

Czech University of Life Sciences Prague

Faculty of Economics and Management

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Bachelor Thesis

**Analysis of Merger of Daimler Benz and Chrysler
Corporation**

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Declaration

I declare that I have worked on my bachelor thesis titled "Analysis of Merger of Daimler Benz and Crysler Corporation" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on 15.03.2022

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Analysis of Merger of Daimler Benz and Chrysler Corporation

Abstract

This work analyses the motivation of mergers in general and its effects on the automobile industry in particular.

This work analyses the motivation of international merger and its effects on the world automobile industry.

Effectively, this work explores how Daimler-Benz and Chrysler Corporation merged in 1998

Characteristics of an acquiring company and a target company

Motivation of acquisitions

Impact of the merger on relevant stakeholders and on the industry

The work firstly provides the characteristics of both acquiring and a target companies

The motivation of acquisitions is explored

Impact of the merger on relevant groups of stakeholders and on the industry as a whole is scrutinized

As the car industry is a very important segment in the US, employing about 1/6 of the US workforce the thesis explores the effects on the concentration of the industry.

It explores the motivation of this merger and its particular features as well as its impact on various groups of stakeholders

Furthermore it explores the innovations that were resulting from this merger.

Keywords: acquisition, car industry, motivation, major features, corporate culture

Analýza fúze Daimler Benz a Crysler Corporation

Abstrakt

Tato práce analyzuje motivaci fúzí obecně a jejich dopady na automobilový průmysl konkrétně.

Tato práce analyzuje motivaci mezinárodní fúze a její dopady na světový automobilový průmysl.

Tato práce účinně zkoumá, jak se Daimler-Benz a Chrysler Corporation sloučily v roce 1998

Charakteristika přijímající společnosti a cílové společnosti

Motivace akvizic

Dopad fúze na příslušné zúčastněné strany a na průmysl

Práce nejprve poskytuje charakteristiku jak nabývajících, tak i cílových společností

Zkoumá se motivace akvizic

Dopad fúze na příslušné skupiny zúčastněných stran a na průmysl jako celek je zkoumán

Vzhledem k tomu, že automobilový průmysl je v USA velmi důležitým segmentem, zaměstnává asi 1/6 americké pracovní síly, práce zkoumá vlivy na koncentraci průmyslu.

Zkoumá motivaci této fúze a její konkrétní rysy, stejně jako její dopad na různé skupiny zainteresovaných stran

Dále zkoumá inovace, které byly výsledkem této fúze.

Klíčová slova: akvizice, automobilový průmysl, motivace, hlavní rysy, firemní kultura

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1 Introduction

In the modern world, companies constantly interact with each other – one companies compete with each other, others cooperate and try to conquer the biggest portion of market share as it possible. Nevertheless, in this research, the author wants to take a look at one of the biggest mergers that happened in the car industry – a merger between Daimler Benz and Chrysler corporation. Undoubtedly, whenever companies merge, there might be an obvious winner and loser or they both can be better off ending up in a similar kind of merger. Therefore, another idea of this work is to see the way how this merger influenced both corporations, what were the main consequences and what have played the biggest role in the whole merging affair.

The significance of this work for the modern world is relatively high since companies tend on merging and taking over a larger market share thus manipulating the free market and presumably changing the type of economic competition, e.g., from a situation close to the perfect competition to the situation that can be more categorized as an imperfect competition, etc.

The work itself is split into two primary parts: the literature review where an analysis of relevant literature performed and the practical part containing the main author's analysis.

2 Goals and Methodology

2.1 Goals and Objectives

The main usage of the research philosophy is based on the perspectives of the current research can be viewed to be influential in nature based on various paradigms of the research method that comprises axiology, epistemology, and phenomenology. Understanding the perspectives of research, the use of the different aspects of philosophies of the present research might include the processes of interpretivism, realism, subjectivism, and positivism. It has been noticed that each stage of the aspects of the research is effectively based on prior assumptions about the knowledge and the information. The process of research philosophy essentially reflects the significant assumptions of the scholars that serve the main purpose of acting as the base of the research strategy. The research philosophy of Interpretivism includes the researcher's interpretation into an aspect of the study. Based on his methods and human interest in the study, the philosophy assumes access to the basic reality that is socially constructed in nature and through those perspectives shared meaning, language, and instruments are interpreted (Corry, 2019). According to this form of research philosophy, qualitative analysis is chosen over the quantitative form of analysis. The concept is linked with the idea of basic idealism that is used to effectively group together various approaches like phenomenology, hermeneutics, and social constructivism. The research philosophy of realism relies on the nature or idea of the independence of reality from the minds of humans. This philosophy is based on the idea of basic assumptions of an approach of scientific knowledge that leads to the development of significant information. Realism can be divided into two aspects, mainly direct realism and critical realism. The aspect of direct realism is also called naïve realism, which reflects the aspects of the world through the perceptions of the human senses. In terms of the critical aspect of realism, it argues that humans experience the images of the real world, which can be deceptive in nature.

In order to effectively investigate and outline the overall information of knowledge of the various measures through analysing the impact of the merger of Daimler-Benz and Chrysler Corporation, the use of the research philosophy of positivism has been chosen. The incorporation of the philosophy of positivism can be effectively justified for the process of enabling the various derivations and the cross-checks of the analysis of the research with differentiation based on the ideas, facts, and the basic concepts related to the research paradigm.

In addition to this, the implementation of the research philosophy of positivism has been incorporated as it helped the researcher for the effective implementation of the vital achievements based on precise and authentic data, information, and collection of knowledge (Nowell, 2017). This has allowed the researcher to gain significant results based on the analyses of the merger between Daimler-Benz and Chrysler Corporation. This factor would ensure the fulfilment of the findings of the research and the analyzed information based on the different measures that have been adopted to make the study successful.

2.2 Methodology

The incorporation and the implementation of the research design are characterized as the effective encompassing of the different approaches that are undertaken for the enabling or facilitation of the integration of specific elements and components of the arena of the research that are infused with logical terms and rational manner. Hence, it can be rightly said that the overall understanding and the suitability of the research design addresses the basic research problem. Furthermore, based on the same respect, it has been found that the incorporation of the research design allows the researcher for the attainment of the different findings and the results with higher rates of authenticity and with more accuracy for the effective fulfillment of the research purpose. Based on the aspects of the present study for the effective analyses of the merger of Daimler-Benz and Chrysler Corporation, the focus of the research design that has been incorporated is descriptive in nature. Based on the aforementioned statement, this research design addresses the various problems of the research. In respect to the present topic of study, the main issues are underlined as based on the rising health issues including obesity, hypertension, cardiac issues, and diabetes; there is a demographic trend to incur healthier alternatives to oil-based fast foods (Friedman, 2017). Based on the issues of the research that is incorporated in the contemporary arena of mergers and acquisitions, the use of the descriptive form of research has been used. This allows the researcher to implement the use of the primary sources of information based on case studies, retrieving the data from the interviews and debates and the secondary sources like journals, books, articles, and others in order to gain plausible results based on quantitative and qualitative research strategy.

In relation to the aspects of the present study for the effective analyses of the merger between Daimler-Benz and Chrysler Corporation, the basic measure, the study has significantly used the phenomenon and the effective directions of the specific research topic. In this aspect, the use of the research approach has been used. The aspect of the research approach is a procedure or a plan that consists of a broad genre of different assumptions for the detailed methods of analysis, data collection, and the interpretation of the data. Hence, it can be rightly said that the problem of the research is being addressed through the use of the research approach. The research approach can be divided into three main types, the deductive approach, the inductive approach, and then the abductive approach. Based on the relevance of the hypothesis of the study, the main points of differences between the inductive and the deductive approaches are discussed. The aspect of the deductive approach tests the basic validity of the theories or the assumptions of the research in hand, while on the other hand, the inductive approach contributes to the effective contribution to the emergence and the creation of new theories and generalizations. In terms of abductive research, the study focuses on puzzles or elements of surprise, and the process is designated to the explanation of those surprising facts.

In the context of the present research topic that is based on the hypothesis of the aspects of the present study, the author decided to choose the deductive approach is chosen. The entire research study has been based and conducted with scholarly articles, journals, books, and other forms of secondary sources of data and information. Based on the data and information that has been collected for the appropriation of the present data, the research approach of the deductive approach has been justified.

It has been found that in terms of the methods of the qualitative research strategy and secondary sources of data collection, the best mode of process of the analysis of the data is through the use of the thematic analysis. Based on the specified research topic, the aspects of the present study for the impact of the merger on Daimler-Benz and Chrysler Corporation, the use of the thematic process of data analysis has been integrated. The form of the thematic process of data analysis uses the methods of interpretation, identification, and analyses the basic patterns of the themes within the dimension of the secured qualitative data with the use of the secondary sources of the data. The integration and the usage of the thematic form of data analysis have been justified due to its use for the exploration of the various questions, lived experiences,

perspectives, and the practices that shape and influence the specified phenomenon of the research. In addition to this, it is used for the effective social construction of the representation of the meaning behind the use of the social objects in the specified context of the research.

3 Literature Review

3.1 Importance of Merger and Acquisition activities

3.1.1 Types of Merger and Acquisition activities

Mergers and Acquisitions (M&A) is a general term used to describe the aspect of management that involves the buying, selling and merging of companies and entities. He is mainly involved in business consolidation, through which two forms of a business combination are used - mergers (M) and acquisitions (A). These two terms have been mistakenly used interchangeably, merging them into one "merger". They are indeed a form of the business combination, but they differ markedly (Bloomberg Global, 2018a). A merger is a type of business combination in which two companies merge to form a new company. This happens when one company (a surviving company) takes over another company (a merged company). The objectives of the merger are any or all of the following: increasing overall competitive advantage, increasing revenue, growing business, entering new markets, and reducing costs. With this type of business combination, the two companies may have different sizes, although they may also be about the same size, hence the phrase "merger of equals" (Boston Consulting Group, 2020). A classic example is DaimlerChrysler, which was formed when two initially separate companies - Daimler-Benz and Chrysler - agreed to move forward as a single, joint venture, instead of remaining as separate organizations in both management and operations. This is often done through the purchase and delivery of shares (Bradley et al., 1983). Absorption. With the business combination type, one company is bought by another company. Unlike a merger, a new company is not created because the absorber (owner) company remains and simply absorbs another company that it has acquired. The acquired company also retains its identity as an entity management, but now it will be under the control of the company absorber (Brealy, Myers, 2003).

