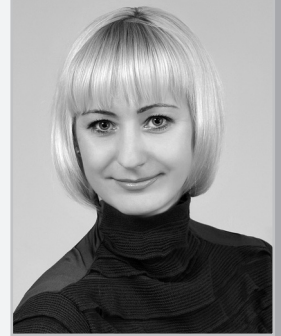


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M&A MARKET OPERATIONS AS A TOOL OF DOMESTIC ENTERPRISES' BUSINESS MODEL TRANSFORMATION

Abstract. This article reviews the main trends of the world market of M&A transactions and determines specific features of mergers and acquisitions market in Ukraine at the present stage. Based on the analysis, the main types of M&A transactions that may be undertaken by the domestic enterprises have been identified in order to transform their business models and adapt to the modern business environment. *Purpose:* complexity, uncertainty and the rate of change of the environment, the emergence of the new «players» in the market necessitated adaptation of the existing business models to the commercial landscape. This requires development of «reserve» measures for companies' timely response to such changes, and thus update to their business models. One of the transformation mechanisms to update business models is the processes of mergers or acquisitions. *Methods.* On the basis of statistical methods, in this article the main trends of the modern market of M&A transactions are analyzed as a tool for transformation of the business model. *Results.* The study determined that the domestic market of mergers and acquisitions is entirely new (compared to the world) and still is not fully formed element of the market economy. The main objectives set by the national members of M&A transactions are specified. They include: access to new markets, products, distribution channels; more efficient usage of existing resources; financial stabilization; changes in the rate of economic development; reducing the likelihood of being swallowed by another company. As a result of this research, a matrix of strategic intent has been built as a mechanism for effective study strategies on mergers and acquisitions in two aspects: the scope and the source of benefits. *Discussion.* M&A is a tool to create a strong position at emerging markets by increasing the size, a number of customers, synergy effects realization, and a combination of resources, knowledge and merged companies' power. To ensure transparency of the modern business models and improve their competitiveness in the global market of M&A transactions, it is necessary to conduct a series of government reforms. This would have positive impact not only on the image and effectiveness of the domestic business models, but also on the image of the state as a whole and its positive economic development.

Keywords: enterprise; business model transformation; merger; acquisition; spin-off; M&A transactions.

JEL Classification: G34

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РЫНОК M&A ОПЕРАЦИЙ ЯК ІНСТРУМЕНТ ТРАНСФОРМАЦІЇ БІЗНЕС-МОДЕЛЕЙ ВІТЧИЗНЯНИХ ПІДПРИЄМСТВ

Анотація. У статті розглянуто основні тенденції світового ринку M&A операцій та виявлено особливості сучасного етапу розвитку ринку злиття і поглинань в Україні. Визначено основні види M&A операцій, які можуть здійснювати вітчизняні підприємства для трансформації своїх бізнес-моделей з метою адаптації до сучасного бізнес-середовища та комерційного просування (spin-off).

Ключові слова: підприємство, бізнес-модель, трансформація, злиття, поглинання, spin-off, M&A операції.

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РЫНОК M&A ОПЕРАЦИИ КАК ИНСТРУМЕНТ ТРАНСФОРМАЦИИ БИЗНЕС-МОДЕЛЕЙ ОТЕЧЕСТВЕННЫХ ПРЕДПРИЯТИЙ

Аннотация. В статье рассмотрены основные тенденции мирового рынка M&A операций и определены особенности современного этапа развития рынка слияний и поглощений в Украине. Охарактеризованы основные виды M&A операций, которые могут быть осуществлены отечественными предприятиями для трансформации их бизнес-моделей с целью адаптации к современной бизнес-среде и коммерческой раскрутки (spin-off).

Ключевые слова: предприятие, бизнес-модель, трансформация, слияние, поглощение, spin-off, M&A операции.

Introduction. In modern conditions of significant structural changes caused by global processes of integration and globalization of competitive environment, it is increasingly difficult for domestic enterprises to maintain their competitive advantage. The complexity and uncertainty of the environment, its rate of change, the emergence of new «players» in the market necessitates timely adaptation of existing business models development a «backup» programs of measures for their immediate reorganization to respond to such changes in the macro environment (both direct and indirect impact). Current satisfactory state of efficiency of the existing business model cannot guarantee the present owners that in the future this trend will be maintained. In such economic environment, an integral part of the overall development strategy should be formulation of certain programs and mechanisms for crisis ma-

agement. One of these mechanisms is the processes of mergers or acquisitions.

