risk of losing markets.

Subsequently, the provided customer base should be preserved. Mergers and acquisitions are able to meet customer requirements. This could be done by geographic integration in areas to which the customers are interested and have similar interests (e.g., acquisition of a regional subsidiary, based on integration with a local bank / company).

In this subgroup also applies as a motive entering into new geographic markets. Such issues can be resolved by removing / pressure on competitors, using the acquisition of rights of control over them. That motive is more characteristic for *the hostile acquisitions and mergers*, especially when it comes to acquiring inconsistent control and striving for subsequent liquidation of the acquired company.

In considering the strategic motives need to be paid attention at motives such as economies of research development and the use of temporarily free resources.

Mergers and acquisitions are form of venture investment risk, the nature of which is to use long-term investments with a relatively high risk but higher expected profit.

This type of investment is geared towards the practical use of technological innovations, the results of scientific achievements, etc. Business venture is a major activity for some participants in the market of corporate control. Implementation of such investments and participation in risky entrepreneurial projects is an opportunity for entry and accommodation of foreign markets. Another possibility is the integration with participants having a broad prominence, reputation, history, recognition, etc. of the market.

Such partnership is advantageous for the initiator from the perspective of the release of a new level of business and the "authoritative" partner in quality of acquisition of technology, experience, know-how, etc.

The defined four groups of motives can be divided on another principle.

Different factors which are affecting on the integrated participants lead to a classification of motives such as internal and external. In its greater part the examine motives can be attributed to internal. Other ones as observance of the legal norms and changes in tax rules carry an external nature. Along with the above mentioned motives, there are theories that have to some extent with opposite effect of synergistic theory, namely the theory of the agency costs and the theory of self-confidence.

The **agency cost theory** describes the conflict of interest between owners and managers employed in the implementation of mergers and acquisitions, business control, etc.

This raises the question of economic rationale of the motives and to take account of possible costs in deciding of integration of the executive authorities (managers). The concept of Jensen - Meckling (Theory of the firm: managing behavior, agency cost and ownership structure) explains that management staff is not seeking to maximize the value of the company (and welfare of the owners), but to maximize the cash flow with which they can freely dispose.¹⁰ Owners have their own interests, which may coincide, but also not coincide

⁹ Иванов, Ю.В., Цит. съч., с.43.

¹⁰ Jensen, M., Meckling, W., Theory of the firm: managing behavior, agency cost and ownership structure // Journal of Financial economics №3, 1976, pp. 305-60.

with the interests of managers.¹¹ The reason for the discrepancies and differences between them boils down to common striving for maximum yield with minimum risk.

Managers acting to increase the yield considered salary and bonuses, and they bind the risk reduction to the compliance of business and their own competence, growth of the company, maintaining funding sources, including the participation in operations in the market for corporate control.

For the owners under increasing in yield shall be understood growth of dividends received and growth in the market value of the property. Reducing the risk of not receiving an income is performed using an impact on management by the Board of Directors in order to maximize the dividends and the market price of the shares. The integration process through mergers and acquisitions can be considered as opposed to payments to the owners. But one thing is when integration is an effective investment project, and quite another when it comes to actually disregard the interests of the owners. Sometimes inefficiencies of management can create a motive for conducting mergers and acquisitions to increase the effectiveness of management

The theory of self-confidence (The Hubris theory)¹²

That theory is considered as an explanation for the behavior of the managers.¹³ The main point of view is the doubt in the accuracy of subjective assessment, which give the managers of the future income after mergers or acquisitions, and market value of the participants in this process. The mergers and acquisitions are at risk of irrational behavior, based on confidence in the adequate and accurate assessments of the economic feasibility of their implementation. Along with the proposed risk factors in both theories the motives can be specified in private motives which may supplement the questions and contradictions of the motivational process. These motives could have both positive and negative effects. Considering the risk of inadequate economic proposals (confidence) and the interests of the managers is necessary to be addressed that the integration process through mergers or acquisitions is not a single solution to such problems as increasing levels of management, lower costs, growth in capitalization, and finally a positive impact on the welfare of the owners. That process needs to be considered as one element in the development of common business strategies. Another specific motive is to reduce the costs of financing and diversification. The participants by integrating themselves, accept their obligations therefore it must be compared the future benefits which will be acquired the prior obligations. From that it could be said that it is possible to obtain intermittent change in fixed costs in amending the scale of business. In its turn, the orientation of integration as an opportunity for diversification must take into account the ability of shareholders to perform independently without affecting their companies. But the underdevelopment of market and / or organizational-legal form could be an obstacle in the implementation of the diversification of their resources.

Another specific motive for the conduct of business integration is the reduction of administrative costs. In the course of the process, participants may continue longer function as a collection of separate subdivisions having different production infrastructure, exploratory and marketing divisions. In other words the integration process, either by performing mergers and acquisitions or other options, requires more time and resources to be successfully completed.

¹¹ Рудык Н.Б., Семенкова Е.В., Рынок корпоративного контроля: слияния, жесткие поглощения и выкупы долговым финансированием, М.: Финансы и статистика, 2000, с.51.

¹² Roll, R., The Hirbus hypothesis of corporate takeover. // Journal of business, vol.59, №2, 1986, p. 197-216.

¹³ Рудык, Н. Б., Семенкова, Е.В., Цит. съч., с.56.

The analysis of the motives for mergers and acquisitions could summarize that they are diverse, with both positive and negative direction of merging the organizations. But they should always be carefully contemplated and displayed in the company's overall business strategies. That will lead to more positive effects for the companies undertaking mergers and acquisitions.