There are three main types of business combinations: consolidation, mergers, and acquisitions. During the consolidation established by law, two or more companies decide to create a new company, which will lead to the dissolution of previous companies (Bradley et al., 1983). A merger or acquisition involves the merging of two firms into one:

Company A + Company B => Company AB

The decision of one firm to acquire another is an investment decision, like any other, made under uncertainty, and the same rules apply. The initial indicator used to understand the profitability of the M&A agreement, as well as any investment project - NPV (Table 1) (Boston Consulting Group, 2020):

Table 1. Conditions of expediency of the investment project in terms of net present value (Boston Consulting Group, 2020)

| Condition 1 | Condition 2 |
|---|---|
| If $PV (AB) > PV (A) + PV (B)$ | If $PV (AB) < PV (A) + PV (B)$ |
| $NPV > 0$ | $NPV < 0$ |
| Shareholders benefit from: «Better off» | Shareholders receive losses: "Worse off" |

Net present value (NPV) - the sum of the present value (PV) of the inflow and outflows (PV) of incoming and outgoing payments (costs and revenues) related to the investment or project throughout the negotiation period. Net present value depends not only on the amount of expenses and income but also on the time at which these payments are made and the interest rate at which payments are discounted (A decade of retail M&A overview, 2019).

In modern theory and practice, industry markets can be classified into various types of mergers. The most important features of the classification of these processes are the following (Ahmed/Foerster, 2020):

1. the nature of the integration of companies;
2. nationality of the merging companies;
3. the attitude of companies to the merger;
4. method of combining potential;

I. Depending on the signs of integration of companies, it is advisable to distinguish the following types (Bloomberg Global, 2018a):

- horizontal merger - an association of companies operating in the same market, i.e. the same industry, producing the same or similar products or carrying out the same technological stages of production.
- vertical merger - an association of companies in different industries related to a single technological process of product production, i.e. expansion of the buyer company to its previous stages of production, up to sources of raw materials (lagging integration), or further - to end consumer (advanced integration). For example, the merger of exploration, mining, metallurgy, and engineering companies.

- tribal merger - an association of companies that produce interconnected (complementary) goods. For example, a company that produces audio or video equipment, computers, merges with a company that produces media.
- conglomerate mergers - associations of companies in different industries without horizontal or vertical integration (production community), i.e., mergers of firms in one industry with firms in another industry, which is neither a supplier nor a consumer. The merging companies may have no technological or targeted unity with the core business of the acquirer.

In turn, people can distinguish the following three types of conglomerate mergers (Bloomberg Global, 2018a):

- merger with the expansion of the product line - the connection of products like each other in the production process and sales channels, but not competing with each other.
- merger with market expansion - acquisition of additional sales channels in geographical areas that were not previously serviced.
- pure conglomerate merger, which does not imply any commonality.

II. *Depending on the nationality of the merging companies, there are two types of mergers* (Bloomberg Global, 2018b):

- national merger - an association of companies located within one state.
- transnational merger - merger, acquisition of companies located in different countries.

In the context of integration and globalization of economic activity, a characteristic feature is the strengthening of mergers not only of companies from different countries, but also multinational corporations.

III. *Depending on the attitude of management to the merger can be divided into* (Bloomberg Global, 2018b):

- friendly merger - a merger in which the management and shareholders of the participating companies support the operation.
- hostile merger - a merger and acquisition, in which the management of the acquired company does not agree with the planned operation and takes a number of anti-seizure measures. In this case, the acquiring company has to take action against the target company in the securities market.

IV. *Depending on the method of combining the potential of companies, the following types of mergers can be distinguished* (Bloomberg Global, 2018a):

- corporate alliances - an association of two or more companies focused on a specific separate line of business, which provides a synergistic effect in this direction, in other activities, firms can act independently.
- corporations - a type of merger associated with the amalgamation of all assets of firms involved in the operation.

In turn, depending on the combined potentials are distinguished:

- industrial merger - a merger in which the production capacity of companies is combined mainly in order to obtain a positive synergistic effect by increasing the scale of activity;

- purely financial merger - a merger aimed at centralizing financial policy, strengthening the position of the securities market, financing innovative projects, etc. Financial management and financial flows in diversified firms may be more effective because they can manage management synergies and acquire new forms.

3.1.2 Causes of Merger and Acquisition activities

The basis of mergers and acquisitions is always the competitive environment, or rather, its changes. They become more and more significant and rapid as the economy develops. By resorting to mergers and acquisitions in such an environment, companies can pursue all sorts of goals (Deal Drivers EMEA, 2019). The main reasons for pushing companies towards mergers and acquisitions can be divided into the following 3 groups:

1. Internal - cost reduction, acquisition of modern technologies, recruitment of highly qualified specialists;
2. External - changes in the external environment that adversely affect the organization;
3. The motives of the management - the desire of the managers to complete these transactions;

That is why a large number of companies use this strategy. In the next step, the pros and cons of M&A transactions inherent in this industry were highlighted. They are presented in Table 2. (Deloitte, 2020). Modern conditions are characterized by high competitiveness, so it has become almost impossible for independent companies to survive in the auto market.

Table 2. Advantages and disadvantages of M&A transactions (Deloitte, 2020)

| Advantages | Disadvantages |
|---|---|
| The ability to achieve the goal as soon as possible | The possibility of problems with the personnel of the purchased company after the implementation of the transaction |
| Rapid acquisition of strategically important assets, primarily intangible | High risk in case of incorrect assessment of the company and the situation |
| Strategy can weaken competition at the same time | The complexity of company integrations, especially if they operate in different areas |
| Achieve synergies by reducing costs through economies of scale and eliminating duplication | The strategy is associated with significant financial costs, since it involves the payment |

| | |
|---|---|
| | of bonuses to shareholders and "golden parachutes" to personnel |
| Entering new geographic markets, acquiring a well-functioning sales infrastructure | Possibility of cultural incompatibility between companies, especially in cross-border takeovers |
| Quick purchase of market share | |
| Opportunity to purchase undervalued assets | |

Mergers and acquisitions (M&A) play an important role in external corporate expansion, acting as a strategy for corporate restructuring and control. This activity is different from decisions on internal enlargement, such as those determined by investment valuation methods. Mergers and acquisitions can help firms grow rapidly and are a mechanism for capital market discipline that increases management efficiency and maximizes profits and social well-being (Dodd, Ruback, 1977). The global corporate community is now going through the seventh wave in the evolution of M&A. Looking at the previous life cycles of the waves, almost all of them ended together (as a result) of global or regional crises in the world economy. Scientists are debating whether the crisis after the global pandemic will bring the same result for the seventh wave.

There are three main reasons for the merger (EY, 2019):

1. the desire to obtain a synergistic effect,
2. minimization of taxes,
3. benefits from operations in the securities market.

1. The effectiveness of synergy is manifested in the growth of the value of two (several) merged companies, i.e. the complementary effect of the assets of two or more companies, the cumulative result of which is higher than the total result of individuals operating separately in the market structure. The creation of additional value of the company as a result of the synergetic effect consists of operational and financial synergies. Financial is an additional value arising from the diversification of risks and activities, opportunities to increase liquidity and attract debt financing. Operational synergy is the added value of a merger of resources and depends on the type of merger. Functional integration is necessary to protect against seasonal

changes in the market (bank and insurance company). Horizontal and functional mergers predominate in the banking business (EY, 2019).

2. Tax minimization is ensured through the redistribution of the value added sector between the private and public.

3. The benefits of operations in the securities market are affected if the absorbing bank receives a bank with unauthorized shares.

In addition to the above reasons for the merger of credit institutions (companies), people can also name:

4. Improving the quality of management, inefficiency. Mergers can put achievement at differentiated efficiencies, which means that asset management alone with the company has been ineffective, and after the merger, the corporation's assets will become more efficiently managed. However, sometimes people can overestimate own ability to manage a more complex organization and deal with unfamiliar technologies and markets. However, which in some cases are the simplest and most rational way to improve the quality of management. Since managers, of course, will not decide on dismissal or demotion, I myself for inefficient management, shareholders of large corporations do not always have the opportunity to influence who and how will manage the corporation (EY, 2019).

5. Diversification of production, the possibility of using surplus resources. Diversification of income, stabilizing flows, is beneficial to employees of the company, and suppliers, and consumers (through the expansion of the range of goods and services). The motive for the merger may be the emergence of temporarily free resources in the company. For example, it operates in an area that is in its infancy. The company generates large cash flows, but has a choice of attractive investment opportunities. Therefore, such companies often use the surplus funds created for the merger. Otherwise, they may be the subject of takeovers by other firms that find use for excess cash (EY, 2019).

6. Personalities of managers, the desire for greater motivation of the political weight of the company's management. Business decisions on the organization of companies are based on economic feasibility. However, there are examples where different decisions are based on the personal motives of managers rather than on economic analysis. This is due to the fact that company leaders love power and claim high wages, and the boundaries of power and wages

are in some connection with the size of the corporation. Thus, the increase in the scale of companies contributed to the use of options as a long-term incentive. (EY, 2019).

3.1.3 Effects of Merger and Acquisition activities

Mergers can increase the efficiency of merged companies, but they can also worsen the results of current production activities, increase the burden of bureaucracy. It is often very difficult to estimate in advance how large changes can be caused by mergers or acquisitions. But the results of many studies to measure the net effect of already made mergers and acquisitions give very contradictory, often completely opposite, conclusions (Fama et al., 1969).

According to the Mergers & Acquisitions Journal, 61% of all mergers and acquisitions do not pay for themselves. And a study of 300 mergers over the past 10 years conducted by Price Waterhouse found that 57% of merger companies lag behind other similar market players in terms of their development and are forced to split back into separate corporate units (Garzella, Fiorentino, 2018). Experts usually point out three reasons for the failure of the merger (Global & Regional, 2018):

- incorrect assessment by the absorbing company of the attractiveness of the market or the competitive position of the absorbing company (target);
- underestimation of the amount of investment required to carry out a merger or acquisition of the company.
- errors made during the merger operation.

