International Journal of Economics, Commerce and Management
United Kingdom Vol. IV, Issue 2, February 2016
http://ijecm.co.uk/ ISSN 2348 0386

CONTEMPORARY LOOK ON THE HISTORICAL EVOLUTION OF MERGERS AND ACQUISITIONS

Ferhan Aytaç
Department of Business Administration, Yeditepe University, Istanbul, Turkey
ferhan.aytac@bayer.com, f.aytac@windowslive.com

Can Tansel Kaya
Department of Business Administration, Accounting and Auditing, Chair,
Yeditepe University, Istanbul, Turkey
can.kaya@yeditepe.edu.tr

Abstract

Through rapid development in global economy, entrepreneurial activities within the harsh competitive environment discover new ways for growing and adapting themselves to this new way of competitive system. Mergers began to take place intensively during 1980's and started to shape a new "behavior" in an excessively competitive economical environment. Literature points out that the most significant motive for a merger or a takeover is said to be synergy. Alternative motive is to dominate the market by investing in a profitable business or capturing a competitor who pose a threat. Primary purpose of the study is to thoroughly examine the complete process of mergers and acquisitions with regard to its historical waves and motives of in a conceptual perspective.

Keywords: Growth Strategies, Merger, Acquisition, Waves, Integration

INTRODUCTION

Mergers and acquisitions (M&A) have become widely widespread progressing into a prevalent research area not only for academia but primarily for investors, analysts, and the audit world as well. Within the internationalization front of M&As, the common denominator of all attempts of entry mode, among others, is financial gains. As the firm as an entrant solely focuses operating a profitable business venture in the host country, modes of foreign entry proposed by Anderson and Gatignon (1986) sheds light on the matter as well. Looking at the lengthy history of how international trade between companies have come to where they stand today, recent theories deserve a great deal of attention. Johanson and Vahlne (1977), both scholars at the Uppsala University, have created a cornerstone model, the Uppsala Model, which has become undoubtedly the most influential model on the internationalization process and multinational form of doing business.

Research conducted by the Institute of Mergers, Acquisitions and Alliances (IMAA) as an academic institution which covers the years between 1985 and 2015 sheds significant light on how M&A's have intensified over the years.

Figure 1: Volume & Value of M&A Transactions Worldwide

Source: IMAA

Figure 2: Volume & Value of M&A in Europe

Source: IMAA

M&A's have increased especially on a global scale over the course of 30 years with a massively increasing trend. Particularly starting with the 2000s, around 40,000 transactions have taken place reaching a transaction value of $5 billion. While M&A's are the macro formats of growth strategies, for comparison purposes both in structure and value; joint ventures and alliances will be discussed as well.

Merger and Acquisitions (M&A)

Corporate restructuring is a catchall term that refers to a broad array of activities from reorganizing business units from product lines to divisions all the way to takeovers and joint ventures to divestitures and spin-offs and equity carve-outs. Corporate restructuring activities often are broken into two specific categories; operational and financial restructuring. Operational restructuring refers to the outright or partial sale of a company, its product line; or downsizing by closing its unprofitable or nonstrategic facility. On the other hand, financial restructuring describes actions by the firm to change its overall debt and equity structure.

Within the scope of IFRS 3, business combination is associated with the following definition: "An entity shall determine whether a transaction or other event is a business combination, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition" (PWC, 2008).

From this conceptual perspective, all M&A activities are type of a corporate restructuring tools and an M&A activity may be categorized as an operational restructuring and a financial restructuring. While a merge or and acquisition is a restructuring tool, it is not the only kind as there are other restructuring tools as, divestiture, spin-off, equity carve-out, leveraged buyouts.

Grow or die has become a widely accepted approach in today's severe competition. Companies are able take away market share from competitors, create economic profits, and provide returns to shareholders only if they are on a growth path. Those that do not grow tend to stagnate, lose customers and market share, and destroy shareholder value. M&A play acritical role in both sides of this cycle by enabling strong companies to grow faster than competitors and providing entrepreneurs rewards for their efforts, and ensuring that the weaker companies vanish quickly.

Companies as entities composed of individuals, who have different specializations with same purpose, targeting to reach a business goal; fundamentally produce, buy and sell or provide services. Manufacturing companies, for instance, purchase raw materials, processes them and bring out finished products. While doing this, a company does some part of this manufacturing internally with its own resources or outsources by involving a different company.

