Merger definition and difference between merger and acquisition

A merger occurs when two companies combine to form a single company. A merger is very similar to an acquisition or takeover, except that in the case of a merger existing stockholders of both companies involved retain a shared interest in the new corporation. By contrast, in an acquisition one company purchases a bulk of a second company's stock, creating an uneven balance of ownership in the new combined company. In the case of a merger, two firms together form a new company.

After the merger, the separately owned companies become jointly owned and obtain a new single identity. When two firms merge, stocks of both are surrendered and new stocks in the name of new company are issued. Generally, mergers take place between two companies of more or less same size. In these cases, the process is called Merger of Equals. However, with acquisition, one firm takes over another and establishes its power as the single owner. Generally, the firm which takes over is the bigger and stronger one.

The relatively less powerful, smaller firm loses its existence, and the firm taking over, runs the whole business with its own identity. Unlike the merger, stocks of the acquired firm are not surrendered, but bought by the public prior to the acquisition, and continue to be traded in the stock market. Another difference is, when a deal is made between two companies in friendly terms, it is typically proclaimed as a merger, regardless of whether it is a buy out. In an unfriendly deal, where the stronger firm swallows the target firm, even when the target company is not willing to purchased then the process is labeled as acquisition.