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## **M&A STRATEGIES AS A TOOL OF FORMING THE VALUE OF THE COMPANY**

The article considers the processes of mergers and acquisitions from the position of strategic management. The logic of the distribution of markets for various types of economic activity is investigated. A classification of mergers and acquisitions strategies based on three criteria is proposed: stabilization, expanding and capitalization of business. M & A strategies are aimed at reducing the potential negative effects of sectoral risks and uncertainties by more efficiently utilizing the potential of enterprises, obtaining a synergistic effect, increasing market presence, capitalization, and investment attractiveness of business. The spheres of use of particular M & A strategies are defined and examples of their application by companies are given. It is proved that the choice of M & A strategy depends both on the structure of the market, and on the investment objectives and intentions of the participants in corporate governance.

**Keywords:** M&A, value, M&A strategies, corporate management, M&A market.

**Introduction.** Numerous tasks of the modern economy have led to the complication of management problems related to the need to transform companies for achieving success in competition and increase the efficiency and capitalization of the business<sup>1</sup>. In this context, the M & A strategy is an effective corporate tool in forming the value of the company, increasing its financial performance and expanding its business. Given the high relevance of research in the field of mergers and acquisitions, as well as the adaptation of the existing experience of such transformational reforms in the Ukrainian economy, we consider it necessary to begin discussing the specifics of the formation and use of mergers and acquisitions strategies. In addition, comprehensive studies of mergers and acquisitions should contribute to raising of native enterprises corporate management level, increasing the cost and investment attractiveness of companies.

**Analysis of recent research and publications.** Some separate theoretical aspects of mergers and acquisitions were explored by D. Bayur, M. Bishop, T. Gordeeva, F. Kruger, S. Mears, V. Marchenko, P. Steiner, G. Filyuk, P. Churilo, and others. The issues of business restructuring through mergers and acquisitions are considered in the works of M. Bradley, E. Kim, M. Jensen, G. Donaldson, R. Roll, E. Berkovic, N. Varya, R. Morque, A. Schleifer and many others. However, the methodology of strategic management of mergers and acquisitions processes requires further comprehensive research.

**The aim of the article.** The purpose of the article is to identify and substantiate the variational strategies of mergers and acquisitions of companies, the use of which contributes to the formation of their value and subsequent effective implementation, taking into account the specific nature of economic activity.

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<sup>1</sup> Ансофф, И. (1999). *Новая корпоративная стратегия: Теория и практика менеджмента*. СПб.: Питер Ком, 416.

Портер, М. (2005). *Конкурентная стратегия: Методика анализа отраслей и конкурентов*. Москва: Альпина Бизнес Букс, 454.

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**Research results and discussion.** One of the most popular and widespread ways to develop an enterprise and expand its activities, especially large business, as well as an effective tool of crisis management<sup>1</sup> and a source of additional opportunities in the formation of companies' value, is merger and acquisition<sup>2</sup>.

Foreign experience of corporate management of modern integrated companies is certainly informative and useful for Ukrainian companies that are formed and actually carry out economic activities in the existing market, and under favorable conditions it is quite possible to apply in practice of the national and any other economy of the world.

According to experts, for today the Ukrainian market of mergers and acquisitions is not capable of reproducing the integration of companies at the level of Western or American counterparts. Domestic enterprises in 1998 announced their intention to unite, but it is projected that this will not be a merger, but an acquisition by foreign companies.

In this regard, it is important for corporate sector entities to have an idea and be informed about alternative options for integration, to identify the main objectives that parties are pursuing in the conclusion of a merger or acquisition transaction, to evaluate the effectiveness of transactions and possible consequences. In case of inevitable absorption of the company by another firm, timely adoption of appropriate measures will allow achieving mutually beneficial conditions from takeover. There are a lot of cases of unsuccessful "capture" by the absorbing company, but when applying a competent approach in solving this problem, which is present in the arsenal of experienced managers and owners of the developing business, included in the company's strategic plans, will allow both firms to obtain a synergistic effect, ensuring a significant growth in the shareholder value of the new association..

