

The World Merger and Acquisition Market: Economic Dimensions and Specifics of Regulation*

OXANA DAVYDOVYCH**

ANNOTATION. The article presents a comprehensive analysis of the world mergers and acquisitions (M&A) market, describing its stages of evolution and examining the trends and specific features of development at different stages. The author identifies the motives of mergers and acquisitions, determines their impact on the economy, makes an attempt at revealing the main reasons for failed M&A deals, analyzes the specifics of regulating mergers in the European Union countries, and describes their main requirements. The article also evaluates the development of the M&A processes in Central and Eastern Europe, in particular Ukraine. In conclusion, the author offers recommendations for the successful operation of companies after their merger or acquisition and considers the factors of the M&A market's positive dynamics at the current stage.

KEY WORDS. merger and acquisition, synergy effect, trans-border mergers, foreign direct investment, economies scale, transaction cost, expansion policy, announced agreements, completed agreements, target company, acquiring company, resource transfer, shareholder value, integration of companies, unfair competition, market regulation, mergers and acquisitions control.

Introduction

The rapid economic and technological changes occurring in the modern globalized world are causing substantial corporate reorganization. Companies strive to raise the efficiency of production processes and enter new sales markets. A merger of companies is among the most adequate precondition for the successful adaptation to these changes. The term mergers and acquisitions (M&A) became one of the most widespread in economic literature during the past decade and ever more frequently evokes discussions in different circles of economists and politicians. Every day investment banks close transactions worth billions of dollars that determine the strategy of companies-participants for many years to come.

The trends in the development, specifics of activity, and prospects of M&A growth on the world markets have been described in quite a number of publications, mostly by Western authors, such as G. Jones, P. Huimares,

* This article was translated from its original in Ukrainian.

** *Oxana Davydovych* — M.Sc.(Econ.), Director of Consulting Projects, IMPAC Ltd., member of the International Association of Specialists in Productivity. Main areas of scientific interests: international trade, European integration, global mergers and acquisitions processes, modern trends in the development of transnational corporations, corporate management. During a one-year study course at the University of Zurich, Switzerland (2003-2004) took part in seminars of international trade and foreign economic relations, and read reports on such subjects of «Strategy of Economic Growth and its Relevance for Ukraine» and «The World Trade Organization and the Prospects for Ukraine.»

D. Woodward, H. Mauher, L. Kapron, S. Lall, S. Butcher, O. Bertrand, P. Gonzalez, R. Lagou and S. Foster. The OECD, UNCTAD, USDA, as well as the European Commission are publishing interesting reports on different aspects of international, primarily West European and US mergers and acquisitions, along with a lot of statistical information. Besides, such leading international agencies and consulting companies as Price Waterhouse Coopers, Ernst&Young, and Thomson Financial conduct studies of the above-mentioned subject, mostly making overviews of agreements over a certain period of time and rating the studied countries by different indicators of activity.

The growing dynamics of M&A observed during the past few years worldwide, their substantial and unequivocal impact on the economy of the countries-participants, and the involvement of an every increasing number of countries, Ukraine included, in these processes objectively call for profound studies of this segment of the international market. In the article, we will attempt to make a comprehensive analysis of the world M&A market; examine the trends of its development; identify the motives of mergers and acquisitions, their advantages for companies and causes of possible failures; look into the specifics of the foreign experience in regulation; and evaluate the current status of development of Ukraine's M&A market.

Stages of Development of the World M&A Market

The great merger movement occurred in the late 19th century. In the period of restructuring from 1895 to 1905, small firms with a little market share consolidated with similar firms to form large companies capable of competing with those dominating the market. To understand the scale of the mergers of those times, suffice it to say that in 1900 the world value of the target companies came to 20 % of GDP, while 90 years, in 1990, it was only 3 %, and in the period from 1998 to 2000 it was about 10/11 % of GDP¹. One of the major short-term factors of the merger movement in the early 20th century was the desire of companies to keep prices high, which resulted in widespread horizontal integration, when homogeneous goods were produced en masse to ensure high profits. By focusing on mass production, companies pushed down set prices for their products. As a rule, such companies were capital-intensive and had high fixed costs. To reduce costs and raise the efficiency of performance, they earned profits on volume.

The 1990s were a period of mega mergers, when British companies took the lead by consolidating mostly with their US competitors. The merger processes were the most intensive in information technologies, communications, finance, the medical industry and chemical industry (see Table 1).

¹ <http://www.investopedia.com/university/m&a/default.asp>

Table 1

Ten largest M&A sectors 1990—1999^{2,3} share of sectors in industry as a whole (by deal size)

Sector	Years		
	1990—1999	1990—1994	1995—1999
Telecommunications	10,0	5,5	11,1
Insurance	6,2	5,9	6,3
Electricity, gas and water supply	5,6	1,5	6,6
Oil and gas	5,4	3,8	5,8
Business services	4,7	4,4	4,7
Pharmaceuticals	4,6	4,2	4,7
Electronic and electrical equipment	4,4	4,8	4,3
Food industry	4,4	9,0	3,2
Chemical industry	4,3	4,8	4,1
Commercial banks, holding companies	4,2	3,3	4,4

In the 1990s, the world value of M&A deals increased more than fivefold. The size of the deals and their number were especially large in the period from 1995 to 2000 as Fig.1 demonstrates. The main participants in the international M&A world market, both in terms of deal size and quantity were the US and the United Kingdom, followed by a large gap by Germany, France, the Netherlands, Switzerland, and Canada.