Similarly, unsuccessful merger operations can occur for the following reasons (Global & Regional, 2019):

1. incompatibility of corporate cultures and action plans to overcome it are rarely developed.
2. differences in management practice.
3. underestimation of the difficulties arising from the merger of two corporate cultures and value systems.
4. problems of the post-unification period;
5. "human factor".

Merged companies sometimes misjudge the assets of their companies or their liabilities. For example, it is possible to underestimate the costs associated with the modernization of equipment in this company or its commitment to warranty-service of defective products. They can significantly affect the effectiveness of mergers of environmental companies' liabilities. The investment required for a merger operation is often underestimated. Errors in estimating the cost of a future transaction can be very significant. For example, at the merger of BMW and Rover, the approximate cost was 800 million pounds, and the required five years after the merger investment - 3.5 billion (Global M&A Outlook, 2019).

Many mergers, which seemed economically viable, failed due to mistakes made in the process of their implementation. Sometimes managers could not cope with the difficulties caused by the integration of two companies with different features of the production process, accounting, corporate culture. The value of many companies directly depends on such specific assets as human resources - the professionalism of managers, the skills of workers, engineers, researchers. The change of the owner leads to a revision of the existing criteria for assessing staff and career planning traditions, to a change in spending priorities, to a change in the relative importance of certain management functions and, consequently, to a fragile informal structure. If these professionals do not feel satisfied with their position in the new company, formed after the merger, the best of them will leave it (IMAA, 2019).

Any M&A transaction has positive and negative consequences. That is, at the heart of any transaction is the expected effect, which, nevertheless, may be accompanied by risks. Moreover, these effects and risks can manifest (influence) both the activities of the company itself and its environment (external environment, consumers, incl.; KMPG, 2019). Based on the studied sources of analytical information, people identified the main positive and negative consequences presented in Table 3.

Table 3. Effects from M&A transactions (KMPG, 2019)

| Positive Effects | | Negative Effects | |
|------------------|----------------------|------------------|----------------------|
| company | external environment | company | external environment |

| | | | |
|---|---|---|--|
| Synergistic effect | Development of the product range on the market | Significant financial costs | “kill” fair competition |
| Strengthening and expanding their positions | Development of technologies in the market | Negative synergistic effect | Lead to the concentration of economic and political power in a limited number of centres |
| New market and technical positions (e.g. new market) | The emergence of stronger players in the market | Potential media scandals, public disapproval, hence a decline in reputation | Hinder the development of the country's domestic market due to high barriers to entry |

3.1.4 Merger and Acquisition process and phases

The merger procedure can be divided into the following stages (Jensen, 1986):

1. Concluding a merger agreement
2. Approval of the agreement on the merger at the general meeting of participants (founders) of the reorganized companies
3. Approval of the transfer deed at the general meeting of participants (founders)
4. Joint general meeting of participants (founders) of reorganized companies, which decides on changes and additions to the founding documents of the company, the election of the general director
5. State registration of changes and additions to the constituent documents, including entry in the register of legal entities of the liquidation of reorganized companies and the emergence of a new legal entity

Termination of reorganized legal entities is carried out as follows (Papadakis, Thanos, 2010):

1. State registration of a newly created legal entity:
 - for state registration, it is necessary to submit to the registering body the founding documents of the newly emerging person, application for registration, document on payment for registration, decision on reorganization from each reorganized legal entity, the joint decision

of the general meeting of participants (founders) on approval of the new legal entity. originals of founding documents of merging organizations

- legal predecessors, transfer acts of legal predecessors, conclusion of antimonopoly bodies in cases when it is necessary;

- the registering body within 5 days from the date of state registration of a new legal entity is obliged to notify the tax authorities, statistical authorities, branches of state extra-budgetary funds and the body that registered the legal entity - the predecessor;

- obtaining a temporary certificate of registration.

2. Obtaining permanent testimony? submission to the tax authorities of the original founding documents of the predecessors redeemed by the registering authority (confirmation of the termination of activities), on the basis of these documents of the organization - the predecessors are removed from tax accounting (Papadakis, Thanos, 2010);

- further, the tax authorities are obliged within 5 days (from the moment of deregistration of legal entities that have ceased their activities) to send to the registering authority a notice of deregistration of reorganized legal entities; on the basis of a notification from the tax authorities, the registering authority shall make an entry in the register of legal entities on the termination of the activities of legal entities in connection with their reorganization;

- a permanent certificate is issued to a newly educated legal entity after submitting to the registering authority a temporary certificate of registration, a certificate from the tax inspection on deregistration of reorganized legal entities and registration of a newly educated person, a certificate from the bank on closing accounts of companies and on the opening of accounts of the newly educated, certificates from the statistical authorities on the cancellation and misappropriation of identification codes, certificates from the Pension Fund on deregistration and registration, a document confirming the destruction of round and other seals, stamps and forms of the reorganized organization.

After receiving a permanent certificate of state registration of a newly educated legal entity, the merger procedure is considered complete (Papadakis, Thanos, 2010).

Today, there are two models of mergers, these are (Mergermarket, 2020):

- Non-fixed "experience" model, which is based on the personal experience of blunt managers, is not intended for advertising or dissemination;
- Model - "fixed experience", presented in the form of procedures outlined on paper or recommendations for the merger and beyond. Recommendations: on the formation of the organizational structure of the new company and the unification of various elements of the economic mechanism, in particular, the principles of remuneration, benefits and compensations, procedures for selecting and hiring new employees, job descriptions for different categories of staff.

Sometimes there are misconceptions among managers that the rules for determining the effectiveness and attractiveness of a merger operation are simple. But there are many factors to consider when evaluating the effectiveness of this type of company restructuring. When buying a company, funds are invested. Therefore, people can apply the basic principles of

decision-making on long-term investments. However, assessing the effectiveness of a merger or acquisition is often very complex, due to the following points (Platt et al., 2018):

- the need to determine the economic benefits and costs, the calculation of the synergistic effect of mergers and acquisitions;
- the need to identify both the motives for the merger and who of the participants is likely to benefit from it, and who will suffer losses;
- the emergence of special tax, legal, personnel, and accounting problems at the merger;
- a need to consider that not all mergers are carried out on a voluntary basis.

Different approaches are used to assess the effectiveness of such an operation. Very often, merger analysis begins with a forecast of future cash flows of the company they intend to join. This forecast includes an increase in revenue or decrease in costs due to the merger, and then discount these amounts and compare the result with the purchase price. In this case, the expected net profit is calculated as the difference between the discounted cash flow of the acquired company, including the benefits of the merger or acquisition, and the cash required to carry out the transaction. If the present value of the expected cash flow from the merger exceeds the price to be paid for the acquirer, the acquirer may carry out the transaction (Pharma industry perspective in M&A 2020-2021, 2021). In this case, the analysis of the effectiveness of mergers or acquisitions involves:

- cash flow forecasting.
- determining the level of discount rate or cost of capital to estimate the projected cash flow.
- assessment of the real value of the firm.
- comparative analysis of the obtained data.

The approach discussed above does not always give objective results. Even a well-trained analyst can make serious mistakes in estimating the value of a company. The expected net profit may be positive, but not because the merger is really effective, but only because the future cash flows of the chosen company are very optimistic. It is better to first understand why two or more companies, combined, will cost more than separately, to assess the possible economic benefits and costs (Pot et al., 2018). The economic benefits of a merger arise only when the market value of the company created by the merger is higher than the sum of the market values of the firms creating it before their merger. These benefits are a synergistic effect (Platt et al., 2018).

In the presence of a synergistic effect of the merger is considered economically justified and it is possible to proceed to the assessment of costs for its implementation. If people assume that the acquisition of the target company is an immediate payment of its market value, the cost of acquiring the company can be defined as the difference between the money paid for it and the market value of the company. Costs incurred in the process of merger are a premium, or allowance, that the company pays for the target firm in excess of its value as a separate economic unit. By this amount, shareholders or owners of the company will receive more compared to the market value of their company. But what is a win-win for them is a cost to the company's shareholders. In most cases, however, the profit for the target company is lower

than the costs of the acquiring company, because certain amounts are paid to investment banks, consultants, lawyers, accountants (Roll, 1986).

Net present value for an acquiring company is measured by the difference between benefits and costs. If the net present value of the company's merger transaction is positive, the relevant transaction is economically justified and can be recommended. In the analysis of the effectiveness of mergers, it seems appropriate to assess the possible reaction of investors. If the shareholder's share price falls after the announcement of a future transaction, it will mean that investors are, in effect, signalling to its managers that they believe the benefits are questionable (Signori, Vismara, 2018). In order for a merger or acquisition to be successful:

- correctly choose the organizational form of the agreement;
- ensure clear compliance of the agreement with antitrust law;
- have financial resources for the association;
- in case of merger, quickly resolve the issue of "who is in charge";

The following organizational forms of mergers and acquisitions are possible (Sirower, 2000):

- the merger of several companies assumes that one of the parties to the agreement takes on its balance sheet assets and liabilities of another company. In order to use this form, it is necessary to obtain the approval of the agreement by at least 50% of the shareholders of the companies participating in the agreement;
- the merger of several companies implies that a new legal entity is created, which takes on its balance sheet the assets and liabilities of the merged companies. To use this form, it is necessary to obtain the approval of the agreement by at least 50% of the shareholders of the merged companies;
- purchase of company shares with payment in cash, in exchange for shares, securities of the acquiring company. The initiator of the agreement may negotiate with the company's shareholders on an individual basis. Approval and support of the agreement by the managers of the acquired company are not required;
- purchase of the company's assets - the necessary transfer of ownership of assets, the funds must be paid to the company as a business unit, not its shareholders (Sirower, 2000).