The brightest representatives who made a significant contribution to the development of the M & A market are companies of the United States. According to the Bloomberg financial news agency, from 2015 to 2017, the volume of transactions on the US M & A market is more than 50% of the global volume<sup>3</sup>. Since the purpose of this study is to identify and substantiate the variational strategies of M & A companies, the application of which will contribute to the formation of the value of the company and its subsequent effective implementation, the study of the American M & A market will be interesting and informative considering their industry affiliation.

The logic of the distribution of markets for various types of economic activity was performed as follows:

- cyclical consumer market* - activities of enterprises related to the production of goods and services of industrial use (oil and gas industry, construction, real estate, transport, infrastructure, raw materials, materials, innovations, technologies, agriculture, energy, metallurgy, mining, etc.);
- non-cyclical consumer market* - the activities of companies are carried out in the field of consumer goods (food and light industry, utilities, pharmacology, medicine, etc.);
- financial market* (banking and insurance);
- communication market* (telecommunications, mass media);
- diversified market* (other industries) (Fig. 1).

<sup>1</sup> Попов, Р.А. (2005). *Антикризисное управление: учебник*. Москва: Высшая школа, 429.

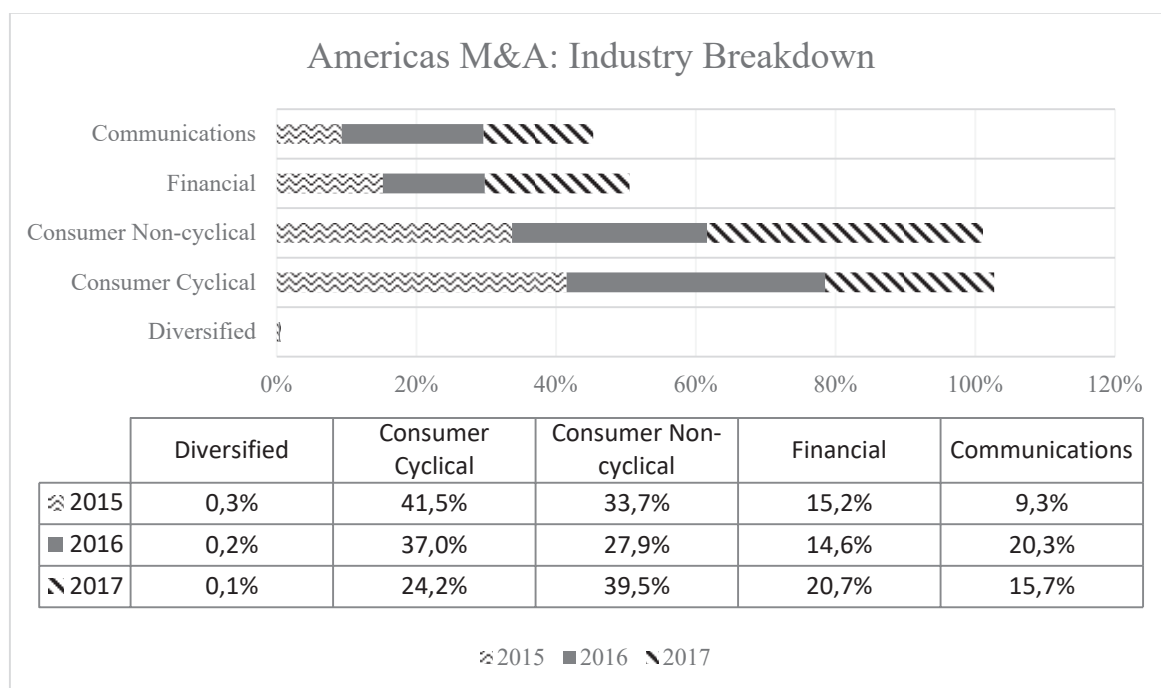
<sup>2</sup> Кіндзерський, Ю.В. (2007). *Промисловий потенціал України: проблеми та перспективи структурно-інноваційних трансформацій*. Київ: Ін-т економіки та прогнозування НАН України, 257-258, 408.

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<sup>3</sup> Bloomberg (2018). *Bloomberg Global MA Legal Rankings*.

<<https://data.bloomberglp.com/professional/sites/10/Bloomberg-Preliminary-Global-MA-Legal-Ranking-Q1-2018.pdf>> (2018, September, 12).