Brief Literature Review. To the problems of mergers and acquisitions are mainly devoted works of foreign scientists, including noteworthy G. Bakker (2008), D. Harding (2006), G. Patrick (2007), D. Depamfilis (2007), P. Marosini (2005) and others. The scientists have formed a solid theoretical basis for effective management of enterprise restructuring tools based on mergers and acquisitions, essential stages of development and implementation of strategies for the M&A, by motives of mergers and acquisitions and the main stages of implementation. The rapid development of economy in the early 2000s led to an increasing interest in a particular issue of Russian researchers. Practical aspects of strategy, tactics and synergy in mergers and acquisitions have been the object of research of such

scholars, as I. Ivashkovskiy (2004), J. Ihnatyshyna (2005), S. Ishchenko (2011), D. Tykhomirov (2009), E. Fedorova (2006). However, despite the efficiency and depth of the research, the process of mergers and acquisitions as a tool of existing business models crisis adaptation to the changing conditions of the enterprise business environment is still not enough researched.

The purpose is to investigate the main trends of the M&A transactions as anti-crisis instrument of transformation of enterprise business model; study of major developments in the world, the Russian and Ukrainian markets of M&A transactions as a tool for transformation of the business model of the company; and construction of the strategic goals matrix for the business models transformation based on M&A transactions projection «scope of benefits/source of benefits»

Results. Activation of mergers and acquisitions has gained extensive development in the world economy. Most transactions were concluded in the United States in such sectors, as telecommunications and banking. Processes of mergers and acquisitions in the world have a long historical path and practical experience. Processes of mergers and acquisitions in the global market are called M&A (Merger and Acquisition). The transfer of control to manage a business or a part of it is called the M&A transactions. M&A is a consolidation of economic and business capital that occurs at the macro- and microeconomic levels. As a result, in the market there is a large company instead of several smaller ones. These agreements may relate to the implementation of enterprise as a whole, and its particular share.

The five most pronounced waves in the development of M&A processes may be noted (Figure 1).

The first stage: *horizontal consolidation – 1887–1904’s*. Necessity for mergers and acquisitions is due to a change in legislation and exceptionally unfavorable conditions for business. Most mergers were carried out according to the principle of horizontal integration. Virtually all areas dominated by monopolies. The ability to significantly influence market prices by manipulating the production and supply, provided them with a particularly high yield and changed the very essence of a market economy, based on this principle of free competition.

The second stage: *growing concentration – 1916–1929’s*. In connection with the antitrust laws of mergers and acquisitions in sectors not lead to the domination of monopolies and oligopolies, this means the dominance of a small number of major firms. For this wave more than the previous one, is characterized by vertical mergers and acquisitions and diversification.

The third stage: *conglomerate merger – 60–70’s of XX century*. For this phase is characterized by a surge of mergers and acquisitions of companies engaged in various types of business, i.e. mergers and acquisitions conglomerate type. According to the Federal Trade Commission of the United States, from 1965 to 1975 years 80% of mergers and acquisitions have led to the formation of conglomerates. The number of pure conglomerate mergers and acquisitions increased from 10.1% to 45.5%. Hard antitrust laws restricted horizontal and vertical integration. The number of horizontal mergers

decreased from 39% in 1948–1955 to 12% in 1964–1971. In the 70’s there was a very active large enterprises activity in diversification area in order to acquire assets in the field of electronics and telecommunications.

The fourth stage: *de-conglomerate merger association – 80’s XX century*. This stage is characterized by a tendency of hostile takeovers. Due to mitigate antitrust policy, in this period were the most common horizontal mergers and acquisitions.

The fifth stage: *mega-merger – second half of the 90’s to 2011*. One of the reasons for mergers and acquisitions is desire to ensure stability in conditions of variable markets. The most popular type of mergers and acquisitions is a horizontal integration. Their peak came in 1998–2000 as a result of economic globalization. In 1998, the number of transactions in mergers and acquisitions has increased dramatically, which was in 2.3 times more than in 1990. In this time, the transnational corporations’ acquisitions have led to over-concentration of enterprises.