Concisely, the economic system is constructed upon *cells* with different capabilities of producing things and services only and only by the incorporation of those cells to a single company. What if these companies themselves are considered as the cells and what would be the case if these cells interact with each other and get organized by merging or getting bigger by capturing or absorbing each other? Evidently, growth and advantage of economies of scale would be exponentially higher than just that one single company. The *cell* metaphor was to explain how M&A transactions are exceptionally effective on the growth of economies. Accordingly, it would be fair to preserve a hypothesis stating that the countries, which are significantly stronger economies, are also dominant in M&A transactions quantitatively (Page, 2012).

An M&A activity is shaped by creating a larger size company, instead of starting from the scratch, by compounding two different companies into one, or acquiring another company in turn empowering the buyer company to become larger. Furthermore, an M&A activity is associated with investment intention (e.g. enture-backed IPOs), hostile intention, taking over company's control and remove another competitor from market to dominate as a monopoly, and finally bargain prices and availability of capital.

History of M&A's validates the above-mentioned intentions, as observed in the case of the hostile takeover of AOL and Time Warner acquisition. In 2000, AOL took over Time Warner with a price of $162 billion and as a result a new company in the name of AOL Time Warner was established with a total value of $350 billion. Predominantly due to management and proxy fights between AOL and Time Warner, this merger resulted with a $99 billion loss and the companies detached. AOL was sold for only $4.4 billion to Verizon, consequently confirming that not all M&A'sare always a profitable transaction benefitting all parties involved in the process. Especially in the light today's global and continually changing economy, as most mergers and acquisitions involve companies engaged in international trade and additionally as enterprises typically adhere to certain regulatory requirements, such as those that compel them to ensure that their service provider meets stringent controls in handling corporate data (*Gattiker,* 2007), prospective acquisitions should be prudently planned.

Mergers

Mergers involve the joining of two or more companies by offering the shareholders of the company securities in the acquiring company in exchange for the surrender of their stock with the resultant formation of one larger company. As only one company remains after a merger, it is relatively easy to differentiate mergers from joint ventures or strategic alliances.

Merger of SmithKline Beecham and Glaxo Wellcome, the two largest UK pharmaceutical companies is a good example in parallel with above definition, where SmithKline Beecham and

Glaxo Wellcome companies became GlaxoSmithKline. Similarly, Exxon Corporation and Mobil Corporation merged into one company ExxonMobil in 1998. Merger, the union of two or more corporations by the transfer of property of all into only one of them, leads to the combination of two or more firms in which all but one legally cease to exist, and the combined organization continues under the original name of the surviving firm. A merger is a thorough process of a business combination not just in legal terms, but by involving a drastic change in all the functions of the business from the production systems to all HR policies; but also within the nature of the corporate culture as well. As a result of the above definitions, the merger can be defined in two categories:

1. Merging two different companies and create a new one as in the case of GlaxoSmithKline,
2. At the end of the acquisition process, the acquirer may allow the target company to continue with its own legal title or end it. Such merger is executed between separate companies or same companies' different subsidiaries as in the case of Fujitsu Limited.

On May 22, 2015, Fujitsu Limited announced that the company merged its own two subsidiaries Fujitsu Telecom Networks Limited and Fujitsu Wireless Systems Limited. Fujitsu announced the purpose of this merger with the following citation; *"As Fujitsu looks to its next growth stage, to make further advances in network virtualization, provide global general-purpose products that take maximum advantage of advanced technologies, and accelerate the creation of new services to meet the wide variety of needs of network users for the emerging IoT era, the company will, through the mergers, integrate within Fujitsu Limited the network-related business currently divided among Fujitsu Telecom Networks and Fujitsu Wireless Systems"* (Fujitsu Limited, 2015). The company explained the merger methods as the merger will be conducted through an absorption-type merger method in which Fujitsu Limited will be the surviving company, Fujitsu Network and Fujitsu Wireless Systems will be dissolved as the absorbed companies. Such method results in one company surviving and the other company/s dissolving where this form of a merger is referred to as consolidation or amalgamation. A statutory consolidation, which involves two or more companies joining to form a new company, is technically not a merger. All legal entities that are consolidated are dissolved during the formation of the new company, which usually has a new name. In a merger, either the acquirer or the target survives. Literature on the subject matter shows that there is incomprehensibility between terms defining the M&A activities. To clarify the issue especially from a legal perspective, terminology often interchangeable under the term merger can be separable as follows. A Merger is a contractual and legal statutory transaction where the survival company acquires all assets and liabilities of the target company. In a merger process, if the acquirer company is A and the target company is B, result will be A+B = A. Infrequently the term fusion may also refer to this scenario and the merger can be completed through two different ways:

1. Absorption: Like in Fujitsu case where there were Fujitsu Limited (A) and Fujitsu Telecom Limited (B), only Fujitsu Limited remained as (A) after merger. From a legal perspective, Fujitsu Telecom Limited has been removed and ceased to exist.
2. Consolidation/Amalgamation: Two or more companies (commonly many small companies) cease to exist and they form entirely one new company (the successor corporation). This term is mostly used for business unit or industry consolidation. All assets and liabilities are owned by the successor company at the end of consolidation where A (Glaxo Wellcome) and B (SmithKline) have been formed into C (GlaxoSmithKline), A (Exxon) and B (Mobil) have been formed into C (ExxonMobil), and A (Maruti Motors) and B (Suzuki) have been formed into Maruti Suzuki Limited.

Mergers v/s Joint Ventures

Corporate combinations occur in a variety of forms ranging from strategic alliances to joint ventures. Theories relating to any type of corporate combination may be applicable to the others as each combination involves investment capital structure and governance decision-making with the participating firms. Mergers involve joining together of two companies with the resultant formation of one larger company. As only one company remains after a merger, it is possible to distinguish mergers from joint ventures or strategic alliances. As a corporate merger represents the joining together of all the resources of two companies under a single management to accomplish some set of objectives, in contrast, a joint venture involves the joining together of a subset of the resources of two (or more) companies to accomplish some objective under the combined management of two (or more) parent companies. Thus, the primary distinction between a corporate merger and a corporate joint venture is that the original management of the parent firms remains intact under the joint venture; although the management of the resources involved in the joint venture differs from that of the management of the parent company.

In specific differentiation as the management of merger and joint ventures discussed by Nantell and McConnell (1985), joint ventures are highly different from mergers. A joint venture is a specially constituted entity by two separate entities upon to realize a specific investment project where the project has a term. After the set objective is achieved, the joint venture is likely to finalize. However, in the case of a merger, companies do not come together only for a specific project; they come together with the intention of a long-term engagement without a specific project. Siemens AG and Nokia Corporation joint venture or Microsoft and General Electric joint venture are recent examples (Microsoft News Center, 2015).

Mergers v/s Alliances

A strategic alliance is a sort of contractual partnership where the parties aim to take benefit from each other in any sort of competencies like distribution channels, intellectual property or know-how strength by a contractual basis, except for a legal partnership basis. It is less risky when compared to a merger since there is no shareholder involvement.

According to Kuglin and Hook (2002), the most important step to start an alliance is to categorize what sort of an alliance is going to be created; a sales alliance, solution-specific alliance, geographic-specific alliance, investment alliance or joint venture alliance. In a merger process all these categories evaluated simultaneously and companies hug each other as a whole.

Acquisitions

An acquisition is the combination of two or more companies into one new company or corporation in which a negotiation process does not necessarily take place. In a typical acquisition, company A buys company B. Company B becomes wholly owned by company A. Company B might be totally absorbed and cease to exist as a separate entity, or company A might retain company B in its pre-acquired form. Such limited absorption is often practiced when the buying company has an intention to sell off the bought company with a profit at a later date. In acquisitions, the buying / dominant company is referred to as the acquirer and the acquired / lesser company is known as the target company. The lesser company is often referred to as the target up to the point where it becomes the target company often also known as the acquiree (Roberts et al, 2003). An acquisition mostly can be mixed with a merger ranging from the purchase of an asset such a plant, a division, or even an entire company. As an example, Procter & Gamble made a major acquisition in 2005 when it purchased The Gillette Company, Inc., in order to extend its reach in the consumer products industry. Generally speaking, an acquisition occurs when one company takes a controlling ownership interest in another firm, a legal subsidiary of another firm or selected assets of another firm such as a manufacturing facility. An acquisition may involve the purchase of another firm's assets or stock, with the acquired firm continuing to exist as a legally owned subsidiary of the acquirer. DePamphilis (2009) stated that in an acquisition, acquired target company also legally continues to exist as a subsidiary of the acquirer company. According to Sherman (2010), companies that had separate ownership before do operate under the same ownership and management for the sake of same strategic and financial interests within the scope of and acquisition.

Types of Mergers and Acquisitions

Mergers and acquisitions are separated into categories as in line with the historical order of merger waves. Mergers are categorized according to the position of the companies along the supply chain or business strategy of the acquirer company. In the acquisition side, what counts more is the type of the business unit or an asset acquisition or acquisition of total company is the reference for categorization.