**Fig.1. Number of M & A transactions in the USA by type of economic activity in 2015-2017<sup>1</sup>**

Changes in the political situation in the United States led to an increase in economic uncertainty. Traditionally, there is a marked correlation between increased political uncertainty and a decline in demand for M & A transactions that was tracked in 2016. However, as experience shows, with a decrease in the level of such uncertainty, M & A markets have a quick recovery. In general, in 2017, the activity of American companies on the M & A market is still in demand for assets that provide and support sustainable development in areas such as consumer non-cyclical market, financial, telecommunications and media, energy.

A slightly different situation is observed in the Ukrainian M&A market (Fig. 2).

As we see from Fig. 2, the most demanded in terms of concluding agreements in Ukraine is the consumer cyclical market, namely: agriculture (in 2015 - 12%, 2016 - 9.1%, 2017 - 19.4%), real estate and construction (8%, 10.9%, 14.9% respectively), metallurgy and mining (6%, 3.6%, 7.5% respectively), innovations and technologies (6%, 1.8%, 6 % respectively). The financial sector for the period under study occupies the second position on the attractiveness of transactions, but with a declining trend.

After the global economic crisis, the US and the Ukrainian, although with a significant lag, the M & A markets began to grow. Analyzing the activities of world companies<sup>2</sup>, in order to identify alternative strategies for shaping the value of business when choosing one or another direction of integration, we consider it expedient to group them according to the following classification criteria that determine the nature of integration (see Fig. 3).

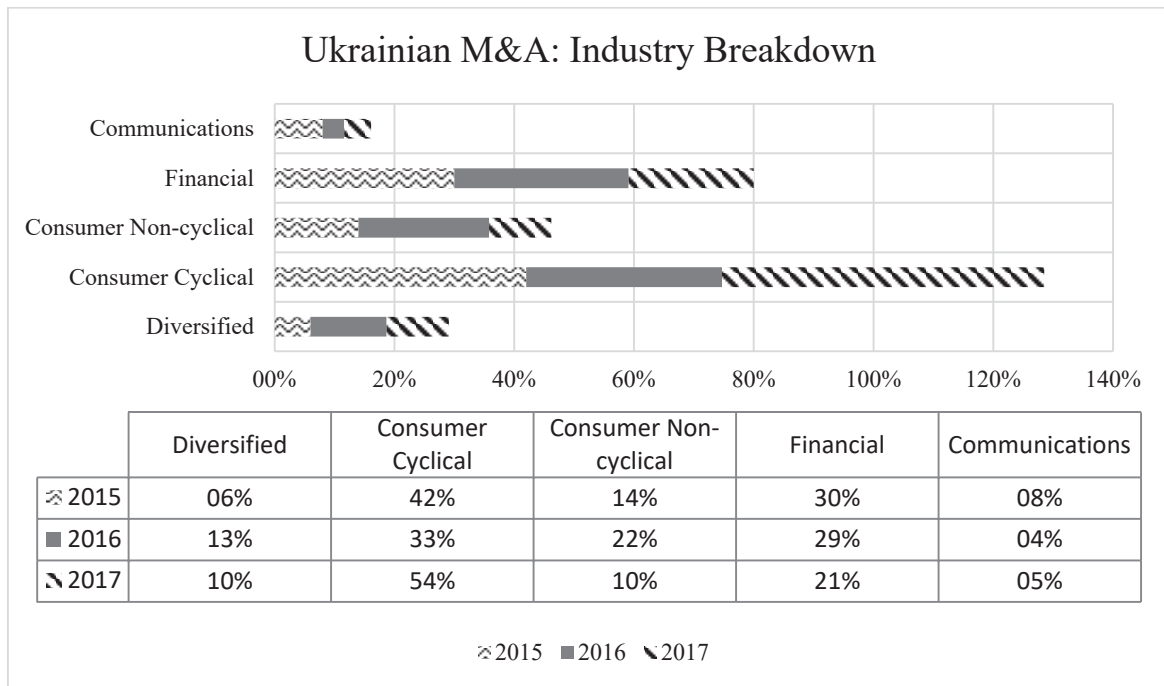
<sup>1</sup> Bloomberg (2015). *Global M&A market review. Legal rankings*. <<https://data.bloomberglp.com/professional/sites/4/Bloomberg-Global-MA-Legal-League-Rankings-2015.pdf>> (2018, September, 10).