Mergers and acquisitions can be made as follows (The state of deal, 2019):

- company X buys the assets of company B with payment in cash;
- company X buys the assets of Company B with payment for securities issued by the company-buyer;
- company X can buy a controlling stake in company B, becoming a holding company for company B, which continues to operate as an independent unit;
- merger of company X and company B on the basis of an exchange of shares between them;

- company X merges with company Y and as a result a new company Z is formed. Shareholders of company's X and Y in a certain proportion exchange their shares for shares of company Z.

In order for the merger to be successful, the requirements of antitrust law must be taken into account when planning. Large mergers and acquisitions can be controlled in the early stages. In the United States, for example, the Department of Justice and the Federal Trade Commission have the power to enforce a court order terminating a merger. In recent years, several merger agreements have been repealed under antitrust law (World Investment Report, 2019).

A set of factors is taken into account when assessing the effectiveness of company restructuring. When buying a company, funds are invested. People can apply the basic principles of decision-making on long-term investments. Evaluation of the effectiveness of mergers or acquisitions is related to factors (Worldwide M&A, 2019):

- the need to determine the economic benefits and costs, calculate the synergy effect of mergers and acquisitions;
- the need to identify the motives of the merger;
- the emergence of mergers and acquisitions of tax, legal, personnel, and accounting problems;
- the need to take into account that not all mergers and acquisitions are carried out on a voluntary basis. In the case of hostile takeovers, sales costs may significantly exceed projected costs.

The analysis of a merger or acquisition begins with a forecast of future cash flows of the company that is about to join. Such a forecast includes an increase in revenue or a decrease in costs due to a merger or acquisition, and then discounts the amounts and compares the result with the purchase price. Analysis of the effectiveness of mergers or acquisitions involves (World Investment Report, 2019):

- cash flow forecasting;
- determining the level of discount rate or cost of capital to estimate the projected cash flow;
- assessment of the real value of the acquired company;
- comparative analysis of the obtained data.

The approach discussed above does not always give objective results. There is a possibility of serious miscalculations in estimating the value of the company (Worldwide M&A, 2019). The expected benefit may be positive, but not because the merger is effective, but because the company's future cash flows are optimistic.

3.2 Motives for the Occurrence of Mergers and Acquisitions

3.2.1 Synergy effect

Obtaining a synergistic effect is the most common motive that companies are guided by when conducting mergers and acquisitions and which is used in assessing the effectiveness of transactions. In order to understand the essence and importance of this motive, it is first of all necessary to define such a concept as “synergy”. Synergy is understood as the sum of all benefits from the creation of an integrated production system for each of its participants, including marketing, technological, informational, economic, and financial components, the extraction of which would be impossible with the separate functioning of the participants, as well as due to economies of scale (A decade of retail M&A overview, 2019).

Also, the synergistic effect is the strengthening of the existing competitive advantages by acquiring the advantages of each other, which in relation to mergers and acquisitions means the ability of the merged company to make a profit greater than the total profit of two previously existing companies separately (Bradley et al., 1983).

Based on the foregoing, people can conclude that the effect of synergy from mergers (acquisitions) of companies is the added value from the merger and concerted action of companies, which allows achieving competitive advantages inaccessible with the disparate functioning of business units. This definition is most clearly presented in the form of a formula (Breal, Myers 2003):

" $2 + 2 = 5$ ".

The synergistic effect is due to (Bradley et al., 1983):

- economies of scale - associated with a decrease in unit costs as output increases;
- combining complementary resources;
- the motive of monopoly, which makes it possible for the combined company to reduce price competition, improve the efficiency of work with suppliers by increasing the total volume of purchases and obtaining discounts;
- development of new technologies and creation of new types of products.

Thus, obtaining a synergistic effect is one of the most important motives for a merger (acquisition). The magnitude of the synergy effect is one of the main criteria for the feasibility of a transaction and directly affects the decision to purchase (Bradley et al., 1983).

3.2.2 Market power

Sometimes a firm is considered a candidate for a possible acquisition due to the fact that the value of its assets is significantly higher than their market value. This situation may arise as a result of a mismatch between the market and book values of the acquired firm. The market value of a firm is based on its ability to generate income, which determines the economic value of its assets. But in practice, the market value does not always give a fair assessment of the company and very often turns out to be less than the book value due to the influence of such factors as inflation, moral and physical depreciation, etc. This motive can also be realized in a situation where it is much easier to buy a functioning enterprise than to build a new one (Boston Consulting Group, 2020).

The leaders of companies claim to achieve power and high wages, and the boundaries of power and wages are in connection with the size of the corporation. The desire to increase the scale of companies was facilitated by the use of options as a means of long-term incentives. Options were a significant part of managers' remuneration and were tied to the value of the capital of the managed company. The reason for the merger is the psychological qualities of managers who believe that the proposed agreement is perfect (Bloomberg Global, 2018b).

It is often easier to buy an existing business than to set up a new one. This is advisable when the market valuation of the property complex of the target company (target company) is significantly less than the cost of replacing its assets. The difference in the market price of the company and its replacement cost arises from the mismatch between the market and book values of the acquired company. The market value of a firm is based on its ability to generate income, which determines the economic value of its assets (Bloomberg Global, 2018a). If people talk about fair valuation, then it is the market value, not the book value, that will reflect the economic value of its assets, and, as practice shows, the market value often turns out to be less than the book value (inflation, moral and physical depreciation, etc.).

3.2.3 Value creation

It is easier to buy an existing enterprise than to build a new one: the market valuation of the property complex of the target company (target company) is much less than the cost of replacing its assets (Deal Drivers EMEA, 2019).

The difference in the market price of the company and the cost of its replacement arises due to the discrepancy between the market and book value of the acquired firm. The market value of a firm is based on the ability to generate income, which determines the economic value of assets (Deloitte, 2020).

Opportunity to "buy cheap and sell expensive". The liquidation value of the company is higher than its current market value. In this case, the firm, provided it is purchased at a price above current market value, can be further sold at retail, with the seller receiving significant income (if the firm's assets can be used more efficiently at retail to other companies; Dodd, Ruback, 1977).

It is often easier to buy an existing business than to set up a new one. This is advisable when the market valuation of the property complex of the target company (target company) is significantly less than the cost of replacing its assets. The difference in the market price of the company and its replacement cost arises from the mismatch between the market and book values of the acquired company. The market value of a firm is based on its ability to generate income, which determines the economic value of its assets (EY, 2019). If people talk about fair valuation, then it is the market value, not the book value, that will reflect the economic value of its assets, and, as practice shows, the market value often turns out to be less than the book value (inflation, moral and physical depreciation, etc.).

3.2.4 Economies of scale

Economies of scale are achieved when the average cost per unit of output decreases as production increases. One source of savings is the distribution of fixed costs over a larger number of units. The basic idea of economies of scale is to perform more work at the same capacity, with the same number of employees. Increasing the volume allows efficient use of available resources (Garzella, Fiorentino, 2018).

Mergers and acquisitions can provide savings from centralized marketing, for example, by combining efforts and giving flexibility to sales, the ability to offer distributors a wide range of products, and the use of promotional materials (Dodd, Ruback, 1977).

Obtaining economies of scale is typical of horizontal mergers. At the formation of conglomerates, its achievement is sometimes possible. In this case, economies of scale are achieved by eliminating duplication of functions of different employees, centralizing a number of services such as accounting, financial control, record keeping, staff training, and overall strategic management of the company (Deal Drivers EMEA, 2019).

It is extremely difficult to integrate the acquired company into the existing structure. Therefore, after the merger, the companies continue to function as a set of competing divisions with different production infrastructure, research, and marketing services. Savings due to the centralization of management functions may be unattainable (Global & Regional, 2018). The complex structure of the corporation, primarily conglomerate type, on the contrary, can lead to an increase in the number of administrative and managerial staff.

3.2.5 Diversification

Diversification of production - the possibility of using surplus resources. The reason for mergers and acquisitions is diversification into other businesses. Diversification helps to stabilize the flow of income, which is beneficial to the company's employees, suppliers, consumers (through the expansion of the range of goods and services). The motive for the merger may be the emergence of temporarily free resources in the company. Therefore, companies use surplus funds generated during operations to conduct mergers (Global M&A Outlook, 2019).

This is another very common reason for mergers and acquisitions, enabling a business to launch new products and enter new markets. This motive is associated with the hopes of changing the structure of markets or industries with a focus on access to new important resources and technologies; it also allows companies to keep up with the times and make money in new markets. So the company Berkshire Hathaway, which was engaged in the production of textile products, in the mid-1960s. decided to expand the sphere of its interests and in 1967 entered into a merger and acquisition deal with the insurance company National Indemnity Company. Today, Berkshire Hathaway is a holding company whose main activity is insurance: including

a subsidiary of GEICO Corporation, the sixth largest auto insurance provider in the United States, and General RE Corporation, one of the four largest operators in the secondary insurance market in the world (IMAA, 2019).

3.3 Impact of Mergers and Acquisition on the automobile industry

3.3.1 Reasons for Merger and Acquisition Occurrence in the automobile industry

Major automotive concerns are actively supporting the rapid process of international economic integration, as a result of which the nature, level of competition and the very structure of the global automotive industry are changing. Mergers and acquisitions are one of the most important ways to improve the competitiveness of car companies. Through mergers or acquisitions, large auto concerns from developed countries enter new markets, and companies from developing countries have the opportunity to overcome the technological gap by acquiring the necessary technologies. International mergers and acquisitions of companies in the automotive industry in modern conditions have become one of the main ways to implement development strategies (Swarit advisors, 2020).

The largest car manufacturer - the General Motors concern - has combined such brands as: Buick, Cadillac, Chevrolet, Pontiac, Oldsmobile, Holden into a single system, and then acquired: Adam Opel, Vauxhall, Saab. 44% Isuzu, 42% Daewoo and 10% Suzuki. The second largest car production in the USA - the Ford concern acquired: Jaguar, AstonMartin, LandRover, Volvo. In addition, Ford exercises control over the Japanese company Mazda. The combined concern, created in 1998 through the merger of German Daimler-Benz and American Chrysler, produces Mercedes, Chrysler, Jeep, Dodge, Smart cars. Besides the release. passenger cars and light commercial vehicles, the concern acquired a truck and bus manufacturing facility in Canada. The merger strengthened the positions of both partners, both in Europe and in North America. The forecasts for the automotive industry are presented in

table 4 of the eight largest auto markets for 2030 (annual vehicle sales, number of units), where people still see China, the USA and Japan in the top five (Worldwide M&A, 2019).

