

Rationale behind manda essay



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RATIONALE BEHIND M&A Motives There are two types of motives involved in merger and acquisition and these are Explicit and Implicit motives. Explicit Motives

- Synergy: Synergy means that the merged firm will have a greater value than the sum of its parts as a result of enhanced revenues and the cost base.
- Economies of Scale: Economic of scale refer to the reduction in unit cost achieved by producing a large volume of a product. Horizontal mergers aim at achieving economies of scale. This phenomenon continues while the firm grows to its optimal size, after which a firm experiences diseconomies of scale.

Economies of Vertical Integration: Economies of vertical integration are achieved in vertical mergers.

It makes coordination of closely related operating activities easier.

- Entry to New Markets and Industries: A firm that wants to enter a new market but lacks the know-how can do so through the purchase of an existing player in that product or geographical market. This makes the two firms worth more together than separately.
- Tax Advantages: Past losses of an acquired subsidiary can be used to minimize present profits of the parent company and thus lower tax bills. Thus, firms have a reason to buy firms that have accumulated tax losses.
- Diversification: One of the reasons for conglomerate mergers is diversification of risk.

There are two types of risks associated with businesses- systematic and unsystematic risk. Systematic variability cannot be removed by diversification and hence mergers are not able to eliminate this risk. Though, unsystematic risk can be spread through mergers.

- Managerial Motives: The management team of the acquiring firm tends to benefit from the merger

activity. The four most important managerial motives for merger are empire building, status, power and remuneration.