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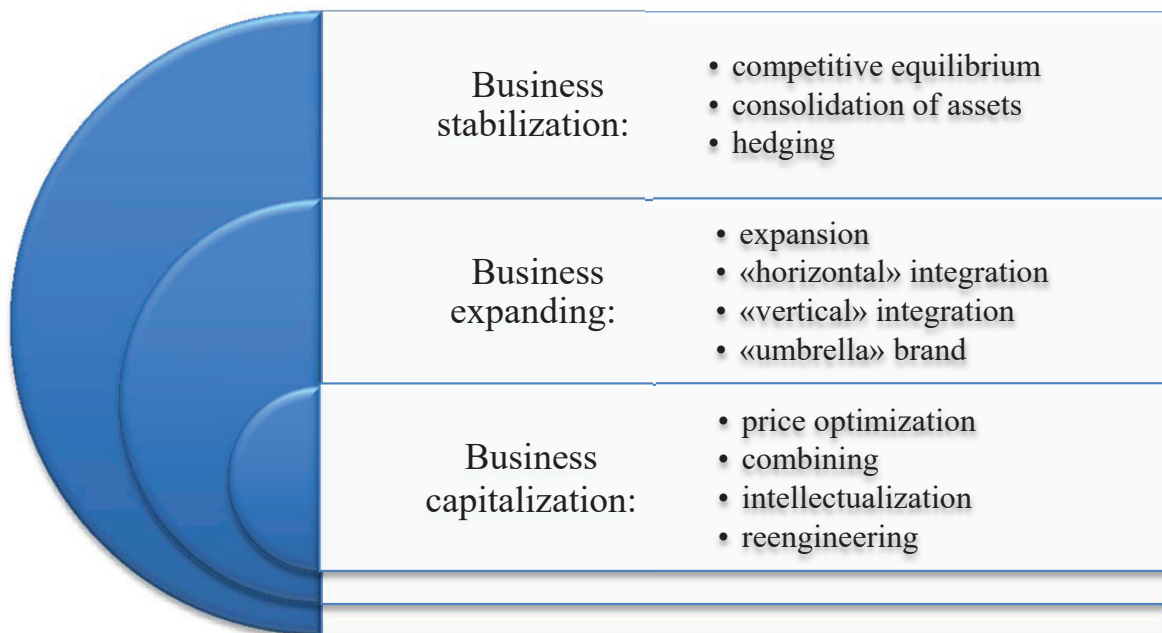
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<sup>2</sup> Goedhart, M., Koller, T., Wessels, D. (2017). *The six types of successful acquisitions*. McKinsey&Company. <<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-six-types-of-successful-acquisitions>> (2018, September, 08).



**Fig.2 The number of M & A transactions in Ukraine by type of economic activity in 2015-2017<sup>1</sup>**



**Fig. 3. Types of M&A strategies**

<sup>1</sup> KPMG in Ukraine (2018). *Ukrainian M&A Review 2017*.  
 <<https://assets.kpmg.com/content/dam/kpmg/ua/pdf/2018/03/kpmg-ukraine-MA-review-en-2018.pdf>> (2018, September, 13).

The vector of the first classification feature is the business stabilization as one of the areas of value formation, namely: destabilization of competitors' actions aimed at monopolization of the market; reduction of possible negative consequences of the occurrence of sectoral risks and uncertainty; additional loading of the equipment, which increases the profitability of the company as a whole; the purchase of technologies or products from related industries, giving impetus to an underdeveloped but promising market.

The first classification group is headed by the strategy of «competitive equilibrium», connected with the alignment of forces in the present market, that is, the establishment of equal competitive opportunities. At one time, the goal of uniting Volvo with Renault and MackTruck was to compete against such key players in the market for the production of diesel engines like Caterpillar, DaimlerChrysler and Volvo. As a result, the global balance of production in the field of diesel technology was maintained.