Table 4. Forecast for 2030 (Worldwide M&A, 2019)

| | The country | Annual vehicle sales¹ |
|----------|--------------------|---|
| 1 | China | 39 161 189 |
| 2 | USA | 23 452 310 |
| 3 | India | 22 852 752 |
| 4 | Brazil | 6 473 470 |
| 5 | Japan | 4 163 286 |
| 6 | Russia | 3 856 427 |
| 7 | Germany | 3 499 904 |
| 8 | UK | 3,181,032 |

Let's consider this deal as a way of financial recovery on the example of large corporations of the automobile industry Daewoo and General Motors. The financial and industrial group Daewoo in 1998 faced a serious financial crisis. The reasons can be distinguished as follows: the Asian financial crisis, political changes in the country, the policy of the company's management and its own financial miscalculations (World Investment Report, 2019). By 1999, South Korea's largest company had gone bankrupt with approximately \$ 80 billion in debt. After the reorganization carried out by the government, some divisions became independent, some were absorbed by other companies, others simply ceased to exist. General Motors Corporation bought out the passenger cars division, which later became known as GM-DAT. CEOs of General Motors Corporation wanted to deal only with the most successful Daewoo factories, so they carefully studied the work of various divisions of the company. As a result, the merged enterprise included three factories (two in South Korea and one in Vietnam) and 9 regional sales agencies located in Western Europe and Puerto Rico. Consider another example of Volkswagen's takeover of Porsche (Worldwide M&A, 2019). In 2008, luxury car maker Porsche sold a record 98,652 units, resulting in \$ 13.5 billion in profit before taxes. This is 136,000 thousand dollars for each car sold. After making huge profits, the CEO plotted to acquire Volkswagen, Germany's largest automaker. At the time, Volkswagen was producing

50 times more cars than Porsches. Since 2005, the small company Porsche has been buying up Volkswagen shares and options without drawing much attention, and in October 2008 announced that it controls a whopping 74% of the shares. By 2008, the aftermath of the financial crisis had hit the public markets, making it less likely that Porsche would be able to find sufficient funds to buy new Volkswagen shares. In a short time, Porsche has gone from being a hunter to being a prey. Porsche, one step away from acquiring Volkswagen, had to borrow \$ 1 billion from the company it intended to buy literally five months later (The state of deal, 2019).

In the fall of 2009, the companies merged. Volkswagen acquired Porsche's auto business for \$ 11.3 billion in cash (49% paid outright and 51% later for tax reasons). And in 2012, there was a complete takeover of the Porsche company. Thus ended the seven-year war in the German automobile industry. In the first quarter of 2012, Volkswagen's net profit reached 3.18 billion euros, 86% higher than in the same period last year. At the same time, the group's revenue for the same period reached 47.3 billion euros, and car sales reached 2.2 million units. At the same time, car market experts believe that the moment for the deal has been chosen quite well. Consider another example from history: the merger of Jaguar Land Rover and Tata Motors (India; Worldwide M&A, 2019). The international financial crisis has significantly changed the positions of the world's largest automotive manufacturers. In 2009–2013 there have been a number of notable developments in the area of global mergers and acquisitions. During the crisis years, the American concern Ford sold all the assets of the British company Jaguar Land Rover, while the controlling stake was bought by the Tata Motors corporation (India). Another notable example is the merger of Volvo Cars and the Geely holding. In the midst of the crisis, the well-known Swedish brand Volvo Cars could not resist. Its sales were declining for several years, so the board of directors of the Ford concern, which previously owned the company, in 2010 urgently found a buyer for the controlling stake. The choice was made at the automobile holding Zhejiang Geely (PRC), as the Chinese investors offered the best conditions, namely - 1.8 billion euros. The indicated amount looked understated in comparison with 6.4 billion euros, paid at the time by the American company, but the Ford concern had no other options. The negotiations were lengthy, since according to Chinese law, Geely holding had to obtain permission to purchase from the PRC government (Worldwide M&A, 2019). Officially, the transfer of a controlling stake to the Chinese side was announced in August 2010, that is, a year and a half after the start of negotiations. According to experts, the transfer of Volvo Cars under the control of the Geely holding has not yet affected either the quality of the products or the

positioning of its products in the automotive market. As before, the Swedish brand has focused on manufacturability and safety, adhering to the corporate concept in design. Of mergers and acquisitions, another notable example is the completion in January of a major acquisition by the Italian Group Fiat shares of the American company Chrysler Group LLC. The Fiat Corporation increased its stake, gradually buying out stakes in Chrysler, including from the governments of the United States and Canada (The state of deal, 2019). Fiat acquired its first 20% stake in Chrysler in 2009, when the American company filed for bankruptcy. As of early January 2014, the Italian corporation owned more than 58.5% of Chrysler's securities. The last nearly 41.46% stake was bought from the United Auto Workers (UAW Retiree Medical Benefits Trust), also known as the Veba Trust, a pension trust fund of the United Auto Workers Union. The main reasons and consequences of mergers and acquisitions of well-known car companies for the period 1998–2014 (Table 5; World Investment Report, 2019).

Table 5. Data on the main M&A deals of car companies (World Investment Report, 2019)

| Years | Companies | Reasons for the merger | Consequences |
|---------------------|---------------------------|---|--|
| 1998 | Daewoo and General Motors | Financial Crisis; illiterate management of Daewoo Geography | General Motors - entering new markets, eliminating competitors; economies of scale - lower costs. |
| 2008 to 2012 | Porsche and Volkswagen | Financial crisis | In 2011, Porsche had a profit of 2.05 billion euros and revenues of 10.9 billion euros. For the first quarter of 2015, Volkswagen's net profit reached 3.18 billion euros, and |

| | | | |
|------------------|-----------------------------------|---------------------------------------|--|
| | | | revenues were 47.3 billion euros. |
| 2009–2013 | Jaguar Land Rover and Tata Motors | Financial crisis | Jaguar sales increased 12% year-on-year and Land Rover SUV sales increased 24%. |
| 2009 | Volvo Cars and Geely | Reduced sales; financial crisis | The Swedish brand retained its corporate design concept, increased sales by 80.4%. |
| 2009–2014 | Fiat and Chrysler | Chrysler bankruptcy, financial crisis | Fiat had a net profit of 1.95 billion euros in 2013, and excluding Chrysler's performance, it would have received a loss of 441 million euros. |

As the world experience in mergers and acquisitions in the automotive industry shows, one of the most difficult stages of a merger or acquisition of companies is the integration of production, management, and human resources of the merged enterprises. This stage is one of the most important and requires from the uniting parties a detailed preliminary developed plan of action. The main challenges in asset integration are retaining the best qualified workforce, efficiently consolidating production facilities, sharing distribution and supply networks, and interoperating different business cultures (Signori, Vismara, 2018). To effectively complete the stage of integration of the merging companies, it is necessary to form a special group of the most qualified employees of the merging companies, the main functions of which will be the formation of a new common corporate culture, the use of the experience of the merging companies in various areas of business, and based on this experience, drawing up a plan for the

mid-term and long-term development of the merged company. enterprises; An analysis of the global experience of mergers and acquisitions of companies in the automotive industry shows that in any transaction when making strategic decisions, there is always the subjectivity of either the top management or the owners of the merging enterprises. This subjectivity does not always contribute to the effective completion of the transaction and the subsequent integration of company assets. Moreover, often the subjectivity of decision-making in mergers and acquisitions of companies leads to financial and personnel losses due to insufficiently thought-out actions (Pot, 2018).

In this study, people describe one example of a merger and acquisition of Daimler-Benz and Chrysler Corporation in the automotive industry. Daimler-Benz AG was a large and powerful concern in Germany from 1926 to 1998, which, along with Mercedes cars, produced a wide variety of equipment, including military equipment for the German army and police, NATO countries, etc. It also produced trucks and buses. . Shares of Daimler-Benz AG were included in the DAX stock index, the index of the 20 largest German companies (Signori, Vismara, 2018).

At Daimler-Benz AG, all the basics were a symbol of German quality and engineering thought. The luxury cars of this company were considered the most advanced and served as an example of the use of the latest advances in security, comfort, electronics, and design. DB cars were sold in 200 countries around the world, and Mercedes was a powerful world-class brand. But the early 1990s brought Daimler-Benz a series of setbacks. Its ambitious process of diversification taking into account new technologies did not give the expected synergetic effect. The European division of trucks suffered serious losses. In addition, the company was under intense pressure from Japanese competitors, who offered cars as luxurious as the DB, with the same quality and technology, but at much lower prices (Pot, 2018).

DB began a radical overhaul, especially after Jürgen Schremp became part of the company in early 1995. The company restructured, closed, or sold all non-profit units. DB has radically changed its principles of diversification, becoming a "transport company" specializing in cars, trucks, buses, railways, aircraft, telecommunications, and related services; her range of interests was much wider than that of her competitors. As soon as the restructuring began to bear fruit, Schremp wondered about the future of Daimler-Benz and the entire automotive industry . He clearly saw what was happening in it, and could not help but notice some features (Sirower, 2000).

- With the exception of companies serving clearly defined niches (eg, BMW, Porsche, Volvo), there are no independent luxury brands. Most brands have passed into the hands of large global companies: Ford Motor is fully controlled by Jaguar, and GM has taken over Saab.
- Since the mid-1980s, the number of brands competing in the luxury car market has increased from 9 to 19.

Attempts by Mercedes-Benz to expand beyond the traditional target segment have met with more obstacles than expected. When testing the stability of the car on the corner, the tested model, a mini-car Mercedes A, did not pass the test, and the company had to make changes to the design of the model. The position of the "luxury car" models, which were positioned as a "city car", also proved to be less stable. Mercedes-Benz has invested more than 2 billion German marks in research and development, but the process took more time than planned. The launch of the car had to be postponed for six months (Platt et al. 2018).