^{2, 3} Constructed on the basis of the statistical data of *Thomas Financial*, November 2000

Fig. 1. Dynamics of M&A development in the 1990s³

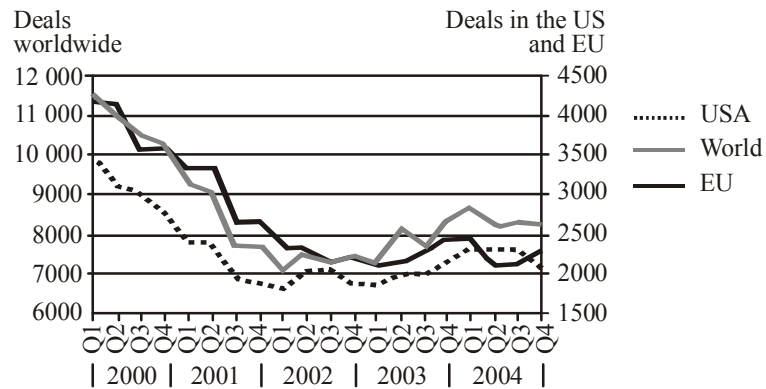


Fig. 2 Evolution in the number of M&A deals⁵

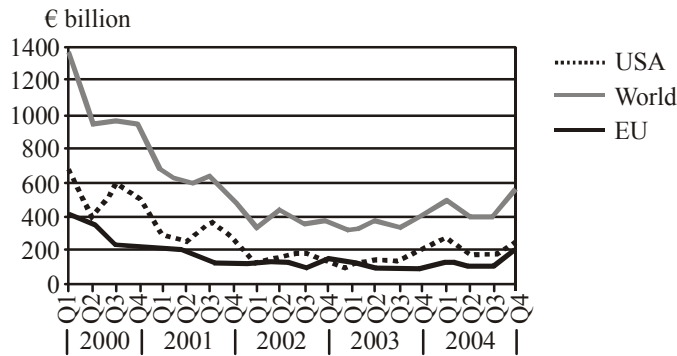


Fig. 3. Evolution in M&A deals size⁵

Analyzing the subsequent trends in M&A, we arrived at the conclusion that from 2001 to late 2003 the activity on the M&A market went down markedly. It was especially true in 2001, when the deal size worldwide dropped almost twofold from US \$3.9 trillion in 2000 to US \$2.3 trillion in 2001. Such a decline was also observed in 2001, and only in late 2003 was there an upward trend (the size of the deals was US \$1.3 trillion and US \$1.4 trillion respectively)⁴. According to the Economist Intelligence Unit, the main reasons behind such a development was the desire of com-

⁴ Peterson N. Increasing EU cross-border M&A — <http://www.softiaecho.com/article>

⁵ Mergers & Acquisitions NOTE / European Commission Report. June 2005, No.2, p.3

panies to cut down costs and withdraw from their secondary areas of business.

Early 2004 saw an upsurge of M&A activity in the world. That year the total number of deals amounted to 33,500 from 31,600 in 2003, while the total deals size was €1.9 trillion, 35 % up on 2003.

The upsurge can be explained by the improved economic situation in the developed countries, the reorientation of large companies toward a policy of expansion, as well as the positive trends in the development of financial, especially stock markets. In this connection it should be pointed out that in the period of a company's economic growth it possesses, as a rule, enough capital for arranging deals and also have better opportunities for receiving credit. Yet another indicator of interest in M&A is the increase in the index of trust of the companies' top managers.

The upward trend in the international M&A market prevails to this day, primarily for account of the developed countries of Europe and the US. Within nine months of 2005, M&A deals worth US \$982 billion were announced on the US market, as compared with US \$754 billion in Europe. On some European markets the respective figures were much lower: in Italy — US \$115 billion, in Switzerland — US \$18 billion. The value of deals announced in the UK increased by 40 % against the same period in 2004, in France by almost 20 %, in Italy three times, in Germany more than 100 %⁶. Table 2 presents the largest M&A in the period from 2000 to 2006.

Table 2

The world's largest M&A for 2000—2006⁷

USA	Europe	Japan
Sprint — Nextel	Vivendi Universal — Seagram	Sumitomo Bank — Sakura Bank
Verizon — MCI	GlaxoWellcome — Smith-Kline Beecham	Square — Enix
Kmart — Sears, Roebuck	Alcatel — Lucent Technologies	Konica — Minolta
Hewlett Packard — Compaq	Merck KGaA — Serono	Mutsubishi Tokyo Financial — UFJ

⁶ Butcher S. M&A sector view: U.S. leads Europe on deals and pay. — 4 October, 2005.

⁷ Free Encyclopedia Wikipedia. — <http://en.wikipedia.org/wiki/Merger>

J.P.Morgan Chase — Bank One	Air France — KLM Royal Dutch Airlines	SoftBank — Vodafone Japan
Procter&Gamble — Gillette	Lufthansa — SWISS	
Symantec — VERITAS	Bank of New York's — Mellon	
Adidas-Salomon — Reebok	Siemens — Nokia	
Paramount — Dream Works		
Google — Youtube		
US Airways — America West Airlines		
AMD — ATI		

Motives and Objectives of Mergers and Acquisitions

Mergers and acquisitions is today the most widespread form of foreign direct investment and at the same time a vitally important strategy of the companies' development, guaranteeing them successful operation in a national and international competitive environment. The analysis we have made of the dynamics of the M&A international market shows that it has a tendency of continued growth. So what makes top managers and investors decide on M&A of companies? What factors guide them to make multimillion and, at times, highly risky deals?

