

Strategic finance and accounting

Finance



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Strategic Finance Mergers A merger is a combination/amalgamation/consolidation/integration of two or more organizations in such a way to acquire the assets and liabilities of the other in exchange for shares, cash or both. The two organizations are dissolved, the assets and liabilities are combined and new stock is issued. The case of BA and Iberia airlines involving in a merger, this is referred to as a horizontal merger as it involves the same line of business.

BA Chairman Broughton meant a lot by his statement when he announced that the 5 billion pound merger between BA and Iberia had a “compelling, strategic and financial logic”. For one reason, mergers are undertaken so as to increase the growth rate of the organization. For this case, the chairman’s statement means that, through the merger, a stronger organization with a stronger financial base to acquire more and better assets and improve the management condition will be formed. In this light, with good management, when a new team of management personnel will be put in place, the chairman is visionary that the newly formed organization will be able to provide better services to the passengers at affordable prices as well as make better profits. Through the merger, there is reduction in competition that was there before between the two firms, and this can make the shareholders now run a more profitable business. The staff will also enjoy since new management comes with new management systems so that, the former problems that were being experienced earlier, must be sorted before the merger takes place. For instance, there has been a cabin crew dispute and strike in the airlines, which will be solved by the merger (TheGuardian, 2010).

Therefore, the merger is compelling since it has several advantages,

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strategic in terms of tax benefits and reduction of competition and financial logic as it brings finances together for investing and improving the face of the new organization to result to better management, customer service and good profits.

Considering a recent example of a merger between two cement companies; Lafarge and Holcim, the two companies had an intention of coming together to create the world's biggest cement maker with combined sales of 32 billion pounds. The merger was aimed also at reducing competition which has made the two firms become the biggest rivals in the past.

Reference

TheGuardian. (2010, November 29). BA and Iberia Agree 5 billion Pounds Merger. A Journal of the Guardian .