8% of Mercedes-Benz's R&D turnover was significantly higher than the industry average (and three times higher than Chrysler's). Due to low production volumes, Mercedes-Benz has allowed suppliers to transfer innovative technologies to competing brands for six months. Therefore, Mercedes-Benz could no longer use the argument of technological superiority of its models in its promotion strategy, but it still remains a German company with huge plants (in particular, the plant in Sindelfingen near Stuttgart in the late 1990s employed 30,000 people). Mercedes-Benz has successfully acquired Freightliner Trucks in the United States. In 10 years, Freightliner Trucks has almost tripled its sales, but has operated as a stand-alone company, with little to no intervention from Stuttgart (Mergermarket, 2020).

Chrysler was the smallest and most vulnerable company in the American "Big Three", in the last 20 years Chrysler has twice been on the verge of bankruptcy. In addition, it became the object of interest of its largest shareholder, Kirk Kerkorian, who tried to take it under his control. Bib Eaton, who became part of the company in 1994 (Worldwide M&A, 2019), clearly defined his goal: "I want to be the first president who will not bankrupt the company."

After diversification in the late 1980s required huge costs for the company, Chrysler focused on producing cars and light trucks. Observers assessed the company's development of new markets for its minivans (in the US, Chrysler's market share was more than 50%), large sports cars (from 1990 to 1997, Jeep's sales more than doubled), and pickups. In the 1990s, the

constant struggle for survival turned Chrysler into a strong competitor (Worldwide M&A, 2019).

The timing of the development and launch of the new model has become a world standard and is still considered the most cost-effective. In general, Chrysler was considered the most economical manufacturer in the "Big Trinity". And although GM's sales were three times higher than Chrysler's, GM had five times as many employees. Cost-effectiveness has become an obsession for Chrysler. As a result, the profitability per employee was 23 thousand dollars, which is more than twice the same as GM. Chrysler is considered an "early follower" in technology and mostly buys technology from suppliers, but in recent years, the company's success in the market is mainly due to stylish and fashionable design (World Investment Report, 2019):

- The downturn in the US economy will hit the company harder than its larger counterparts from the "Big Three" or Japanese competitors.
- Increased competition in market segments such as mini vans and large sports cars, where Chrysler has traditionally been considered a leader.
- Chrysler surrenders its position in the passenger car segment. From 1990 to 1997, its production of these machines decreased by 40% and amounted to 44 thousand units, while the production of Ford and GM decreased by less than 20%.
- Chrysler planned to expand beyond the North American Free Trade Agreement (NAFTA). But these plans have not been implemented due to lack of experienced managers and lack of appropriate models for new markets. Outside of NAFTA, the company sold less than 10% of its products.
- The rapid spread of electronics in cars has forced attention to the strategy of preferential acquisition of technology from suppliers.
- New distribution channels in the US automotive industry (mega-dealers and e-commerce) with their broader capabilities may affect Chrysler more than its competitors because of its smaller market share.

In January 1998, J. Schrepf asked B. Eaton to discuss the possibility of merging the two companies. Given the circumstances, Eaton readily responded to this proposal. For four months, in an atmosphere of the strictest secrecy, 20-30 managers - representatives of both companies, developed the details of the merger. On May 7, 1998, Daimler-Benz AG and Chrysler Corporation officially announced their merger. Informing about the merger of the

board of directors, investors, employees and consumers, the following advantages were emphasized (The state of deal, 2019):

- This is not an acquisition, but a merger of equals (but the distribution of shares of Chrysler and Daimler-Benz in the ratio of 58:42 clearly gives Chrysler advantages).
- This is a "merger for growth", and it will not be followed by any layoffs, plant closures and decommissioning of car models. Both brands will exist independently; such a strategy drew the attention of financial analysts to the fact that the potential synergy effect for both companies will be lower than with the traditional merger. In total, the combined company is expected to save \$ 1.4 billion in the first year of operation.
- It is assumed that this merger will be extremely fruitful. The integration phase was expected to last three years. The principle of merging equals will "realize the best of the two worlds", ie, combining the strengths and the most successful findings of both companies will create a new organization that is much ahead of competitors.

The geographic markets and assets of the two companies did not overlap, as Mercedes-Benz operated only in higher market segments, and Chrysler brands focused on the middle market segment and were stronger in segments such as mini vans, large sports cars and pickups (geographical distribution and product segmentation of both companies are presented in Figure 2). Financial analysts immediately noted that it is unlikely to achieve significant savings on procurement due to the lack of duplicate models in companies (Signori, Vismara, 2018).

As for other Daimler-Benz activities (heavy trucks, aerospace, etc.), Chrysler did not. And in providing financial services, Chrysler focused more than regular customers (such as dealers) more than Daimler-Benz. However, the complementarity of goods does not mean that there are no obstacles on the way to the merger. One of them is Chrysler's use of the premium (Pot et al., 2018).

The merger of Daimler Chrysler shocked the global automotive industry and led to a new round of consolidation. Ford has acquired the Volvo brand and created a new division - Premier Automotive. Renault has announced its merger with Nissan. In one year, the number of Korean car corporations fell from five to two - Hyundai and Daewoo. DaimlerChrysler's economic downturn could occur for the following reasons (Signori, Vismara, 2018):

- The long rise of the US economy. Chrysler's most lucrative cars (large sports cars, minivans, and pickups) have been attacked by competitors such as Honda, Toyota, and BMW.
- The prospects for European business look rather uncertain - economic growth has been lower than expected, and the instability of the euro clearly speaks in favor of intensifying this trend.
- Sales of Japanese cars and trucks fell by 12% - the biggest decline in 20 years.
- The company with a global production capacity of 71 million units sold only 52 million units.

Sales rose 12% to \$ 146.5 billion; production revenue grew 38% to \$ 9.6 billion. In total, the 1998 DCXB was the most profitable car company in the world; in addition, its staff increased by 19,000 employees. Other divisions (aerospace, Debis - Chrysler Financial Services) also achieved record results (Worldwide M&A, 2019).

4 Practical Part

4.1 SWOT analysis of Daimler-Benz

Strengths

- **High TOMA:** Daimler-Benz is a well-established brand in the "Big Three German Car Manufacturers", along with Audi and BMW, which are the world's best-selling luxury car manufacturers. Daimler-Benz directs its sponsorship costs to events that appeal to a wealthy public. His three pillars are golf, tennis, and New York Fashion Week. Daimler-Benz won its first constructors' championship as the best team in Formula 1 in 2014.
- **Worldwide Manufacturing Facilities:** The company has manufacturing facilities in 6 continents and 26 countries, including for passenger cars and buses, helping them keep operating costs low and thereby maximize their bottom line.
- **Continuous product innovation:** Daimler-Benz's parent company, Daimler, has always been known for its technological advancements, from the introduction of the combustion engine in 1886 to the Pre-safe technology in 2013. The company has come a long way to establish itself in the premium passenger car/truck industry. segment. Daimler-Benz is concerned about the safety of the car.
- **Financial stability:** The strong financial position of parent company Daimler, which has several other globally renowned brands, helps the group companies to minimize their operating costs by using shared resources.
- **Strong Position in Developing Countries:** Premium car players like AUDI, BMW, etc. that do well in developed countries are inferior to Daimler-Benz in developing countries like India. Daimler-Benz aims to be the # 1 player in emerging markets and this is driving growth.
- **Product Portfolio:** Daimler-Benz has a strong product portfolio ranging from sedan to SUV that helps them compete with other players in the market.

Weaknesses

- Expensive after-sales service and repairs: Maintenance cost is one of the important deciding factors in which vehicle you plan to buy. Daimler-Benz's' maintenance costs are high compared to other players in the same segment.
- Conflicting goals of the group companies: It may be that Daimler, being such a large group, may fall prey to conflicting goals of the group companies, which could affect its individual brand.
- Distribution Slowed - While Daimler-Benz may expand a lot, it has nevertheless been found that growth has slowed because it maintains the exclusivity of its distribution, which affects its supply and therefore brand equity.

Opportunities

- Growth is shifting to Asian markets: While the American and European markets are the pulse of the industry, the focus is shifting to emerging markets such as China, India and other Asian countries due to rising disposable income, changing lifestyles and stable economic conditions.
- Rising demand for premium cars: Companies like VOLVO, Audi, BMW, etc. are placing big bets and targeting developing countries due to the increasing demand for the luxury public transport system.
- Strategic Alliances: This can turn out to be a smart strategy for car companies. By using specialized opportunities and partnering with other companies, they can differentiate their offerings.
- Growing Automotive Industry: Automobiles represent freedom and economic growth. Cars allow people to live, work and play in ways that weren't possible a century ago. Cars provide access to markets, doctors and jobs. Almost every trip ends with either an economic deal or some other quality of life benefit.
- Technological advances: The development of fuel-efficient futuristic technologies and hybrid vehicles could help Daimler-Benz become a global market leader.

Strengths

- Intense competition from other players in the segment: the presence of players such as AUDI, BMW, Volvo, etc., who leave no stone unturned to become a global player and leader in most markets.
- Fuel price volatility: At least for the passenger segment, fuel price volatility remains a determining factor in its growth. Also government regulations regarding the use of alternative fuels such as LNG. Shell gas also affects reserves.
- Sluggish Economy: Macroeconomic uncertainty, recession, unemployment, etc. are economic indicators that will threaten the auto industry for a long period of time.
- High fixed costs and investment in R&D: With mature markets already overcrowded, industry is shifting towards emerging markets through the construction of facilities, R&D centers, but the benefits of these solutions have yet to be capitalized.
- Government Regulations: Government policies such as reducing global warming by eliminating the use of personal vehicles, shortening the validity of travel permits, volatility in fuel prices, restricting the entry of unauthorized government vehicles are some of the policies / regulations that have already been implemented in relevant regions of the world and affects the sector as a whole.