In an attempt to provide the answers to these questions, we will generalize the underlying processes of mergers and acquisitions. The main incentive for a transaction is to achieve synergy that makes the value of consolidated companies larger than the sum of its two parts (known effect «1+1=3»). It saves costs and increases profit and makes it possible to raise the performance efficiency of a new business. Through M&A a company hopes to derive the following benefits:

- Economies of scale — primarily saving on the procurement of more equipment or new corporate information systems; besides, due to the merger of two or more companies, the newly established company can substantially cut costs by eliminating duplicate departments or operations, including staff reduction.
- Procurement of new technologies, branding. To remain competitive, a company must keep pace with the latest technological achievements, which can be made possible by purchasing even a small firm with unique sophisticated technologies.
- Improved access to new markets. A merger can expand marketing and distribution, thereby providing new opportunities for sales and also improving investment capability.
- Increased profit/market share — by acquiring its competitor, a company can spread its influence on setting prices for products.

- Transfer of resources, utilization of additional assets. It is common knowledge that resources are unevenly distributed across companies, while pooling resources of the acquiring and target company can create additional value by either overcoming information asymmetry or by combining scarce resources.

The motives listed above increase a company's shareholder value. But there are a number of motives that do not add shareholder value: confidence of investors about expected synergies from M&A which results in overpayment for the target company; possibility to manage large companies, thereby increasing market influence; vertical integration: companies acquire a share of the supply network and derive benefit from using its resources.

But for all the «noblest» motives of companies taking part in M&A, the latter do not always have positive consequences both for a country's economy as a whole and for the companies themselves. If M&A promote more active cooperation, increased competition and redistribution of influences between the largest transnational companies, geographical diversification, better management, and have a synergy effect, we can, of course, speak about a positive influence. However, as we mentioned above, a positive effect cannot always be achieved. The results of some empirical studies prove that a large part of the M&A deals do not create additional value for the shareholders of the acquiring company, because a proper integration of the merged companies is lacking⁸.

The most typical reasons for failures of mergers and acquisitions are the following:

- ♦ exaggerated future synergy effect under real conditions and time required for its realization. The acquiring company did not make allowance for possible decline in income as a result of merger, and the reasons for such «disynergy» are malfunction in company management and underestimated front-end expenses. The experience of one chemical concern studied by the well-known consulting company McKinsey proved that a wrong valuation of front-end expenses required for annual savings resulted in budget overspending and lag from the projected income growth indicators. Besides, as the conclusions of the same consulting company proved, the projected reduction of expenses is achieved only in 60 % of cases, while in almost every fourth case expenses were overestimated at least by 25 %, which, in turn, caused miscalculations in the value of the target company⁹.

- ♦ «Blind» imitation of companies that successfully closed M&A deals without objective preconditions to this end. Without profoundly analyzing the situation, under which the previous transaction was successfully arranged,

⁸ *Vliyaniye IT-tekhnologiy no protsess sliyaniya busnexas kompaniy.* [D.Stafeyev. The Impact of IT on the Merger Process of Companies'. Business State University of Management, Russia]. - <http://nit.miem.edu.ru/2004/section/35.htm>

⁹ S.Christofferson, R.Maknish, D.Sias. The Curse of the Winner: Mistakes of Mergers [in Russian]. «Проклятие победителя»: ошибки слияний //The McKinsey Quarterly. — 2004. — № 2. — P. 101—109.

and without making corresponding comparisons, the company that intends merging with another will in all probability overestimate the value of synergy.

- ◆ Desire to gain a stronger market position that is not supported by a corresponding business strategy. Sometimes the buyers are overconfident in their knowledge about prices and market shares, although the latter do not always accord with the general pace of market growth and the competition realities. Here is an example in point. A global financial group predicted that the synergy effect from a new merger would amount to € 1 billion throughout the first five years, while profit in the first year would go up by 13 %. But due to the slow pace of market growth such results could be achieved only by conquering a substantial share of the competitors' market, provided the latter would not be taking any aggressive counter measures. As a result, the company managed to increase its profit only by 2 %.

- ◆ Desire to become by all means «the largest and the best» regardless what the price of stocks of the newly established company will be.

- ◆ Difference in the corporate cultures of companies that might cause decline of performance.

- ◆ Focus on integration and reduction of costs after closing the deal, which results in neglect of everyday business, loss of profit, and incapability of raising shareholder value.

But, on the other hand, globalization, technological development, and a rapidly changing economic environment can stimulate the development of what are called «protective» mergers — as a response to the challenges of globalization. Now and then managers of small companies have no choice but to acquire a competing company before the latter takes over the former, since only large «players» can survive in a competitive world.

In order to prevent the negative developments in M&A, the anti-competitive behavior of companies, and limit their excessive concentration, control and regulation is necessary by the government. In this connection, we should take a closer look at the European experience in M&A regulation and control, since, apart from the US, the EU countries are among the major players on this market and account for a lion's share of the world's aggregate value of deals. For example, in 2005 this share was worth US \$871 billion, domestic transactions included, while in the US it was US \$1.23 trillion¹⁰. Notably, the main purpose of M&A control is to prevent potential harm to consumers in the long run.

M&A Regulation in the EU Countries

¹⁰ Mergers and Acquisitions Outlook. A quarterly review // Investment Banking Services.

The main purpose of M&A control is to ensure and sustain an efficient competitive environment, check the monopolization of individual segments of the national market, and prevent the negative impact of M&A on the internal economic situation of a country and its end consumers. Since the mid-1990s the EU countries are faced with growing external competition, its source being not only imports, but also the activity of foreign companies operating on the EU market. One of the dimensions of such activity is foreign direct investment, which includes M&A transactions. Figure 4 presents the dynamics of net M&A (purchase of foreign companies by European companies minus purchase of European companies by foreign companies) in the period from 1987 to 2001.

