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Modern concepts of M & A

The economic function of any market is the most efficient allocation of available limited resources. The market for corporate control is the most efficient allocation of productive assets to the most efficient owner. Goods on this market are the powers of control over one or other companies. Expression of these powers of control over the company is the ownership of shares / stake of the company. M & A is a form of control over the Company and / or its main production assets, with the help of which there is a complete or partial transfer of powers of control over the company. This, perhaps, has spawned many different theoretical interpretations of these processes.

As the basic concept should be made, first of all, market regulation efficiency of business operations. In the works of Henry Manne [1] it was assumed that the M & A can realize the conditions of withdrawal of corporation out of the crisis the most radical way. In this case, one of necessary conditions for the withdrawal of the company from crisis, associated with the relatively high costs of production and / or sales, is usually the change of "inefficient" management staff.

It is also important to note that this kind of regulation inevitably involves huge costs, some researchers see in mergers-acquisitions (especially in aggressive acquisitions) a "last resort" in the implementation of market discipline (discipline of last resort) after the competitive labor market mechanisms already failed [2].

In the late 1980s, has gained widespread popularity the "theory of arrogance» («hubris theory»), where the insufficient justification of investment projects was linked with excessive appetite for risk and big ambition ("pride") managers, which are mainly corporate executives. The problem is that in many cases the businessman just shows "pride" thinking that he can assess the potential value of the corporation better than the market [3]. In this case the initiator of merge bases on the assumption according to which the new owners will be able to provide a higher market value of

the firm. This approach is difficult to consider unreasonable, assuming that the initiator of absorption, who buys the firm, has much more information than other investors. However, according to the premise of this concept, all investors have the same information.

It is easy to understand that this strategy is often doomed to failure in cases when it is possible to consider as valid the hypothesis as to information efficiency of financial market [4]. According to this theory in the prices of stocks and bonds, that is issued by a corporation, is reflected in cash or included all the information about its value.

The above concepts considered the possibility of increasing the efficiency only within the company to be acquired. Mergers-acquisitions often offer opportunities to take advantages, associated with the horizontal and vertical integration of business processes (possibility of operating synergy).

One of the known theoretical hypothesis suggests that the company is relatively more successful in case of deep specialization due to its assets [5]. In such situations the vertical integration can provide better coordination subject to the use of complementary highly specialized assets in various stages of the production process. Horizontal integration allows for savings in fixed costs and realize economies of scale.

Special attention should be paid to the interpretations related to features of financial synergies. In some cases, simple diversification of cash flows may have positive effect: if the movement of financial resources in the two corporations is not too closely correlated with each other, merging *ceteris paribus* can help stabilize the financial position of the combined company.

Note should be also taken on the concepts, based on such processes as a decline in industrial markets and diversification. Mergers-acquisitions may be a convenient form of withdrawal of capital from industries that faced the recession, especially with long-term decline in demand for their products. Moreover, in some cases, diversification can open the way to more effective use of complementary resources and better use of existing capacity.

Some concepts focus on the role of information signalling and providing liquidity. It is assumed that stock prices do not exhaust all the information about the target company, and accordingly the tender offer may serve as a signal to increase the market value of the corporation. The very suggestion arouses the interest of potential investors in the corporation that seems underestimated [6]. The structure of financing investments can be interpreted as a signal at the capital market [7]. Thus, the decision of some company to resort to the additional issue of bonds may be interpreted as evidence of high credit standing firm, and this, in turn, can increase its attractiveness as an object of a takeover.

Modern theories of corporate management also join the stated concepts. Material incentives, that encourage shareholders to active monitoring, are dependent on the liquidity of the relevant market shares [8]. The liquidity of shares encourages their owners to pay much more attention to possible interception joint-stock control.

In the work [9] the authors go out of existence of the next conflict: the stronger the strategic package owners set their control over the corporation, the more pronounced their interest in conducting a thorough monitoring of management decisions. While the investors' demand for liquid assets is pleased in the least. It is the restructuring of the company and the market of mergers-acquisitions, who are the main factors, that allow to maintain the required stock market liquidity and meet the corresponding demand from investors. This concept is particularly well reflected in the formation of new markets of developed countries, the commerce of which are not only individual companies but also companies, individual business units, etc.

Especially widespread concept was outlined in the work of M. Jensen [10]. The author showed that the center of the conflict between the managers and shareholders in practice is the free cash flow and, in particular, the size of payments to the shareholders. In accordance with the author's hypothesis the top management wants to cut these payments, leaving at their disposal probably the major part of available cash resources. The attempts of management to control the free cash flow should be most frequently observed in corporations, seeking to withdraw the bulk of their capital from the "old" industries. In cases, where the agency costs, caused by such

decisions, reach especially big amounts, the corporation inevitably becomes a probable object of M & A.

The results of numerous studies prove the the beneficial effects of mergers and acquisitions on the efficiency of the acquired and restructured companies. For example, the results of a long period of over 20 thousand businesses, owned by 5700 corporations of the U.S.A., indicate that the change in ownership was accompanied by increased economic efficiency, including increasing total factors productivity [11].

In many cases the control takeover in the corporation is followed by the dismissal of the management team, who carried out the inefficient management of the company and the radical reorganization of its activities.

Based on the above, there are three basic concepts that explain the motives of corporations in the implementation of M & A strategies:

1. Synergy theory of Merger (synergy theory) M. Bradley, A. Desai, Kim E.N. (1983) - the main motive is to get the synergy effects.

2. The agency theory of cash flow - Jensen M. (1986). The essence of it is that the self-interest of managers may or may not coincide with the interests of the owners.

3. The theory of arrogance (Hubris theory) Roll R. (1986). Waiting for the synergy effects is in excess of the market value of the company over the price of its sale, specified individually by the enterprise-buyer.

The analysis shows, that the underlying concepts and their modifications to any extent, as a goal deals on M & A market, consider the expected synergistic effects. The sources of the effect from mergers-acquisitions are: cost savings in production, cost savings in scope of activity, savings on transaction costs (savings in operations, contracts, agreements), gain of competitive advantages in the markets (savings on coordination of market behavior of the enterprises, corporations to be combined; company internal and inter-country reallocation of resources).

International experience and Ukrainian realities suggest that M & A processes are often intended to have enabling so-called economic concentration. In this regard, all States that are interested in promoting competition and preventing monopolization

of markets, rigidly control the mergers, acquisitions, as well as control relations, drag these negative effects for the economy [12].

In addition to the general requirements of the legislation a number of industry characteristics and limitations is fixed. In this regard, the success of the merger-acquisition directly depends on the efficiency of developed legal structure - the mechanism of mergers and acquisitions, the most appropriate to the interests of stakeholders. It should be immediately noted that inadequate legal regulation of mergers and acquisitions, poor legal and corporate culture, lack of legal mechanisms for ensuring the rights of new owners from abuse, both from the former owners, and from management, do not allow to implement processes for mergers and acquisitions based on standards and best practices adopted in countries with traditional market economy.

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