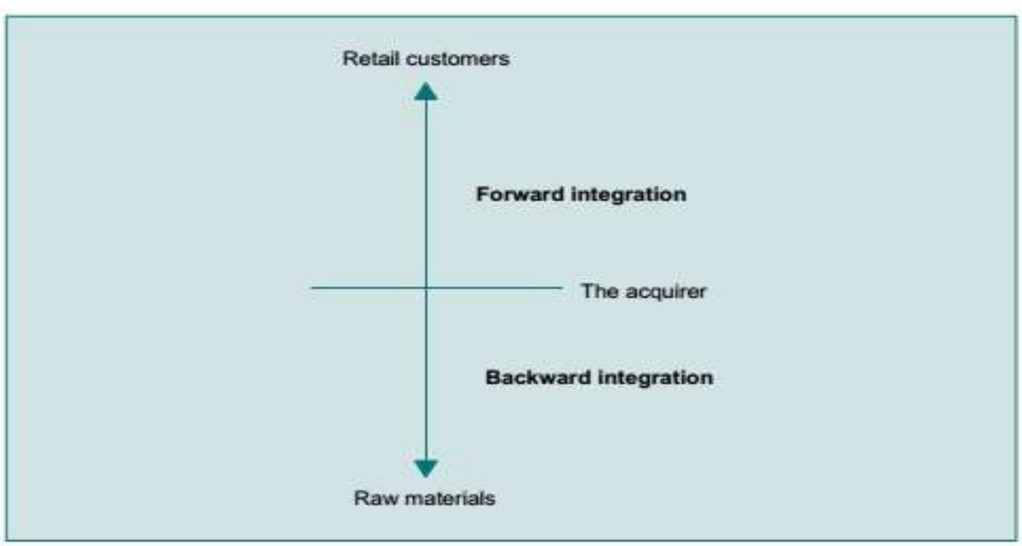
Merger Classifications

According to mergers waves, there are three basic types of mergers, which are vertical integration, horizontal integration and conglomeration.

Vertical Integrations

Vertical integration is characterized by forward or backward integration along the supply chain. Mergers and acquisitions are often a way of reaching the target of integrating companies vertically. The focal purpose is to capture all production chain since countless outsiders as companies supply raw materials to finished goods. It is fair to say that vertical integration is a way of reducing the supplier risk. In the case of an increase in raw material unit prices, for instance, all production chain will have to be modified as in line with unit product profitability. However, the company can avoid such risk if it vertically integrates with its supplier.

Figure 3: Vertical Integration



Forward integration is the type of a business strategy where the activities are expanded to include control of the direct distribution of its products. Such strategy is considered to be customer based. Backward integration, on the other hand, involves the purchase of the suppliers. Generally speaking, vertical integration has some advantages as combined processing (combining overhead expenses in unit product), reducing risk (reducing potential supplier risk, negotiation risk reduction).

Horizontal Integrations

Horizontal integration is the business strategy, which are in fact the mergers and acquisitions between complementary or competitive companies, operating in same sector, providing same type of products to improve combined value or eliminate competition. Advantages of horizontal integration are:

- Using economies of scale
- Reducing overhead costs per unit
- Combining technologies
- Eliminating competitors from market
- Desiring fast growth, taking advantage of financially strengthen structure.
- Generating bargaining power against suppliers and pushing them to reduce their costs to be able work with merged company.

In the first stage of merger history, particularly in first wave of mergers, abundance of horizontal integration caused monopolism in the market, which could be perceived as a disadvantage of horizontal integration.

Conglomeration

In this type of mergers, two companies, which are either from totally different sectors or from the same sector in search of a market region extension or product extension, come together in a merger transaction. In the case of conglomeration where the purpose is market or product extension, such integration will be a mixed conglomeration merger; and if the parties have nothing in common, then will be a pure conglomerate merger.

Acquisition Classifications

Acquisitions are classified depending on what is being acquired; since an acquisition transaction may take place by a partial acquirement or a full acquirement.

Asset Acquisitions

In an asset acquisition, acquirer company acquires specific assets and liabilities of the target company. Typically, asset acquisition occurs when the target company gets into a process of liquidation. Before entering into liquidation, target companies occasionally choose to liquidate all assets in market. In such cases, possibility of retaining assets until the end of the liquidation period is slim. The assets of the company will be removed from the company's financial position statement and the company will not be a registered company in trade registries. Thus, companies in liquidation process may dispose their assets from a value below the fair or market value before entering in liquidation. Correspondingly, many acquirer companies hunt for companies entering into liquidation to take advantage of affordable assets usually under their book value.