As we see, before 1992 the purchase of European companies (from the EU countries) by foreign companies (EU nonresidents) prevailed. Since 1992 this trend gained an opposite nature, which speaks of the invigorated process of global restructuring in response to global competition, because EU companies tried to expand their presence on external markets. It also speaks of the reduced share of internal (within the EU) M&A transactions. This has generated a number of comments to the effect that the competitiveness of European companies is endangered because of the stringent system of control over mergers, which does not promote the creation of «champion companies» capable of opposing global competition much better and hold global market positions. It is especially true for the Netherlands, Sweden, Ireland, Greece, Germany, Finland, Denmark, and Austria where national legislation barriers stand in the way of trans-border mergers.

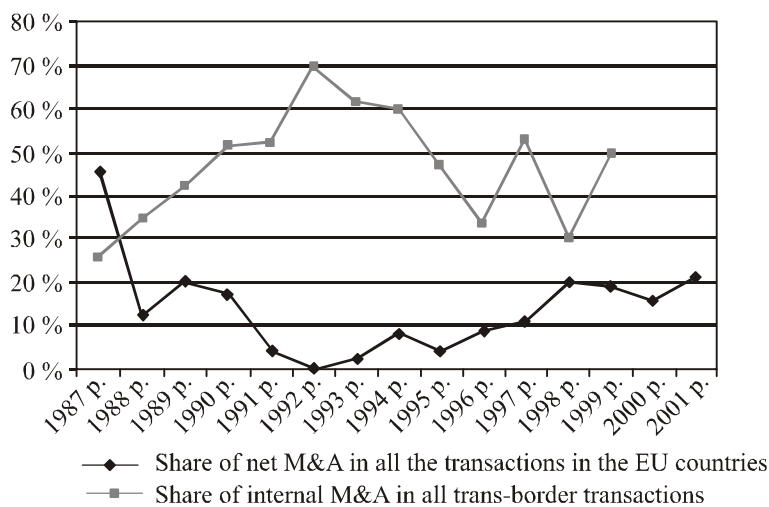


Fig. 4. Dynamics of net M&A in EU countries, 1987-2001¹¹

But on the other hand, it is precisely trans-border cooperation that is a precondition for enhancing competitiveness in the EU, especially after its enlargement. The evolution of the EU as the world's largest competitive and dynamic knowledge economy means the creation of an efficient environment for trans-border M&A not only for building up a more integrated single market, but also for accelerating economic growth.

One of the important steps in this direction was the approval by 25 EU countries of the Cross-Border Mergers Directive within the limits of a single market and its adoption by the EU Council of Ministers and Parliament. It is an attempt to eliminate the differences in national legislations and ensure unified transnational rules. In particular, a company involved in M&A can avoid expensive and ineffective actions as to establishing an affiliate in the country of the target company for the purposes of merger¹².

A key principle of the Directive is that every company taking part in a merger will comply with the laws of its own country. The company will have to state the approximate time of a trans-border merger and present an expert report to be approved by a general meeting. The EU member countries must appoint a competent agency that examines the legality of a merger against the country's national legislation to check whether the transaction was conducted properly. Once a trans-border merger occurs and the agreement comes into force, it may not be invalidated by any agency of any other EU member country.

The establishment of common rules for trans-border mergers in the EU is a fundamental and necessary reform, because the operative rules are not completely systematized in national laws. Many countries lack clearly established laws on the ways of mergers. In their place companies apply costly legal «evading» measures for this purpose, thereby placing small and medium-size enterprises at a disadvantage. This is one of the reasons why M&A is not as widespread in the EU as it is in the US. A more competent and strong market of corporate control will provide the opportunity for raising productivity and promote the establishment of efficient companies by redistributing surplus capacities.

The Statute of a European Company, in force since October 2004, is yet another legal instrument governing M&A and called upon to ensure the success of such activity. Under this law companies or their affiliates from different EU countries are permitted to unite/merge as *Societas Europaea* (hereinafter — SE) — a new legal form of the company. This Statute will supplement the above-mentioned Directive on trans-border mergers. It is intended for

¹¹ Harry P. Bowen, L. Sleuwaegen. European integration: the third step //Vlerick Leuven Gent Working Paper. — Series 19, 2004. — P. 36.

¹² Peterson N. Increasing EU cross-border M&A. — http://www.sofiaecho.com/article/increasing-eu-cross-border-m-a/aid_10516/catid_23

companies that are in need of reorganizing their business within the dimensions of the European market. But most of the small and medium-size enterprises that want to take part in trans-border mergers are reluctant to set up SEs, because, as a rule, they are not interested in operating in many EU countries, preferring direct trans-border mergers instead.

In accordance with the Statute of a European Company, a SE will be transnational, although its main office and place of registration should be in a EU member country. A SE may be set up by M&A of two public joint stock companies in different EU countries, and the new company may be registered in compliance with the laws of any EU country. An essential advantage of a SE is that only two-thirds of shareholders have to approve the merger decision, while in most of the EU countries an approval of 90-95 % of shareholders is required¹³. The activity of a SE is governed both EU legislation and legislation of that country where it is registered (in particular, as regards the issues of accounting, taxation and liquidation of a company). Prior to registration of a SE, its founders must clarify the issue of the workers' participation by negotiations through a special intermediary agency established to represent the interests of the employed. If no agreement is achieved in six months of negotiations, the rules of the country where the SE will be registered are applied.