Huge swings got mergers and acquisitions in the financial sector due to rising demand for financial services, the convergence of banking and insurance sectors. During the global crisis, the number of mergers and acquisitions in order to save enterprises has increased substantially.

Intensified wave of mergers and acquisitions took place in Europe (England, France, Germany, and Sweden), Asia (Japan, Singapore, and Hong Kong) and Latin America (Argentina).

Mergers and acquisitions in Ukraine begin in the early 1990s, after the transition to the market economy. Major mergers and acquisitions were realized in the second half of the 90s. For this reason, the history of mergers and acquisitions in Ukraine is very different from American and European.

The analysis showed that, in general, there are three main models of M&A transactions: the acquisition of corporate rights, acquisition of assets, and acquisition of debt [1].

Describing target industry segmentation of M&A transactions (Figure 2), it is worth noting that three major underdogs of the world market of M&A in 2013 include the following sectors: energy and power (14.7%), real estate (13.9%), telecommunications (11.2%).

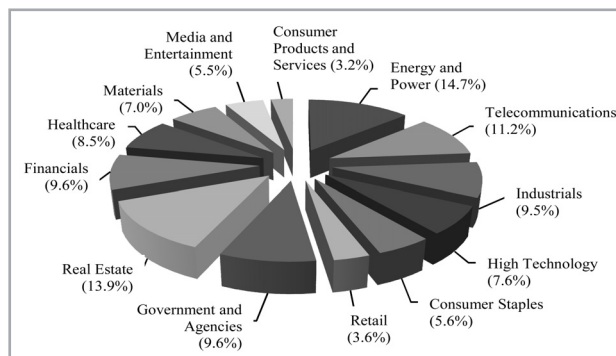


Fig. 2: Worldwide announced M&A target industry by value
Source: Compiled by the author based on [10]

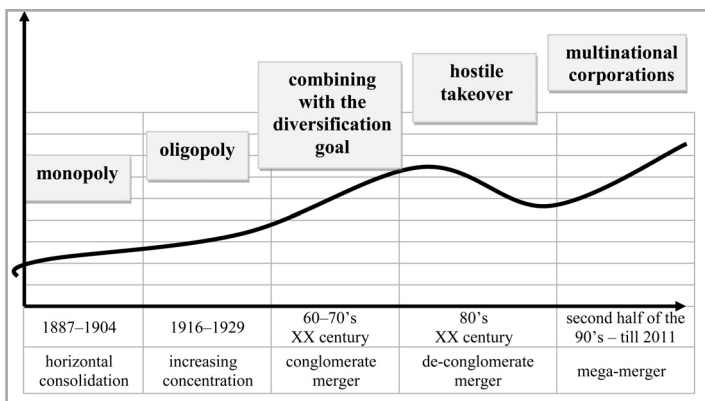


Fig. 1: Stages of mergers and acquisitions
Source: Compiled by the author based on [1; 6; 8; 9]

The domestic and Russian markets of M&A transactions in the worldwide constitute a significant proportion, as evidenced by the data shown in Table 1.

In recent years, Ukrainian market of mergers and acquisitions is entirely new and is not enough formed part of the market economy, nevertheless it is quite popular. The main objectives set by the national members of M&A transactions include: access to the new markets, products, distribution channels, more efficient usage of existing resources and skills, financial stabilization, changes in the rate of economic development, implementation of own companies’ protection, industry risks diversifying and reduction the likelihood of being swallowed by another company and so on [4].

The main buyers of Ukrainian assets were local private investors, so we can talk about the consolidation of the domestic business. After the decline of the Ukrainian economy and expensive borrowing resources, many small busi-

Tab. 1: The volume of the M&A transactions in 2007-2013

Period	Worldwide, billion U.S. dollars	Ukrainian market		Russian market	
		total volume of transactions, billion U.S. dollars	share in % to worldwide	total volume of transactions, billion U.S. dollars	share in % to worldwide
2007	4070	21.5	0.53	93.1	2.29
2008	2622	3.7	0.14	122.4	4.67
2009	1984	13.9	0.70	48.8	2.46
2010	2401	4.4	0.18	77.5	3.23
2011	2545	6	0.24	68.7	2.70
2012	2259	5.5	0.24	83.1	3.68
2013	2393	8*	0.33	62.6**	2.62

Notes: * – projections; ** – volume of M&A in the first half of 2013.