4.2 SWOT analysis of Chrysler

Strengths

- Brand name and reputation: attractive to U.S. customers
- Strong focus on the customer (CCO)
- Operations: mini-van segment (since 1983)
- Strong owner loyalty
- Other brands (ex: Jeep at 31% of all sales)

Weaknesses

- Limited market reach: 90% of sales in the U.S.
- Small and declining market share
- Management problems & lack of experience
- No sustainable/ economic friendly solutions
- Limited number of products/ models
- Quality problems
- International Sales
- Weak economies of scale
- High debt
- Significant Pension Plan deficit: \$10.5B
- Potentially damaged reputation

Opportunities

- Strategic partnership with Fiat
- International & emerging markets
- New technologies
- Acquisition synergies

Strengths

- Decreasing interest rates
- Sensitivity to U.S. macro-economic conditions
- Intense competition
- Changes in consumer tastes and preferences

- Production overcapacity = consolidations
- Regulations: safety & emission standards, fuel efficiency
- Increase in oil prices

4.3 Chrysler performance pre-merger

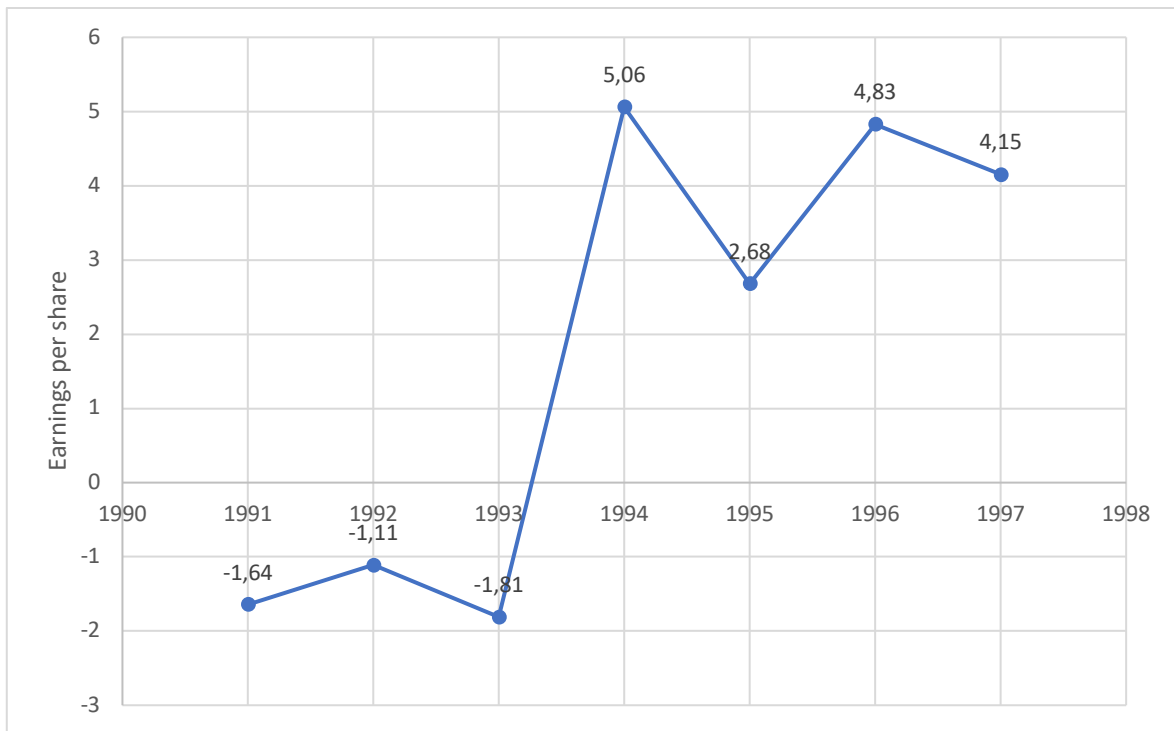


Figure 1. Numbers of EPS (earnings per share)

(Source: Author)

The number of EPS (earnings per share) increased significantly in 1994. This shows that this is the highest figure for all years. The number of EPS fell during the period during 1990-1993.

Then a sharp rise to 5. All subsequent years, the indicators remained at this level and did not have large declines. Only in 1995, the indicators decrease to three, but the following year the number was set.

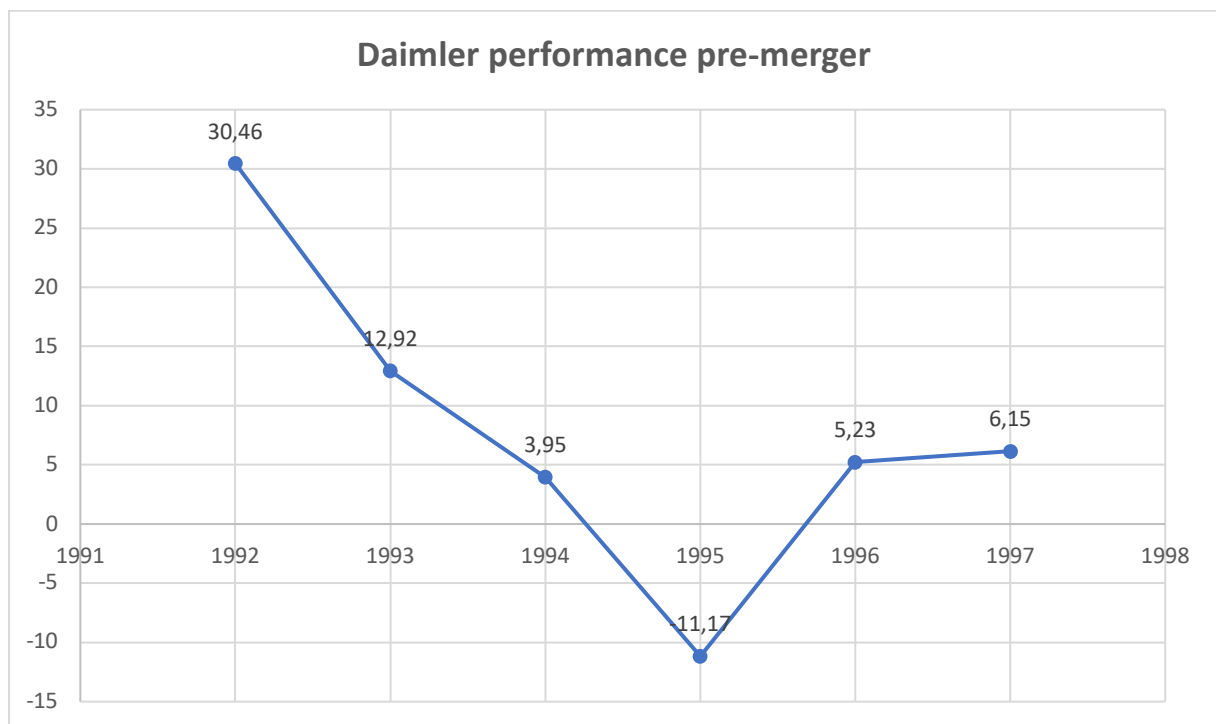


Figure 2. Daimler performance pre-merger

(Source: Author)

Daimler's previous merger initially had a large increase in indicators (in 1992). Then the indicators began to decline slowly, and it had a 1993 minimum value (-11). But in 1994 the indicators rose again (to 10). Although the values were not as high as in previous years.

5 Results and Discussion

5.1 Motivations for Chrysler-Daimler Merger

J. Schremp in January 1998 turned to B. Eaton with a proposal to discuss the possibility of merging the two companies. Given the circumstances, Eaton readily responded to this proposal. For four months, in an atmosphere of the strictest secrecy, 20-30 managers - representatives of both companies, worked out the details of the merger. On May 7, 1998, the official announcement of the merger of Daimler-Benz AG and Chrysler Corporation followed (A decade of retail M&A overview, 2019). When communicating the merger to the board of directors, investors, employees and consumers, the following benefits were highlighted (Ahmed/Foerster, 2020):

- I. This is not an acquisition, but a merger of equals (but a 58:42 split between Chrysler and Daimler-Benz shares clearly gives Chrysler an advantage).
- II. This is a "merger for growth" and will not be followed by any layoffs, plant closings, or phasing out car models. Both brands will exist on their own; This strategy drew the attention of financial analysts to the fact that the potential synergies for both companies would be lower than in a traditional merger. Overall, the combined company expects cost savings of \$ 1.4 billion in the first year of operation.
- III. This merger was expected to be extremely fruitful. The integration phase was expected to last three years. The principle of "merging of equals" will make it possible to realize "all the best of two worlds", i.e. Combining the strengths and best practices of both companies will create a new organization that is far ahead of the competition (Ahmed/Foerster, 2020).

The geographical markets and assets of the two companies practically did not overlap, as Mercedes-Benz operated only in the upper market segments, while the Chrysler brands focused on the middle market segment and were stronger in such segments as minivans, large sports cars and pickups (Bloomberg Global, 2018a). Financial analysts immediately noted that it is unlikely that they will be able to achieve large savings on purchases due to the lack of duplicate models among companies (Boston Consulting Group, 2020).