Of the directives recently adopted by the European Union to govern the M&A processes we should also mention the Market Abuse Directive that aims to prevent market manipulations and demands from the directors of companies to submit information about the purchase and sale of securities; the Prospectus Directive under which companies taking part in mergers have to include information in the prospectus for the investor's evaluation of the company's financial standing; the Transparency Directive under which companies-participants must submit in good time quarterly, semiannual and annual reports on their financial standing; and the Takeover Directive.

As mentioned earlier in the article, the need to regulate the M&A is occasioned by the potentially negative consequences or the threats to the economy of the country where the deals are arranged. M&A transactions can always be attended by certain negative implications (in any process there is always two sides of a coin), and therefore we believe that it would be advisable to speak about a so-called net negative M&A impact and compare negative with positive consequences not for a company, but for the end consumer, at which the company's activity is directed.

For example, given a high concentration of a sector, a complicated access to it, and considerable economies of scale, a merger may result in a growth of market influence, thereby worsening the resource distribution efficiency that under imperfect competition is already low. All this will cause a decline in

¹³ B. O'Brien, L. Case. EU Directives and public M&A: What's coming and when? // M&A Lawyer. — Vol. 8, No.10. — pp.19-23.

economic welfare. Therefore, at first sight, it is necessary to apply instruments of control over mergers, i.e. block those that will deprive consumers of the advantages ensured them by efficient competition (low prices, high quality of products, large choice of goods and services, innovations, and the like). But the potentially negative competition decline may not materialize due to the greater positive effect of a merger or acquisition (reduction of production costs, marketing costs, distribution, development of innovative products). Precisely such a consideration of «both aspects» is the underlying foundation of M&A regulation the in Canada, the US, and the EU.

Besides, it is important to bear in mind that M&A can achieve dynamic advantages because of innovations, development and new technology transfer that have a much greater impact on a country's social and economic welfare¹⁴. At the same time, static advantages, i.e. those derived from lower costs or improved quality for account of existing technologies, can be achieved by alternative methods.

Before 2004, until the EU Council of Ministers did not adopt a New Merger Regulation, the effectiveness of M&A deals was evaluated only on the basis of their potential anti-competitive impact, without allowance for potential advantages. With the appearance of the New Merger Regulation the companies were themselves interested in identifying the real advantages from mergers. Under Article 2 of the New Merger Regulation, the European Commission determines whether a merger will seriously endanger efficient competition, especially through the creation or strengthening of a dominating market position, since it is possible that the advantages from a merger will compensate the negative competitive effect and the potential harm to consumers¹⁵. To such compensatory advantages are referred purchasing power and the opportunity of new competitors entering the market.

It is worth emphasizing again that under the advantages from M&A are meant the advantages for the end consumer. Speaking about such positive consequences of mergers as economy of costs or improved R&D, they will be viewed as advantages in the process of studying the potential aggregate M&A only in that degree in which they will be applicable to the consumer. Therefore, rather than the size of fixed costs, taken into account will most probably be the variable and marginal costs when evaluating the advantages, since they will precisely result in lower prices for consumers and be achieved in the shortest period of time.

As to the advantages related to innovations, they will be embodied for the consumer in new or improved products and he will receive advantages from a broader choice, lower prices, and higher quality of products. The above-mentioned advantages will be more quickly and easily conveyed to the con-

¹⁴ *J. Farrell, C. Shapiro*. Scale economies and synergies in horizontal merger analysis // *Antitrust Law Journal*. — 2001.

¹⁵ *G. Garnier*. «Efficiency defence» in merger control. In, *Mergers&Acquisitions NOTE / European Commission Report*. — June 2005. — № 2. — P. 14.

sumer, provided there is a sufficient competitive pressure from other companies on the market and entry into it of new companies, because competition is the best method of protecting consumers.

On the basis of the aforesaid, we can make a conclusion that the more negative the impact on competition because of M&A, the more advantages the consumer will enjoy on this market.

It is common knowledge that M&A are usually the most restrictive types of deals, because they completely remove a competitor from the market. Small wonder that the system of their regulation is so stringent in the EU. Apart from the purpose of mergers to bring advantages to the consumer, but not a company, these advantages should be achieved exclusively by mergers, but not by other less restrictive forms of business (e.g., joint enterprises, licensing, strategic alliances). Also, advantages should be materialized in good time, i.e. right after the completion of the process of M&A¹⁶.

Compared with the M&A control system of in other developed countries, such as the US and Canada, the EU system is very much similar. In the US the same EU approach is applied to determining advantages, but in practice, in the formal process of decision-making on mergers that to be approved both by the Federal Trade Commission and the Department of Justice, the advantages are not always taken into account, because frequently they cannot be evaluated quantitatively. Yet the Canadian system takes into account not only the advantages for consumers, but also for the producer, i.e. a company, although preference is given to the former in the process of decision-making on the advisability of merger¹⁷.

Current Specifics of the World M&A Market

A typical feature of the current stage of development of the world M&A is the positive dynamics of growth and domination of two geographic segments in these processes — the EU and the US. At the same time rapid growth is registered in Central and Easter Europe and the Pacific Ocean region and Japan where the value of M&A transactions in 2005 went up compared with the year before (see table 3). On US companies fall 47 % of all target companies, on Europe 31.9 %, on the Asian Pacific region 8 %, and on Japan 8.6 %.

¹⁶ *Ilzkovitz F., Meiklejohn R.* European merger control: Do we need an efficiency defence? // *Journal of Industry, Competition and Trade.* — 2003. — Vol.3:1/2. — P. 57—85.

¹⁷ *Kolasky W., Dick A.* The merger guidelines and the integration of efficiencies into antitrust review of horizontal mergers // *Antitrust Law Journal.* — 2003. — Vol. 71. — № 1.