Source: Compiled by the author based on databases of MergerMarket, Thompson Reuters and rating agencies «AK&M»

ness owners are forced to sell the business to the larger ones, for who it is easier to attract short-term loans in Ukraine and abroad.

Mergers and acquisitions transactions in the world are considered as one of the sources of new assets, including intangible. Study of Economic Literature [1-3; 5; 6; 8; 9] has shown the distinguishing differences between the types of transactions (Figure 3).

The contract of sale or purchase of the company is recognized as the most simplistic kind of M&A transactions. The price of buying/selling in this case depends on the successful business models in the market. As a result, buying/selling is a change of ownership.

Merger is a financial transaction as a result of which there is a merger of several companies into one, accompanied by a preservation composition of owners [6, p. 14]. The business model is modified by this operation and increased levels of competitiveness.

Acquisition is a form of business combination, which suggests that consuming venture is a legal entity, but rather an enterprise which is absorbed, eliminated by transferring its assets, liabilities and debts [6, p. 15].

Absorbing company usually has an efficient flexible business model and business model of absorption has quite low level of risk protection that becomes a barrier to timely respond to a changing business environment, and in a highly competitive environment is a primary reason for its «exit» from the market.

Possible alternatives to the «hostile» takeover can be roughly grouped into three main types [2]:

1) «white acquisitions» – clearly planned acquisitions that happen though against the will of the primary owner, but in strict accordance with the applicable law. Typically, this type of absorption is applicable to companies with ineffective corporate governance and weak financial component of its business model;

2) «black acquisitions» – unlawful seizure of property, which is built on the use of criminal methods: forgery, bribery of officials, blackmail, fraud and so on. This type of absorption can be applied to any business;

3) «gray acquisitions» – acquisitions undertaken outside legal means that are similar to the methods of «white acquisitions», but a set of methods in the whole scheme of fraud is similar to the method of «black acquisitions».

This is a fairly common type of absorption that applies to any company which activity is translucent and is made with double-entry bookkeeping.

In the most general sense, mergers and acquisitions are two practical options for business combination, as a result of this agreement, only one of which is stored as a legal entity; it is a principal owner who gains control over another company (or individual assets) [8].

In practical terms, specified business combination can be realized by «friendly merger» in order to concentrate resources and assets, or «hostile takeover», aimed at maximizing control of the relevant market. Typically, the hostile takeover is involving the usage of illegal methods and mechanisms. The «enemy» M&A strategies are characterized by the highest level of harmful effects on the economic and financial stability of the company. In Ukraine today, 70% of the acquisitions are going on illegal (raider) basis [9].

Ukrainian practice knows such examples of acquisitions: the company «Obolon» was taken over by the company «Sarmat» (beverages and beer), the dairy plant «Pridnitrovskiyi» was swallowed by the company «Galakton» and so on.

Business models can be created both for a group of companies or a holding company as a whole and its individual business units and products [7, p. 17]. Successful businesses that are interested in their innovative development based on functional cooperation between the generators of ideas, research organizations, venture capital funds, investors and «business angels» within their businesses, can create separate business units as a spin-off company to merge knowledge, capital and technology.

In international practice, often spin-off creates a research organization (alone or together with an innovative company that has experience in the implementation of the innovative projects) to design and development of production technology perspective, based on the results of scientific research. Creation spin-off is useful in cases, where an innovative project has the potential to evolve into a competitive business model of the company in the future. Spin-off usually acts in the first two or three years, it operates and conducts its activities in a business incubator research organization, and later becomes an independent market actor.

Agreements in the M&A market in 2013 in Ukraine should be divided into three groups (Table 2).

The list of groups of transactions in the M&A market in Ukraine is not full. Ukrainian economy has a significant contribution to its spread. This is evidenced in success of a large number of domestic business models that are sufficiently attractive to foreign investors.