Stock Acquisitions

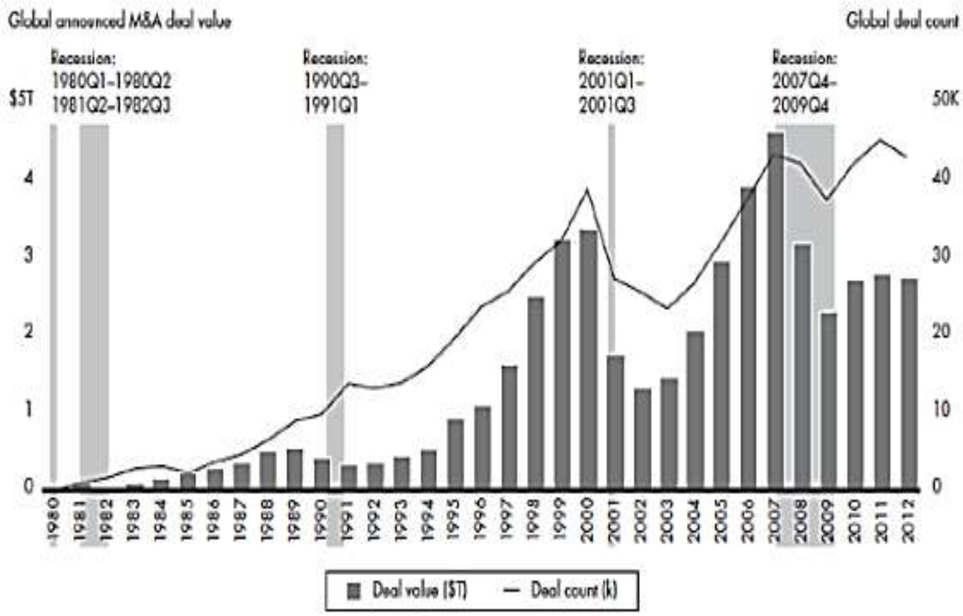
In a stock acquisition, all of the assets and liabilities of the target company might be purchased through purchase of target company's stocks on shareholders. Additionally, a partial purchase grants the right to the acquirer to enter into the board of the target company in order to actively to part in the decision making process. With regard to both the asset and stock acquisition, there are some advantages and disadvantages. An asset acquisition provides possibility for the acquirer to choose which assets to purchase. Such possibility presents the ability of choosing which liability to buy that is in relation to the asset. In a stock acquisition, on the other hand, assets and liabilities are purchased together which disables the possibility to choose which assets or liabilities to purchase. In terms of complexity, purchasing assets is more complicated than buying stocks of a company, since an asset acquisition comprises acquisition of many assets one of which may occasionally be goodwill. As an intangible asset in which valuation is not simple, goodwill requires a holistic approach. In accordance with IAS 38 and IFRS 3, an acquirer should recognize at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognized by the acquiree before the business combination. As a result, an acquirer will recognize as an asset separately from goodwill an in-process research and development project of the acquiree as long as the specification of project meets the definition of an intangible asset (ifrs.org, 2016).

HISTORICAL DEVELOPMENT OF M&A

Historical research conducted on the evolution and the statistical characteristics on M&A shows that M&A activities have been observed in five major waves, which are starting from 1890's (1897-1904) as the first wave, 1920's (1916-1929) as the second wave, 1960's (1965-1969) as the third wave, 1980's(1981-1989) as the fourth wave, and finally 1990's (1992-2000) as fifth wave.

These waves refer to understand the effects on the wave cycles, the pattern affecting these waves, and magnitude of the increase in M&A transactions.

Figure 4: Globally announced M&A Deals (1980 – 2012)



Source: Thomson Financial

First Wave

The first wave of mergers started in 1890's as a result of the pressure of economic depression. It was a reflection of industrial revolution since the revolution was tempting for entrepreneurs since it offered high scale gains due to the developments in heavy industries. Thus, larger industrial incorporations have been established, some of which still exist such as Standard Oil, American Tobacco or General Electric today as the pillars of the United States and other economies. Companies were aiming to consolidate industries for productivity, cost cutting and less competitive environment, which led them to establish monopolies in their sectors. Furthermore, governmental environment was highly insufficient to prevent monopolies or competition rulings.

First wave ended with failure, as expected results could not have been achieved and governmental rulings had become stricter when the congress passed the first antitrust law, the Sherman Act, in 1890 as a "comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade" in order to prevent monopolistic competition

(Federal Trade Commission, 2016). Along with Sherman's Act, an additional act has been put in action in 1914 named the Clayton Act, which also forbids all sort of monopolist merger attempts.

