Mergers and acquisition advantages in international business environment

Business, Business Environment

Merger is a technique whereby an operation is expended so as to improve on long-term profits. It happens only if the merging companies have a good relationship unlike acquisition where the merging companies acquire in a hostile manner. To avoid hostile takeovers the company has to plan share holder rights which is referred to as poison pill . To date, a small number of mergers add share value of acquiring company. On the other hand corporate mergers normally lead to monopolistic competition through reduction of costs and taxes.

These practices may not please the public, therefore, the government step in by taking charge in supervising. Mergers may take several dimensions, either vertical, horizontal, congeneric or conglomerate basing on the merging companies. On the other side is the acquisition which is a hostile takeover. It occurs between the bidding and the target company. One of the companies (bidding) has a substantial control of the company. It occurs when the bidding firm is smaller than the target firm.

In the acquisition process, the bidder buys shares from the target firm or assets in other cases. Mergers and acquisition implementation According to studies is believed that mergers and acquisition will not cease from being a factor in both local and international arenas. Reports indicate that mergers and acquisitions are rapidly increasing. For example a report from American states that in the 1986 it was approximated to be 400 and an increment of 200 in 1988. In Japan register 44 mergers and acquisitions in the year1984and 315 mergers and acquisitions in 1988 .

Researches taken revealed that the increase in mergers and acquisition is brought about by privatization of firms a consolidation of domestic industries such as banking and airlines. This has is seen as a future opportunity for future acquisition. Despite the fact that mergers and acquisitions are rapidly increasing, none of them have met expectations of managers in terms of finances. A research undertaken in America indicates that neither the stock market nor the financial performance can result to improvement.

The major problem therefore is get involved in corporate improvement and how to achieve effectiveness. Solutions to mergers and acquisitions In order to succeed in this process, there are a number of measures that one has to undertake. One is that transactions should be strategized to come up with a competitive advantage. This is achieved though economies of scale, product design, improvedtechnologyso as to enhance differentiation. Successes come only if the firm is concerned with strategies and avoid being opportunist in doing a deal.

Two is that the price of buying a target firm should be higher that the merger because the strategized benefits attained after the change of ownership. The value of the buying firm is reflected by the final buying price of merger. In this case therefore combination value should be more than the purchase price. The last factor is the extent to which mergers and acquisition are implemented effectively by determining their value. The buying price and sound strategy should give a handsome combination. It can be achieved by effectively combining the merging firms so as to realize strategic benefits.

Challenges In transaction and implementation there arise problems to the managers in mergers and acquisitions. They include; one, the managers lack sufficient information on what to buy and what their inherent and combination values are. The manager has to have detailed information concerning the target firm that is almost winding up. It is almost impossible because they do not reveal their information to the public. When the firm is about to be closed much of the information are gathered such as valuation, negotiation and its due diligence.

At this point managers try to analyze the target firm in terms of its value, past operations and performance, and how they expect it to operate and perform in the coming times. They also link it with the buying firm and see their compatibility. Secondly is the issue of implementation. A firm which has failed to meet the financial expectations in that manager has always been seen to overestimating the strengths which they hope to achieve and underestimate the limitations that are to be involved . In order for the merger to succeed, there newly merged firms have to recognize and deal with the challenges.

These challenges may be language barriers, negotiating organizational cultures and managing virtualcommunicationacross the world. Impacts Impacts of mergers and acquisition can be to the employees, top management and shareholders of the acquiring firm. On the employees, as the firms have merged there will be layoffs in this case therefore some of the workers will be forced to resign from their jobs. In this situation the skilled labor will have an advantage as they will have a chance to move to a good firm as compared to the one that their current one through the layoffs .

It will be a disadvantage to those who had no skills as they will look for any sort of lob to keep their selves busy even if the remuneration is not pleasing. Generally it will lead to high rate of unemployment. On the management, advantages may equalize the disadvantages simply because they all have the skills of the job they are performing. To overcome this, the two managements may formulate strategies and policies that will meet the cultures of the two organizations. The company that benefits the most is the acquired one.

This is because it will be paid more than what it should have been. In the local economy, shares are offered more than the prevailing market. To the acquiring firm being the most affected in terms of debt load they will be carrying. Conclusion Mergers and acquisition have an aim of making admirable profits and increase productivity of the firm. On the contrary, it is to minimize expenses that the firm ought to incur during its operations. It is not a must that a firm has to make profits losses sometimes are recorded.

There are a number of factors that always determine the success of either a merger, acquisition or a takeover. These are the resistance of a firm. It affects the workforce and the reputation of the company . There is also the factor of psychological issue where, through mergers and acquisition executives managers and the entire work force together with the share holders get affected during the process. References: Foster Business Library,

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