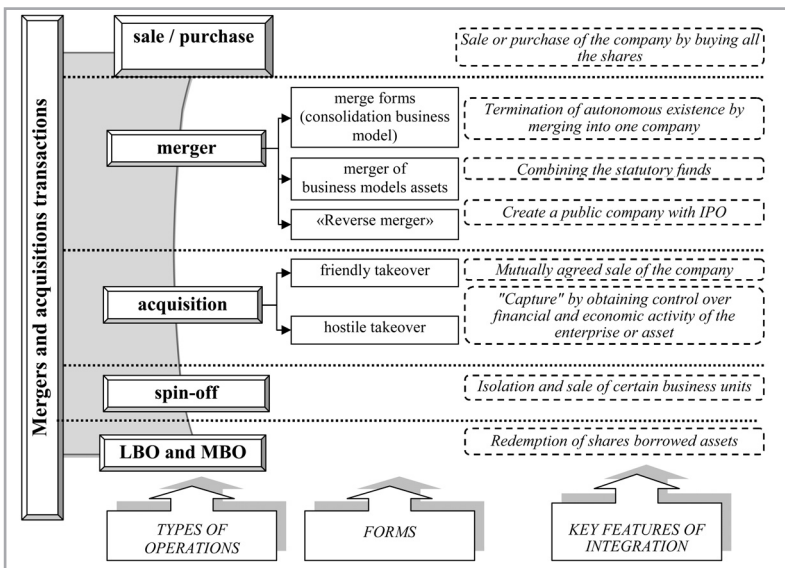


Fig. 3: The main types of M&A transactions

Source: Compiled by the author based on [1-3; 5; 6; 8; 9]

Tab. 2: Group deals in the M&A market in 2013 in Ukraine

M&A Group	Description of M&A transactions
1	deal with the "real" North American or European capital (output and input capital/residence in the country)
2	deal with real Russian capital (output and input capital/residence in the country)
3	agreement with Ukrainian or quasi-Ukrainian capital (output and input capital/residence in the country)

Source: Compiled by the author based on [5]

One of the mechanisms of effective mergers and acquisitions study strategies is construction the strategic intentions matrix (Figure 4) in two areas: the scope and the source of benefits. It may be formed under the following key criteria: operations, products, markets and costs, potential synergistic effects.

SCOPE BENEFITS	Target markets	<ul style="list-style-type: none"> Marketing Cross-selling opportunities 	Exchange of market research	Access to new markets and resources
	Products	<ul style="list-style-type: none"> Public investment in the innovative products development 	<ul style="list-style-type: none"> Exchange of experience in innovation Optimization of products (goods) logistic management 	Combining of different products or brands (quality improvement and intangible resource management of the business model)
	Business-process	<ul style="list-style-type: none"> Economies of scale effect Optimization of the integration process Reduction costs of business processes 	Exchange of experience in identifying key problems and business processes	Revolutionary changes in basic quality, management and business process providing
		Optimization of the business model expenditure components	Potential of business models	Synergy effect
SOURCE BENEFITS				

Fig. 4: The strategic goals matrix for the business models transformation based on M&A transactions
Source: Compiled by the author based on [1-3; 5; 6; 8; 9]

Conclusions. The analysis has shown that at the present, Ukrainian market of M&A transactions is only forming. Ukrainian market of mergers and acquisitions every year becomes more open and transparent, while in some cases to obtain reliable information is difficult. Attention is drawn to the fact that the terms of agreements with foreign investors are open to the public, but the level of transactions disclosure in the domestic market is rather low. We believe that to ensure transparency in modern business models and improve their competitiveness in the global market of M&A transactions, it is necessary to conduct a series of government reforms. This would have positive impact not only on the image and effectiveness of domestic business models, but also on the image of the state as a whole and its economic development. Companies that have successful business models will soon change tactics and reorient to expansion through mergers and acquisitions. New companies create a strong position in emerging markets by increasing their size, the number of customers, the realization of synergy effects, and the combination of resources, knowledge and capabilities of the united enterprises as it is shown in the worked out matrix.

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