Second Wave

Second wave took place between 1916-1929; Mergers in this wave were oligopolistic compared to the first wave. As a result of World War I, the need for industrial developments encouraged companies for the second wave. Moreover, technological developments and governmental support boosted trade between companies and the wave coincided with the bull market of the 1920s. Mergers got more vertical rather than horizontal comparing to first wave. Second wave ended with great depression when the stock market plummeted in 1929; resulting in the establishment of the Securities and Exchange Commission in 1930. Sectors in this wave were in still heavy industries by the addition of food, chemicals, and petroleum.

Third Wave

The third wave has started in 1960s and lasted approximately 10 years, but majority of the activity took place between 1965 and 1969. Most of the mergers in the third wave were conglomerate mergers where companies focused on acquiring companies operating in other lines of business with the intent of diversifying and forming conglomerates. Because of this, the third wave has been known as the age of conglomerate mergers in history. It is not a surprise why it was mostly the conglomerate mergers as in the first and second waves; mergers were in the direction of mostly horizontal and a few vertical. As a result of those in the first wave; in order to protect competitive environment, Sherman Act has been put in action against the mergers in a monopolistic structure. As a result of these acts, corporations headed towards vertical mergers in which the mergers began to take a manner of capturing all levels of the production chain in addition to the distribution channels. The trend for the vertical mergers created the need for a new legislation.

The Celler-Kefauver legislation act was published in 1950 and strengthens Clayton Antitrust Act by filling the gaps. Through this act, it has been forbidden for a corporation to capture a product chain or distribution channels. As the results of the limitation of antitrust legislation, corporations headed towards conglomerate mergers. Through this new expansion, companies have started to look for other profitable areas. As a result, conglomerate mergers caused growth opportunities and accelerated increase in profits. Towards the end of the third wave, profit figures have started to reduce as companies enlarged. However, their performance levels dropped and this caused reductions in profitability. Thus, third wave has shown that companies first tried horizontal enlargement than vertically and through legislation, they had been pushed to establish conglomerate mergers. Nonetheless, all of them have shown limitations and revealed limits of enlargement through mergers in this wave and additionally, a new legislation in the name of Hart-Scott Act has been put in action in 1973, which enhanced the control mechanisms on mergers in the United States thoroughly.

Fourth Wave

In the fourth, number of mergers has boosted drastically that the wave have been referred to as the merger-mania wave. This wave distinguished from the previous three waves by the size and prominence of the M&A targets. Moreover, most of the fourth wave mergers were in a hostile structure, resulting in not by coming to an agreement with the management of the target company. Instead, the deal ends by going directly to the shareholders of the target company with the intent to replace the management in order to get the acquisition approved. Therefore, this wave's unique characteristic is defined as hostile mergers.

Figure 5: The Largest Acquisitions, 1981-1989

Year	Buyer	Target	Price ($Billions)
1988	Kohlberg Kravis	RJR Nabisco	25.1
1984	Chevron	Gulf Oil	13.3
1988	Philip Morris	Kraft	13.1
1989	Bristol Myers	Squibb	12.5
1984	Texaco	Getty Oil	10.1
1981	DuPont	Conoco	8.0
1987	British Petroleum	Standard Oil of Ohio	7.8
1981	U.S. Steel	Marathon Oil	6.6
1988	Campeau	Federated Stores	6.5
1986	Kohlberg Kravis	Beatrice	6.2

Source: Gaughan, 2010

With the abundance number and size of merger activities, this wave has been referred to as *megamergers* in addition to *merger-mania* wave. The significance increase in numbers was due to the fact that Japanese and European investors looked for cheap U.S companies to acquire as the value of the U.S Dollar declined in markets and the advancements in Japanese bond market for leveraged debt possibility. Mergers of the fourth wave were mostly between oil and gas industries, pharmaceuticals, banking and airlines creating a new wave of opportunities for investment bankers having taken aggressive roles as risk-free advisory services. In the following years, the decline in the reliability of the Japanese bond market and the high interest rate risk put many companies into a debt spiral. Company bankruptcies have begun and the end of this wave brought up the idea of outsourcing.

Fifth Wave

As the fourth wave of mergers was mainly confined to the United States, the fifth wave mergers have spread through out of U.S and become internationally as a consequence of globalized markets and competitive structure. As the wave began in approximately 1993 as the economy began to recover from the 1990-1991 recession, firms sought to meet the growing demand in the economy as the economy finally expanded (Gaughan, 2001).