Table 3

Comparable characteristics of declared and completed M&A worldwide¹⁸

Region	01.01.2005—30.06.2005				01.01.2004—30.06.2004				Value change, %	
	Value, US \$mln		Number of deals		Value, US \$mln		Number of deals		Announced	Completed
	Announced	Completed	Announced	Completed	Announced	Completed	Announced	Completed		
Worldwide	1,264,216	744,015	15,025	10,060	885,440	664,885	15,571	11,279	42.8	11.9
America	641,830	333,197	5,246	3,973	478,867	345,899	5,520	4,417	34	-3.7
North America:	622,359	315,083	4,959	3,781	449,301	333,009	5,102	4,117	38.5	-5.4
Canada	29,968	26,097	737	447	26,420	74,654	767	1,420	13.4	-65.0
US	592,391	288,986	4,222	3,334	422,881	1,061,937	4,335	10,366	40.1	-72.8
Europe	403,431	300,835	4,618	3,157	262,228	226,131	4,888	3,652	53.8	33.0
Eastern Europe	32,271	18,047	454	254	8,846	6,727	509	331	264.8	168.3
Western Europe:	371,159	282,788	4,164	2,903	253,382	219,404	4,379	3,321	46.5	28.9
France	34,541	34,586	455	353	92,515	16,1517	460	1,151	-62.7	-78.6
Netherlands	62,450	24,820	567	396	30,843	80,189	499	1,301	102.5	-69.0
UK	9,7809	92,003	1,130	900	50,759	244,056	1,329	2,998	92.7	-62.3
Pacific Rim	100,933	74,001	3,698	,1955	86,806	52,650	3,909	2,252	16.3	40.6
Southeast Asia	17,654	11,984	996	649	12,248	9,293	1,049	668	44.1	28.9
North Asia:	38,378	18,919	1,343	470	28,101	22,145	1,544	691	36.6	-14.6
China	11,812	3,764	804	205	9,699	15,584	948	949	21.8	-75.8
Hong Kong	8,103	5,419	386	198	10,561	17,746	396	613	-23.3	-69.5
Japan	108,846	30,912	1,196	841	49,802	33,406	1,003	816	118.6	-7.5
Africa/Middle East	9,176	5,069	267	134	7738	6,798	251	142	18.6	-25.4

¹⁸ Mergers & Acquisitions review. Second quarter 2005. — <http://banker.thomsonib.com>

Examining the sectoral features, we can arrive at the conclusion that the financial sector accounted to the largest share of M&A during the past few years. There are also a growing number of deals in energy, the mass media, while mergers in health care have somewhat declined in number. According to the information of the European Commission, the largest share of all transactions is in services, specifically 63 % worldwide, 65 % in the EU, and 69 % in the US. By individual sectors the most widespread target subsection in 2004 worldwide and in EU-25 was the defense industry (subsector D), while in the US the dominating subsectors were hotel, personal and business services (subsector I). Compared to 1995, the share of subsector D in all transactions dropped from 34 % to 28 % worldwide and from 40.2 % to 31.4 % in the EU. The share of transactions in subsector I increased from 16.7 % to 24.8 % and from 14.3 % to 25.7 % respectively. In the other subsectors, the trend was comparatively stable within this period. The sectoral comparisons for different years are presented in Table 4.

Table 4

Evolution of M&A by target sectors, %¹⁹

Sector (by standard international classification SIC*)	Worldwide			EU-25			US		
	1995	2000	2004	1995	2000	2004	1995	2000	2004
Agriculture, forestry, fishery (A)	0,8	0,8	0,8	0,7	0,7	0,6	0,4	0,4	0,4
Mining industry (B)	5.5	3.6	6.7	2.0	1.0	1.5	3.6	1.9	4.3
Construction (C)	2.0	1.7	1.8	3.4	2.0	2.4	1.0	1.4	0.9
Manufacturing industry (D)	34.4	27.1	28.2	40.2	29.7	31.4	29.6	24.3	25.5
Transport, communications, electricity, gas, and sanitary services (E)	10.7	11.3	10.6	11.1	11.1	12.3	9.6	9.8	9.1
Wholesale trade (F)	5.9	4.5	4.4	7.5	5.8	4.7	5.6	3.6	3.5
Retail trade (G)	4.8	4.7	4.7	5.7	5.1	5.6	5.0	5.4	5.0
Finance, insurance and real estate (H)	18.8	14.9	17.9	14.8	13.3	15.6	22.1	14.4	16.5
Services (I)	16.8	31.3	24.8	14.3	31.3	25.7	22.9	38.5	34.6
Government administration (J)	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.2	0.2
Total	100	100	100	100	100	100	100	100	100

* **Remark:** Under SIC the aggregate sector of services includes a traditional subsector of services — hotel, personal, business services, etc. (subsector I); transport, communication, electricity, gas, sanitary services (subsector E); wholesale trade (subsector F), retail trade (subsector G); finance, insurance, real estate (subsector H); government administration (subsector J).

In 2005 the largest number of M&A with US participation was arranged in the mass media, financial services, wholesale trade, and distribution, but

¹⁹ Mergers & Acquisitions NOTE / European Commission Report. June 2005. — No.2. — P. 6.

medicine and communications accounted for the largest value of deals. The most sought for target companies for M&A were in mining, metal manufacturing and oil, which «relegated» to a much lower position the sectors of the M&A peak of 1999 — transport, communications and finance²⁰. Besides, most of the transactions occurred within the limits of one sector. The main driving factors behind the development of the M&A today are economic growth, good performance indicators, and new investors (specifically, private joint stock companies).

