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# The economic nature of merger and acquisition

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Nowadays M&A became one of the main tools of the strategy that companies choose in order to adapt to the conditions of economic globalization. Furthermore, there are more and more enterprises which seek to increase the scale of their businesses, to reduce expenses and to gain a synergistic effect. Hossain, Heaney and Koh believe that a merger is a deal to unite two existing companies into one new company [1]. It means that the new company receives all the assets and obligations to the clients of the previous companies. According to Koh “acquisition means that company obtains the majority stake of the acquired firms, which does not change its name or legal structure” [1].

There are a number of classifications of M&A allocated on various signs. However, the most acknowledged ones that emphasizes all specifics and features of M&A were elaborated by Hassan and Ghauri [2]:

- full acquisition (there is the actual merging of firms, including merging of their assets);
- partial acquisition (the company acquires the equity stake of other company which allows it to control the whole activity of other company i.e. the holding is formed and the controlled company becomes affiliated; at the same time the actual merger of assets of both companies does not happen, or happens only partially).

Hassan and Ghauri claim that the full acquisition is much more popular in the business environment than the partial acquisition because it gives more benefits. On the other hand, partial acquisition is less expensive. Hassan and Ghauri assume that in the future this advantage would make the partial acquisition more widespread.

Depending on the sphere of action of participants of M&A there are identified:

- horizontal absorption (merging of the firms occupied in one sphere of business);
- vertical absorption (merger of companies, occupied with various stages of production of the same product);
- conglomerate absorption (merger of companies which operate in various spheres of action).

Before conducting M&A transaction it is necessary to deal with those motives which compel the companies to resort to M&A. This information allows financial consultants to understand the reasons of failures of M&A transactions quicker. There are three types of reasons: reduction of the outflow of resources (the monetary resources), increasing or stabilizing the resource inflow and neutral motives to the movement of resources.

The first group includes the economy of scale. Economy of scale signifies carrying out the bigger volume of work at the same capacities, with the same number of workers, at the same system of distribution etc. However, there are certain limits for increasing the output at which costs of production can significantly increase that will lead to profitability falling.

The second group refers to the motive of acquisition of large contracts. The new company has enough capacities to compete for larger contracts, including the state contracts.

Another reason of M&A transactions is diversification that helps to stabilize a flow of the income that is favorable for employees of this company, suppliers and consumers.

As for the last group of motive, the state is forced due to different reasons “to care” about the

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largest companies. This fact gives huge companies additional benefits in the market

### **References**

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2. Hassan I., Ghauri P. (2014). Significance of Mergers and Acquisitions. *International Business and Management*, 30, pp.5 — 17.