The fifth wave was a common result of the first four waves and is referred to as the most evolved stage of mergers. The mergers of the first wave were relatively basic and horizontal. In the second wave, mergers began to change direction and became more vertically in both directions subsequently antitrust regulations putting limits on mergers. In the third wave, a new shape of conglomerate mergers took stage and different from the fourth wave of more debt-based structure, the fifth wave was the reflection of the globalized economy through international mergers especially with the development of the European Union and the erosion of nationalistic barriers as the continent moved to a unified market structure with a common currency (EU Competition Law, 2010). Most of all were between many different sectors of airline, automotive, banking, petroleum, and the Internet.

Motives for M&A

In literature review there are many different motives counted, according to DePamphilis (2009), following table brings together most of basic motives listed within the literature.

Table 1: Common Theories of What Causes Mergers and Acquisitions

Theory	Motivation
Operating Synergy Economies of Scale Economies of Scope	Improve operating efficiency through economies of scale or scope by acquiring a customer, supplier, or competitor
Financial Synergy	Lower cost of capital
Diversification New Products/Current Markets New Products/New Markets Current Products/New Markets	Position the firm in higher growth products or markets
Market Power	Increase market share to improve ability to set prices above competitive levels
Strategic Realignment Technological Change Regulatory and Political Change	Acquire capabilities to adapt more rapidly to environmental changes than could be achieved if they were developed internally
Hubris (Managerial Pride)	Acquirers believe their valuation of target more accurate than the market's, causing them to overpay by overestimating synergy
Buying Undervalued Assets (Q-Ratio)	Acquire assets more cheaply when the stock of existing companies is less than the cost of buying or building the assets
Mismanagement (Agency Problems)	Replace managers not acting in the best interests of the owners
Managerialism	Increase the size of a company to increase the power and pay of managers
Tax Considerations	Obtain unused net operating losses and tax credits, asset write-ups, and substitute capital gains for ordinary income
Misevaluation	Investor overvaluation of acquirer's stock encourages M&As

Source: DePamphilis, 2009

Synergy hereby used in manner of creating a deeper value than nominal value of a business. There might be different synergies after a merger, as sales synergy, investment synergy, and operational or financial synergy. In the case of sales synergies, companies benefit from each other's distribution channels, common warehouse usage. In the case of financial synergies, companies can create cash pooling opportunities or can increase credibility against creditor institutions. Commonly synergy is considered in two main categories, operating synergy and financial synergy.

Operational synergy is taking advantage of economies of scale and economies of scope all together. Taking advantage of economies of scales is the attempt to decrease fixed costs per unit within the same or usually at an increasing level of production, and taking advantage of economies of scope means combination of assets or skills in production or services and enlarge sales target. Financial synergy hereby used in the meaning of lowering the cost of capital, which means instead of using debt from outside of the company, instead, by combining cash flows of both companies, the cost of capital would be decreased. Therefore, most of target companies are evaluated with respect to their cash producing power or whether they have excess cash. In conclusion, it is fair to state that the core motive of mergers is the pursuit of synergistic benefits.

Diversification is another significant motive, which grants opportunity for a company to shift their business from core products to supplementary or other product lines. Diversification is a way to reduce potential risk in the current market by entering other markets or adding new lines to product portfolio. Modern portfolio theory also supports the diversification idea as market value of a firm may optimize risk if the company invests in uncorrelated areas, such as products, financial instruments. If a product line goes through financial bottleneck, there are others to compensate for that loss all thanks to a diversified portfolio of operations.

Strategic alignment or realignment is a way of combining different characteristics of companies into one. A best practice can be achieved by a correctly established combination of know-hows, which in turn, would benefit the newly shaped formation of business with sharing a number of areas ranging from technology to human resource.

There are many several incentives in different countries for mergers and acquisitions with respect to tax advantages as well. Most simple example for this is that a company in a profitable level with retained earnings from previous years can set off if acquired company has retained losses from previous years and pays less tax.

CONCLUSION

In the light of the five waves of mergers, it has been observed that each has its unique characteristics. As the level of competition is rising globally, companies are expected to enter more hostile takeovers, which is expected to be the unique characteristics of the sixth wave. Companies become extremely important in determining the economic, political, and social welfare of many nations especially when they enter the international arena. The primary motivations for companies for M&A’s are synergy, increased customer base, economies of scale and economies of scope, spread risks through diversification, access to target company’s knowledge and within the international growth, benefit from localization advantages and avoid protectionist policies. In today’s harsh competitive environment, companies should closely examine whether their motives overlap with the motives clearly set out within the scope of the literature as not all M&A’s result in successful formations. In the light of the five waves of mergers, it has been observed that each has its unique characteristics directly related to the general characteristics of trade of the corresponding era. As the level of rivalry is rising globally, companies are expected to enter more hostile takeovers. The unique characteristics of the sixth wave is expected to be the constructed upon hostile takeovers since business environment of our era is harsher than ever with regard to competitiveness.