One of the evident features of the modern M&A is its energetic activity in the countries of Central and Easter Europe (CEE) and the CIS. The total value (US \$91.2 billion) and number of transactions (1,848) in 2005 increased by more than 50 % against 2004, exceeding the most optimistic expectations and M&A market growth of the developed European countries²¹.

The majority of the companies in the CEE and CIS countries are target companies that lure mostly rich European and US investors for expanding the market share of the latter, strengthening their competitive influence, and reducing operational costs. The enlargement of the EU in 2004 was followed by a lot of commentaries on whether the accession of new members will impact on the investments to the old EU member countries. A survey of business activity conducted by the US Chamber of Commerce and the Boston Consulting Group in March 2005 showed that the US investors were gradually diverting their resources from the most developed EU countries to the CEE nations because of the more advantageous location of their production facilities. For 26 % of companies covered by the survey the CEE countries became the main focal point for investment. For all that, the leading EU countries — Germany and the UK — have retained their investment attractiveness in such segments as marketing and R&D. Besides, the share of the new EU member countries remains negligible in the aggregate value of US deals in the EU — only 2 %²².

In the period from 2001 to 2005, the largest value of target transactions among the new EU countries was registered in the Czech Republic, Slovenia, with Slovakia in sixth place after Luxembourg, the UK, the Netherlands, Finland, and Sweden. Figure 5 presents Europe's largest countries by the value of announced mergers and acquisitions.

²⁰ World Investment Report 2006. — UNCTAD. — New York, Geneva, 2006. — pp 340.

²¹ CEE/CIS Mergers and Acquisitions Survey 2005. — Price Waterhouse Coopers, 2006.

²² CEE/CIS Mergers and Acquisitions Survey 2005. — Price Waterhouse Coopers, 2006.

* O the CEE/CIS countries included in the survey are Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Slovenia, and Ukraine.

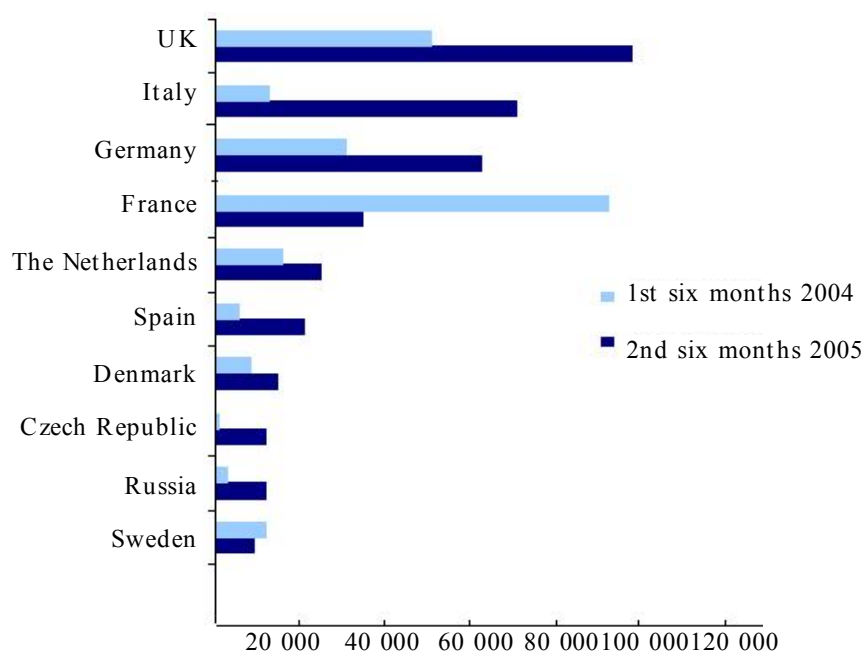


Fig. 5. Europe's largest target countries by value of announced M&A deals²³

As we see from the figure, the Czech Republic and Russia are among the ten target European countries. Of the CEE and CIS countries the latter remain leaders in M&A. Russia accounts for 36 % of the M&A market by number of deals and for 58 % by their value, followed by Poland (16 % and 9 % respectively), the Czech Republic (12 % and 10 %), Hungary (12 % and 5 %), Romania (6 %), Bulgaria (5 % and 4 %), Ukraine (4 % and 3 %), Slovakia (4 % and 3 %), and Slovenia (2 % and 1 %).

Russia accounts for 72 % of all transactions on its internal market, without the participation of foreign companies. But this does not reflect the overall trend of this market, because in 2005 the number of trans-border deals went up and exceeded the 2004 rate threefold. Unlike in Russia, in Romania and Slovakia the main buyers were foreign companies, while the Czech Republic, Hungary and Poland increased three times the number of «external» transactions. On the whole, in the CEE/CIS countries internal and international transactions were 56 % and 44 % respectively. According to the Price Waterhouse Coopers analysis, mega deals are the main distinctive feature of this

²³ Mergers & Acquisitions Review. Second quarter 2005. — P. 11. — <http://banker.thomsonib.com>

market: the value of 15 % of the deals in 2005 amounted to more than US \$100 million, while in 2004 it was 11 %²⁴.

Industrial production accounts for the largest number of transactions (21 % of the total), followed by the sector of financial services (13 %), fuel and energy sector (10 %), output of food products and beverages (9 %), telecommunications (7 %), and the mass media (6 %), which, on the whole, reflects the worldwide trend. In telecommunications, in particular, Ukraine ranked first in M&A among CEE/CIS (14 %)²⁴.