An example of consolidation of assets, according to the so-called "puzzle" principle, can be the integration of BP & Petrobras companies. Through this strategic alliance, Petrobras and BP have committed themselves to investigate potential joint business transactions in areas of mutual interest in upstream, downstream, trade and alternative carbon initiatives, both inside and outside Brazil. It is expected that the alliance will include the transfer of technology, as well as joint training and research. Strategic partnerships have the potential to benefit from sharing risks, increasing opportunities for investment in the industry chain, technological exchange and strengthening corporate governance.

The smoothing of economic cycles and the distribution of risks within the framework of the «hedging» strategy, as a rule, use very large investment holding companies. For example, the American industrial group «UTC» in different years of its existence acquired various manufacturing companies that operate in various, though in some sense related industries, where different economic cycles take place, for example. periods of decline and recovery historically occur at different times. This makes it possible to provide a generally stable profitability of the concern, without sharp leaps, falls and ups in different years. The holding of Warren Buffett «Berkshire Hathaway», which manages a large number of subsidiaries in industries such as insurance, rail, clothing, confectionery, jewelry, uses this principle of doing business.

The second classification group is aimed at obtaining a synergistic effect and characterized by the company's desire to increase the share of the existing market with M & A, which leads to the achievement of such significant advantages as: increasing production capacity; expansion of sales markets; geographical presence in new territories; entry into the business of a competitor; acquisition of assets (separate units) put into operation.

Consider the first strategy, which represents the second classification group – «expansion». The merger of Mercedes-Benz and Chrysler with the formation of the concern «DaimlerChrysler» was beneficial for both companies. The Germans, with the help of Chrysler dealerships, gained access to a huge, relatively new for them and unreached at that time market - American. In turn, the Americans gained access to the elegant engineering ideas of the Germans. After all, Mercedes has always been famous for its excellent quality and technological sophistication of its cars. Another example is the merger of the two largest mobile phone manufacturers - Japanese «Sony» and Swedish «Ericsson», which was carried out to improve the marketing image of the product of both companies. «Ericsson» is a manufacturer of reliable and high-quality equipment, and «Sony» has an attractive consumer design and, combining these characteristics of two different brands, the new joint company has gained a significant advantage in the consumer mobile phone market.

As part of the «horizontal» integration, the financial group JPMorgan was acquired by Bear Stearns for only \$ 236 million and WaMu (Washington Mutual) for \$ 1.9 billion. The result of the bargain was a policy of encouraging lending and reducing the requirements for borrowers, which eventually led to the mortgage crisis in the US, as well as the bankruptcy of many large companies. The result of the integration of confectionery enterprises, due to technological and

market similarities, formed the Ukrainian confectionery corporation Roshen, which achieved economies of scale. Also, «horizontal» integration was the result of an agreement between Lindt & Sprungli. The geographical concentration of producers helps to reduce costs. Players of the M & A market who use this type of strategy need to monitor trends in strengthening or weakening the geographical concentration.

A bright representative of the «vertical» integration - is the Ukrainian holding Myronivsky Hliboprodukt (MHP), which specializes in the cultivation and production of chicken. All production processes are merged into one company and are executed in a consistent manner. This provides the holding with full control over quality and cost. Since the volatility of prices affects the raw materials in the agro-industrial complex, the key to the segment is the possibility of expansion of business, including through consolidation, in the form of growth in sales volumes and new markets. By the way, the agricultural sector has had a key impact on the recovery of the economy over the last year and has won more than the weakening of the hryvnia. Also, the «vertical» strategy has been used by many international companies to make such deals as: British Petroleum & TNK, Apple & Beats electronics, Amazon Web Services, Tesla & SolarCity, Uber & Otto, etc.

For the activities of Virgin, Ukrainian PJSC Chumak and many others, integration with the creation of umbrella brands is characteristic. The world-famous American billionaire Richard Branson is actively exploiting this principle. The trade group he created under the Virgin brand includes: an insurance company, a tourism business, music and CD production, publishing business, beverage production and food products. Regarding the Ukrainian food producer PJSC «Chumak», a wide range of its products, namely ketchups, sauces, mayonnaise, juices, canned vegetables, pasta and fried seeds, is also presented under the eponymous brand.

The third group of strategies focuses on business corporatization and is considered by the management of the company in terms of investment attractiveness. Attracting portfolio investors to enter the stock markets is aimed at: increasing capitalization; publicity and «transparency» of activity; liquidity of securities; inclusion in the listing; profitability of securities for market and dividend strategy; international business protection.