REFERENCES

Anderson, E. & Gatignon, H. (1986). *Modes of foreign entry: A transaction cost analysis and propositions*. Journal of international business studies, pp.1-26.

Bierman, H. (2010). *An introduction to accounting and managerial finance: a merger of equals*. World Scientific.

Block, S. B., & Hirt, G. A. (1994). *Foundations of financial management*. Irwin.

DePamphilis, D. (2009). *Mergers, acquisitions, and other restructuring activities: An integrated approach to process, tools, cases, and solutions*. Academic Press.

EU Competition Law (2010) Rules Applicable to Merger Control, Luxembourg, Office for Official Publications of the European Union, 1 April 2010 The Antitrust Laws. Retrieved January 7, 2016, from https://www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/antitrust-laws

Fujitsu Limited (2015) Notice of Agreement for Mergers through Absorption (Short-Form Mergers) of Consolidated Subsidiaries of Fujitsu Limited, May 22, 2015

Fujitsu to Strengthen Organization for Network Business - Fujitsu Global. Retrieved December 25, 2015, from http://www.fujitsu.com/global/about/resources/news/press-releases/2015/0522-01.html

Gattiker, U. E. (2007). *Merger and Acquisition, Effective Information Security Depends on Strategic Security Metrics*.

Gaughan, P. A. (2010). *Mergers, acquisitions, and corporate restructurings*. John Wiley & Sons.

Gregoriou, G. N., & Renneboog, L. (2007). *International mergers and acquisitions activity since 1990: Recent research and quantitative analysis*. Elsevier.

Halibozek, E. P., & Kovacich, G. L. (2005). *Mergers and acquisitions security: corporate restructuring and security management*. Butterworth-Heinemann.

Hampton, G. F. (1979). Commentary: The Bill of Rights as a Limitation upon Antitrust. *Antitrust LJ*, *48*, 1417.

Handler, M., & Robinson, S. D. (1961). *A Decade of Administration of the Celler-Kefauver Antimerger Act*. Columbia Law Review, 629-679.

History of Mergers and Acquisitions. Retrieved December 26, 2015, from *http://www.economywatch.com/mergers-acquisitions/history.html*

IAS 38 Intangible Assets (2016). Retrieved January 8, 2016, from http://www.ifrs.org/IFRSs/IFRS-technical-summaries/Documents/IAS38-English.pdf

Institute of Mergers, Acquisitions and Alliances (2016) M&A Statistics. Retrieved January 8, 2016, from http://www.imaa-institute.org/recources/statistics-mergers-acquisitions/

Johanson, J. & Vahlne, J. E. (1977). *The internationalization process of the firm-a model of knowledge development and increasing foreign market commitments*. Journal of international business studies, pp.23-32.

Kuglin, F. A., & Hook, J. (2002). *Building, leading, and managing strategic alliances: how to work effectively and profitably with partner companies*. AMACOM Div American Mgmt Assn.

Levy, H., & Sarnat, M. (1970). *Diversification, portfolio analysis and the uneasy case for conglomerate mergers*. Journal of Finance, 795-802.

McConnell, J. J., & Nantell, T. J. (1985). *Corporate combinations and common stock returns: The case of joint ventures*. Journal of Finance, 519-536.

Microsoft News Center (2015) GE chooses Microsoft Office 365 for employee collaboration and productivity. Retrieved January 9, 2016, from https://news.microsoft.com/2015/07/20/ge-chooses-microsoft-office-365-for-employee-collaboration-and-productivity/

Page, S. W. (2012). Stem Cells as Metaphor. *Challenges and Practical Suggestions*, *44*(2), 29.

PWC (2008) IFRS 3 (Revised):Impact on earnings, The crucial Q&A for decision-makers Roberts, A., Wallace, W., & Moles, P. (2003). *Mergers and Acquisitions*. Pearson Education.

Sherman, A. J. (2010). *Mergers and Acquisitions from A to Z*. AMACOM Div American Mgmt Assn.

Thomson Financial Globally announced M&A Deals (1980 – 2012) December 25, 2015, from http://www.bain.com/publications/articles/the-renaissance-in-mergers-and-acquisitions-what-to-do-with-all-that-cash.aspx

Tobin, J. B., & Parker, L. R. (2009). *Joint Ventures, Mergers and Acquisitions, and Capital Flow*. Nova Science Publishers.