It is pleasant to note that, apart from Russia and other CIS, M&A are arranged with greater activity, in particular in Ukraine and Kazakhstan, whose total size of deals in 2005 was US \$7.7 billion and US \$9 billion respectively²⁵. In Ukraine, a US \$2-3 million market growth in 2005 — 3 % of the total CEE market volume — occurred, above all, because of the changes in the country's political climate. The most active investor is Russian that took part in 14 deals out of the 85 the year before, the US and Austria, while Ukraine is most interested in companies in Poland, the Czech Republic and Romania.

This circumstance is explained by the geographic proximity of these countries and is also typical for the other countries of the CEE market. The main target companies for Poland are the Czech Republic, Romania and Hungary, for the Czech Republic — Slovakia and Romania, for Slovakia — the Czech Republic and Hungary, for Hungary — Croatia and the Czech Republic, for Romania — France, Bulgaria and Serbia, and for Bulgaria — Romania and Serbia. The main acquiring companies on the CEE market are, as a rule, foreign investors from the US, the UK, Germany, Finland, Austria, and Sweden.

The specifics of M&A in different CEE countries are presented in Table 5.

Table 5

Main specifics of M&A on the CEE market in 2005²⁶

3 largest countries by number of transactions	Russia, Poland, Czech Republic
3 largest countries by transactions value	Russia, Czech Republic, Poland
3 largest countries by pace of transaction growth	Bulgaria, Romania, Hungary
3 largest countries by pace of transactions value	Bulgaria, Croatia, Romania

²⁴ *Obzor sdelok po sliyaniyu i pogloshcheniyu v Tsentralnoi i Vostochnoi Yevrope* [Overview of M&A Deals in Central and Eastern Europe in 2005. Press release, May 4, 2006] — <http://www.pwc.com/Extweb>

²⁵ M&A in CIS. An overview of 2005. — www.ey.com/global/content.nsf/Russia_E/Press-Release

²⁶ CEE/CIS Mergers and Acquisitions Survey 2005. — Price Waterhouse Coopers, 2006. — P. 19.

growth	
3 largest investors in CEE/CIS	US, Germany, Austria
Average deal price (up to US \$100 million)	US \$17 million
Transaction share under US \$100 million	85 %
Average deal price (over US \$100 million)	U \$473.4 million
Transaction share over US \$100 million	15 %
Largest transaction	JSC Gazprom offered US \$13 billion for 72.66 % of shares of the oil-gas JSC Siberiskaya Neft

According to Ernst&Young, Ukraine ranks second after Russia by average deal value (almost US \$100 million) and third by the attractiveness of M&A as a form of investment after the Czech Republic and Slovakia, while the merger of the Ukrainian Bank Aval and Raiffeisen Bank of Austria was among the ten largest M&A transaction in CEE/CIS in 2005.

To retain the upward trend, Ukraine will have to ensure long-term political stability, pursue a consistent and constructive government policy, and effect structural reform (specifically tax and judicial).

Conclusions and Prospects for Continued Studies

Among the most typical aspects of the current stage of globalization is the intensification of international investment flows via M&A arranged mostly by large transnational corporations. By the size of attracted funds M&A considerably exceed greenfield investments.

M&A worldwide began in the late 19th century and went through the following main stages: rapid upsurge (1895—1905); even development (1905—2000); decline in activity (2000—2002); and revitalization (2002 and to this day). While M&A during the past ten years occurred mostly because of the boom of financial markets, today the key factors of the dynamic development of the M&A market are the companies' strategic motives (expansion, consolidation, protection against mergers by other companies), a country's economic growth, and the appearance of new investors.

The main motives of companies engaging in M&A is to achieve synergy embodied in the economies of scale, introduction of new work methods and the latest in technologies in the consolidated company, new op-

portunities of expansion, and mastering of specific skills by the two companies. A well thought-out and organized M&A transactions can become the basis of a company's survival and growth. Or the other way around — a badly planned M&A can not only bring harm, but also result in a quick demise of a company. This can happen if a company overestimates the value of synergy, neglects studying existing expertise and comparing the real and projected results. To avoid M&A failures and reverses, the companies' managers should critically evaluate synergies as well as possible costs and negative consequences, such as the loss of a part of clients or difficulties in introducing uniform standards of service. Besides, they should also analyze more thoroughly whether their own notions accord with the realities with regard to prices, market share, the time needed for achieving synergy, and learn to apply comparative indicators to reduce costs. Special attention should be attached to the selection of a team conducting a merger — it should include professionals capable of filling in the insufficient information through their knowledge. A well-planned integration can yield the company much better results than it expected.

One of the main reasons for M&A control is to prevent unfair competition and protect consumers against harm. That is precisely what control over M&A in the EU is all about. Decisions on M&A are made only if it is of timely advantage to consumers to outweigh anti-competition and achieved exclusively through the merger.

A distinguishing feature of the current stage of the M&A market worldwide is its positive dynamics of growth. The main players on this market are the US and the EU countries that account for 60 % of the number and 75 % of the value of trans-border transactions. During the past few years there is an upward trend in M&A transactions in the countries of Central and Eastern Europe, especially in finance, telecommunications, transport, and energy sources.

After a comprehensive analysis of the M&A world market, we believe that the promising areas of further studies are the specifics of the M&A markets in CIS, the Pacific Rim and other developing countries as well as their role in the world M&A processes; empirical studies of the impact of M&A on the economy of the receiving country and comparative characteristics with other forms of investment, specifically greenfield investment; and the analysis of the share of M&A in direct foreign investment in Ukraine and the evaluation of its net impact on the economy.

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The article was received by the editorial board on 30.01.2007