The strategy of «price optimization», which is part of a group focused on the synergy effect within the industry, is represented by the association of Walt Disney Company & 21st Century Fox, due to the desire of Disney to take advantage of the media market. To accomplish this goal, an operation worth \$ 71.3 billion was carried out, which would significantly change Disney's entertainment landscape. An example of the competition for a diesel engine market was the merger of Volvo, Renault and MackTruck. The main purpose of the association was to increase production volumes, which enabled the economies of scale to be realized and, thus, to keep the profitability of the group of companies at the same level.

Using a «combination» strategy to create product diversification is useful when an enterprise tries to produce «satellites», similar homogeneous products, mutually which complementary each other, but produced in completely different industries. For example, motorcycles and leather jackets for them, motor boats and trailers for their transportation. Additional satellite products also include various small products, for example: food, beverages, souvenirs sold under the same brand as the main product, which can be a car, a boat, furniture, etc. An example of production of «satellites» is Harley Davidson. Producing prestigious luxury motorcycles, this company has many more contracts for the supply of by-products for other companies, which make beer, chips, clothes, accessories for bikers, and other attributes of the «free lifestyle». By the same principle, companies operate, but each in its field, - HNA GROUP CO. LTD & Hilton Worldwide, Boeing, Hathaway, Procter & Gamble and many others.

The strategy of «intellectualization» is typical for the merger of «Antonov» and the Swiss company «AIR-ION Technologies SA», within the framework of which was signed a memorandum on the establishment of partnership in the development, testing, certification and

manufacture of hybrid and electric unmanned aerial vehicles (UAVs). To the cluster formed by «AIR-ION Technologies SA», designed to provide high innovative and technological level of production, Ukraine is also included. Such an international system of partnership for the state enterprise «Antonov» will expand the application of the results of its own R & D, and in the future, it is planned to establish a serial production line for these aircrafts at the company's production facilities. The goal of uniting in a giant with a capitalization of \$ 130 billion to save on common costs was the integration of Dow Chemical and DuPont. However, after two years required for the merger, the scientific and agricultural companies plan to again be divided into three parts in the relevant sectors: agriculture, materials science and technology.

One of the biggest recent acquisitions related to the «reengineering» strategy aimed at increasing «efficiency», but which is considered dangerous and threatening the destruction of the entire business, is the acquisition of Jet.com by the Walmart retail network. In 2016, the retailer paid \$ 3 billion for the leader of the American e-commerce market. Thus, by improving its technological capabilities, Walmart has made the service more personalized for buyers, which has distinguished it among its competitors. Indeed, the shares of the company began to grow confidently. The trend continues to this day – since the beginning of 2017, the company's securities have added 29%. An example of a company that also used a strategy designed to increase business efficiency is Intel, one of the largest manufacturers of microprocessors, which until 2017 retained leadership in the volume of their production. Intel's success was ensured by a strategy based on the development of several parallel business processes - research, production and collection of information from the market. To retain leadership in the volume of microchips, Intel announced its intention to purchase Altera in an agreement for \$ 16.7 billion, which allowed Intel to expand the product line and include in the range unique products manufactured by Altera. And, finally, a vivid example of how much the "reengineering" strategy is a dangerous path. Williams was an absorbing company until 2015, and in June 2016, it became a target. Then Energy Transfer Equity offered \$ 53.1 billion from which Williams refused. The decline in oil quotations reflected on their own business, and at the end of September the company had to make a deal that Energy Transfer already estimated at \$ 37.7 billion. A perfect example of a revaluation of own value. The new company will become the largest infrastructure group in the energy sector. The agreement is run by Goldman Sachs, UBS and City, which made in 2015 275 transactions for a total of \$ 811 billion.

**Conclusions.** The choice of strategy, as well as the forms and methods of M & A transactions, depends both on the structure of the market, and on the investment objectives and intentions of the participants themselves of such agreements. In order to ensure economic potential from the conclusion of M & A transactions, it is necessary to take into account changes in the competitive environment, technologies, to predict with reasonable probability the consequences of the reaction of competitors, as well as to conduct a detailed analysis of existing and potential problematic aspects of such acquisition.

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