

## MERGERS AND ACQUISITIONS IN THE CURRENT ECONOMIC

**Abstract:** *Mergers and acquisitions are rather the result of strategic processes in a determined sector rather than individual actions of some companies. The main benefits of the merger are related to strengthening market position, reducing margins and increasing competitive pressures (often to the detriment of consumers). The main reason to resort to this type of transaction is the objective, namely increasing company value and hence shareholder wealth.*

**Key words:** *business combinations, competitive advantage, acquisition integration.*

### 1. Introduction

Warranty outlets, the emergence of the euro and the creation of the single European market are also reasons for mergers. Diversifying the portfolio of activities is equally one of the motivations for business combinations as a result of the cyclical downturn in certain sectors of activity has prompted businesses to expand through external growth, including non-core business. On the other hand, large groups, conscious of their relations of interdependence, have been associated for reasons of profitability beyond that of individual strategies.

### 2. Mergers and acquisitions over time

In the '20s creating large enterprises with high vertical integration has increased the pace of industrial concentration; the 60s were characterized by the formation of conglomerates, while the 80s have witnessed a number than mergers and acquisitions supported largely by debt financing. Consequences of globalization trends, increasing economies of scale and increased competition have resulted in the 90s three types of mergers: horizontal mergers to eliminate competition characterized by the grouping of businesses offering the same products or services, vertical mergers aimed at pooling the companies located on different stages of the production process to reduce costs and ensure intermediate outlets, conglomerate mergers between companies located in different areas of activity without complementary technique to divide the risk.

The main objective of companies resorting to mergers and acquisitions aimed at "increasing wealth as their shareholders and achieve competitive advantage [5, 127]. In these transactions, special importance is given to tax issues. A preparatory step for a transaction of merger or acquisition is the first control (due diligence review), which includes "a set of procedures for investigation and examination to obtain complete information to prevent any further negative consequences of the transaction" [6, 22].

In the literature uses the term business combination, meaning the merger of separate entities into one. The main options are to combine the issue of shares, transfer of cash or other assets or their combinations, the resulting entity or entities will control components, some of them will either restructure or acquired entity becomes a subsidiary of the acquirer.

### 3. Fundamental principles of business combinations

The fundamental principles of any business combination transaction, whether national or transnational, related to the strategic logic and a real effort to integrate. Observing the strategic logic includes the following aspects:

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- preliminary control procedures designed to examine the situation a whole entity to be acquired, this is usually entrusted to a team of professionals (legal advisers and accountants). It also aims to control and management accounting issues, tax and legal issues. In fiscal sense, combining operations cover both purchases and sales of assets and shares.

- the expected timeframe for the creation of value by the resultant entity;
- increase competitiveness or obtain additional skills;
- similar goals of the entities involved in combination, which allows economies of scale with direct implications on the level of performance.

Designed to exploit the benefits of *acquisition integration* merger involving a coherent policy coordination and cooperation between the participating entities.

If the year 1996, worldwide there were more than 2000 business combination amounted to approximately \$ 252 billion over the past 10 years their number increased substantially (53.85%), despite the fact that not all support improved performance acquirer entity (an example often cited in this regard concerns the famous takeover by Sony Columbia Pictures, a transaction that generated losses in the next five years estimated at \$ 3.2 billion).

For all business combinations, “International Financial Reporting Standards require the use of purchase method, a method that implies the sequential stages” [3, 213]:

- identifying the acquirer entity defined by IFRS 3 "Business Combination" as the other entity that obtains control of the combining entities, in that it requires financial and operational policy after blending;
- identifying and accounting for assets, liabilities and contingent liabilities acquired;
- accounting for depreciation of goodwill and an opportunity to assess it, according to IAS 36 "Impairment of Assets ";
- monitoring by combining assets and liabilities acquired. “If there is a possibility of a fair assessment, the liabilities of the acquire is a component of combination transaction cost, but if there is that possibility, they affect the value of goodwill under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" “[4, 59].

Besides the benefits to business combinations, economic literature also mentions their main obstacles, barriers relate primarily to cultural differences and management of the entities involved (an example is the merger between the Swedish company Pharmacia and Upjohn U.S. in 1995 , where the U.S. directive management style was at odds with the Swedish characterized by open discussion and consensus), and their lack of synergy (synergy in the economic sense, as a set of actions and elements which contribute to achieve the same result and whose interaction contribute to the growth potential).

“There is no negligible the objective resulted in effects of potential synergies resulting from the combination of companies. This can further benefit from the addition of a performance of each company involved in the party” [2, 139]. Although, in general, the overall economic benefits are obvious, there are anti-social effects of these transactions related to staff reductions or closure of unprofitable divisions that turn. For these reasons, before combining entities produce the required control and analysis of synergistic effects, with emphasis on costs associated with these effects.

#### **4. The effect of mergers and acquisitions transactions**

The effect of mergers and acquisitions transactions (table 1), is found in the "rescue" of companies in difficulty and waiting for the horizon is the inevitable dissolution. “If the facilities available, this company is attractive to another company, it will be absorbed, and subsequent strategic decisions, managers of the resulting entity will be able to revive the overall activity” [7, 16].

*Table 1*

## The effects of mergers and acquisitions transactions

The effects of mergers and acquisitions transactions	Management structures of the participating entities: the distribution of power in the entity acquiring or resulting from participating entities hiring managers is determined by pre-merger negotiation phase
	The shareholders and / or members: they become shareholders of the resulting company.
	On employees: refers to the changes inherent in the employment contracts and collective bodies of workers.
	Partners on commercial transactions, financial or otherwise, customers, suppliers, financiers and competitors.

Under legislation adopted, states may intervene in driving the business combination: to attract investors using tax and social levers, brake monopolistic intentions of certain groups through legislation. For the latter situation is eloquent example of Microsoft whose success was considered dangerous for the market, a matter which has generated lawsuits filed by the U.S. government.

“The location and nationality of the entities that are combined in some cases, a problem of our operations, especially at European level, meaning that the resulting statutes (in the case of a merger of entities in different states) is still highly regulated” [1, 34]. For this reason, some companies opt for domestic mergers or joint-venture system instead of an actual merger.

## 5. Conclusions

The transnational mergers are related to difficulties in tax matters concern often resulting entity dividends, dividends may be subject to double taxation. On the other hand, the incompatibility of national legal systems requires the adoption of measures to regulate the operations of combining and which, at present, are not yet sufficiently effective. European Commission with powers to control operations of the business combination merger intention to require that it be notified in case of businesses whose annual sales exceed € 5 billion and whose business in the EU Member States amounts to at least 250 billion € to prevent situations in which the merged entity could control most of the world market in that area.

In a study presented by Prince Waterhouse Coopers, referring to the geographic area of eastern European countries, a relatively small number of stand-type transactions and mergers and acquisitions involving a significant increase of local investors.

In the past 20 years in the Romanian market experienced a slow evolution as a result of joint action of the following factors: the instability of laws and national business environment, lack of a strong Romanian capital, slow growth and relatively low level of investment FDI. Even if in some sectors of Romanian economy (eg passenger transport and freight) have made steps shy and not always with the objective expected, we believe that in the current period when the economy is strained by a deep crisis, mergers and solution purchases may be one of the levers to mitigate the adverse effects of financial jams.

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