As for other Daimler-Benz activities (heavy trucks, aerospace, etc.), Chrysler did not do them. And in providing financial services, Chrysler, more than Daimler-Benz, focused on regular customers (for example, dealers). However, the complementarity of goods does not mean that there are no obstacles to the merger. One is Chrysler's use of the premium. The DaimlerChrysler merger sent shockwaves through the global auto industry and triggered a new round of consolidation. Ford acquired the Volvo brand and created a new division, Premier Automotive. Renault has announced its merger with Nissan (Bloomberg Global, 2018b). In one year, the number of Korean car corporations fell from five to two - Hyundai and Daewoo. DaimlerChrysler's economic downturn could have occurred for the following reasons (Brealy, Myers, 2003):

- Long recovery in the US economy. Chrysler's most lucrative cars (large sports cars, mini-vans and pickups) have come under attack from competitors such as Honda, Toyota and BMW.
- The outlook for European business looks rather uncertain - economic growth was lower than expected, and the volatility of the euro clearly speaks in favor of strengthening this trend.
- Sales of Japanese cars and trucks fell 12%, the largest decline in 20 years

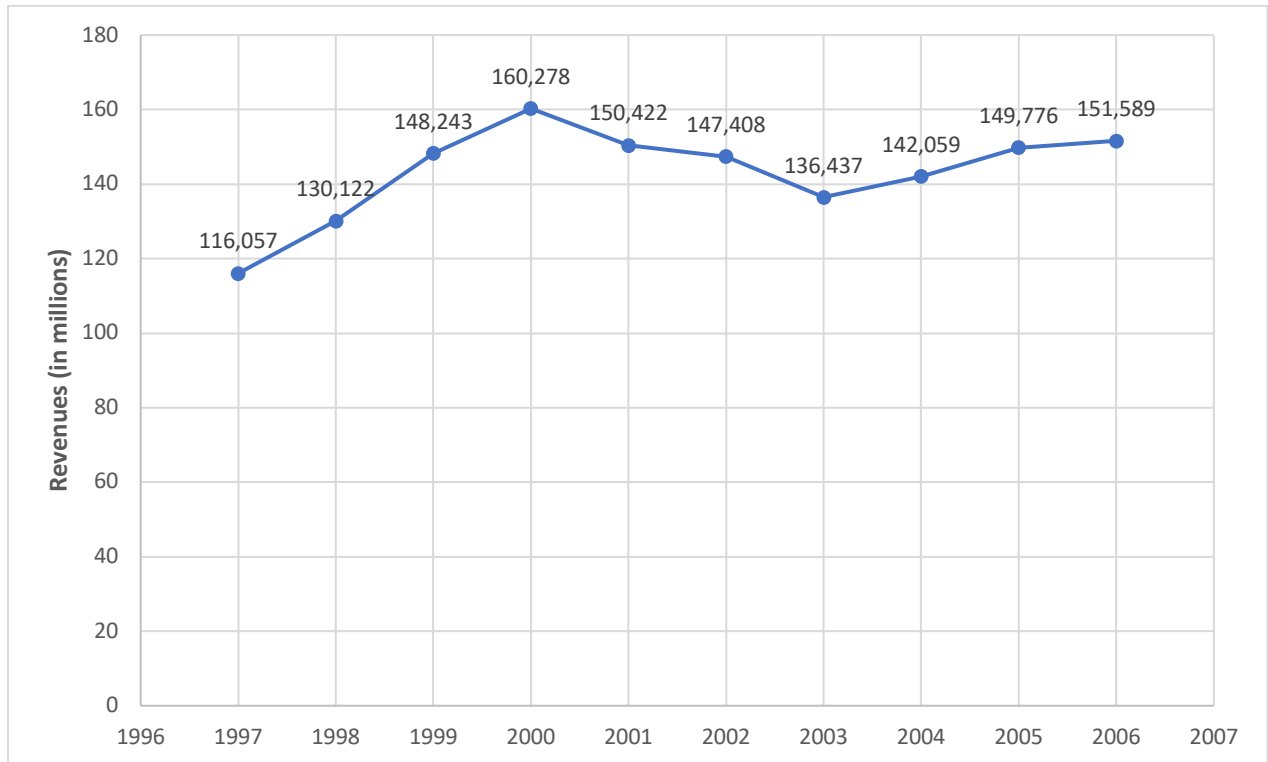


Figure 3. Daimler-Chrysler post-merger performance

(Source: Author)

After the merger, Daimler-Chrysler's revenue grew to \$ 100 million (as of 1997). By 2000, the indicator was growing slowly and amounted to 160 million. This is the maximum figure for all years. Then there was a slight decline until 2003 (about 130 million). But in 2004 the situation returned to higher levels. And in 2007 it was about 150 million.

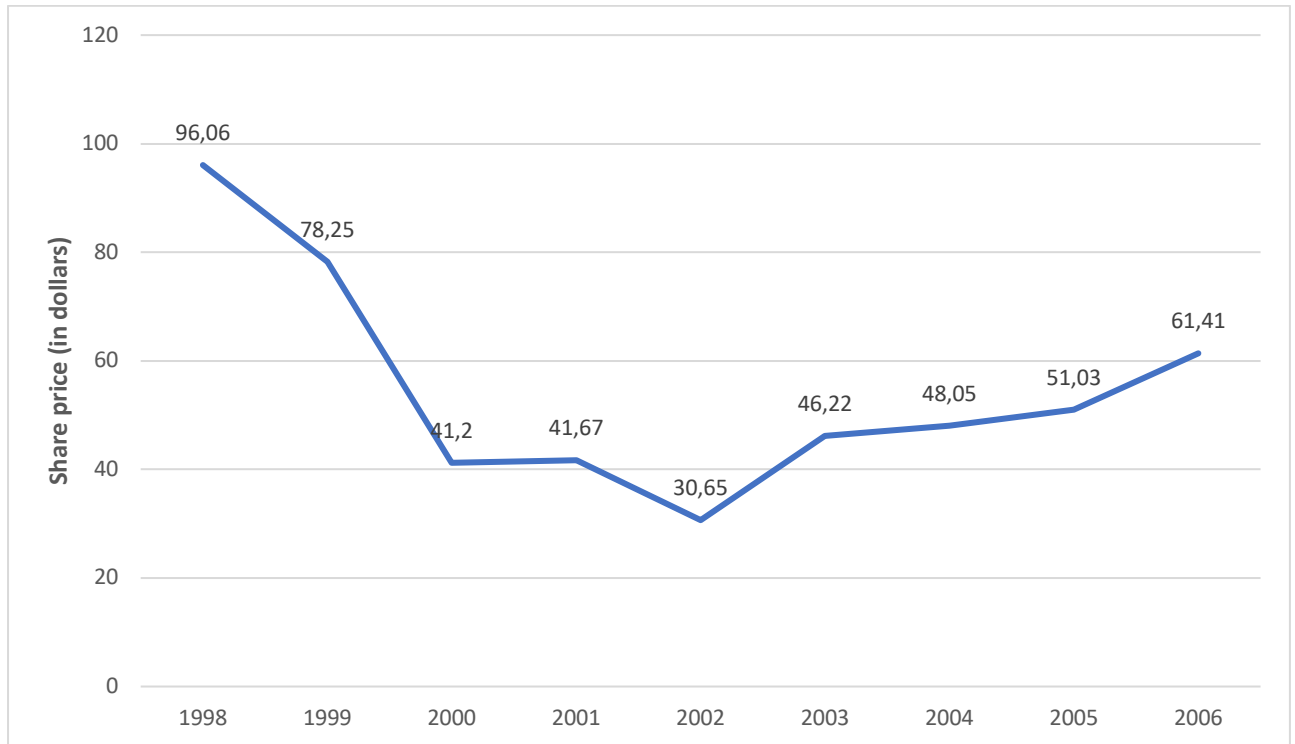


Figure 4. Share price

(Source: Author)

The share price peaked in 1998 (about \$ 100,000). In 1999 and 2000, the indicators slowly decreased (80-40 thousand dollars). In 2001, the indicator has not changed from the previous year. But in 2002 the indicator was the lowest of all years (about 30 thousand dollars). In the following years, the share price increased (from 50 to 60 thousand dollars), but it did not reach the same price as in 1998.

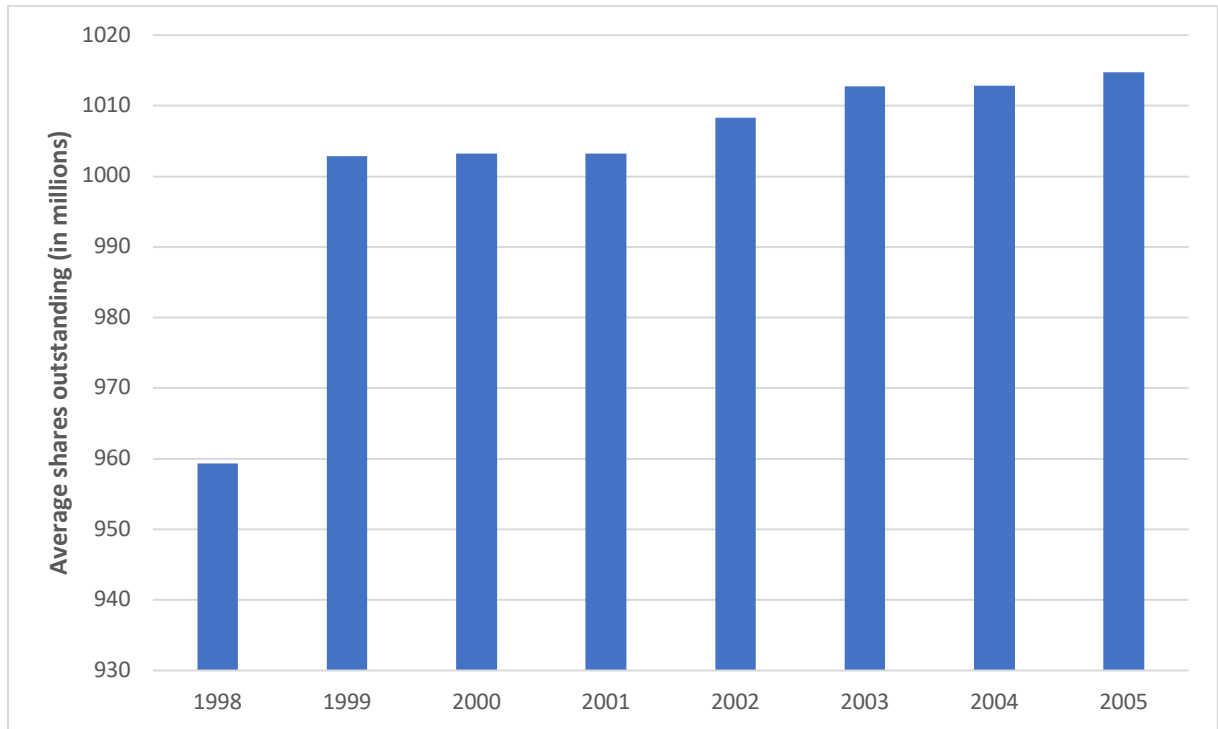


Figure 5. Average shares outstanding (in millions)

(Source: Author)

The average number of shares outstanding was from 1998 to 2005. As of 1998, the number of shares was the lowest (950 million). By 2002, the indicators were about 100 million. And only in the following years until 2005 increased slightly. The largest number of shares was in 2005 (about 1015 million).

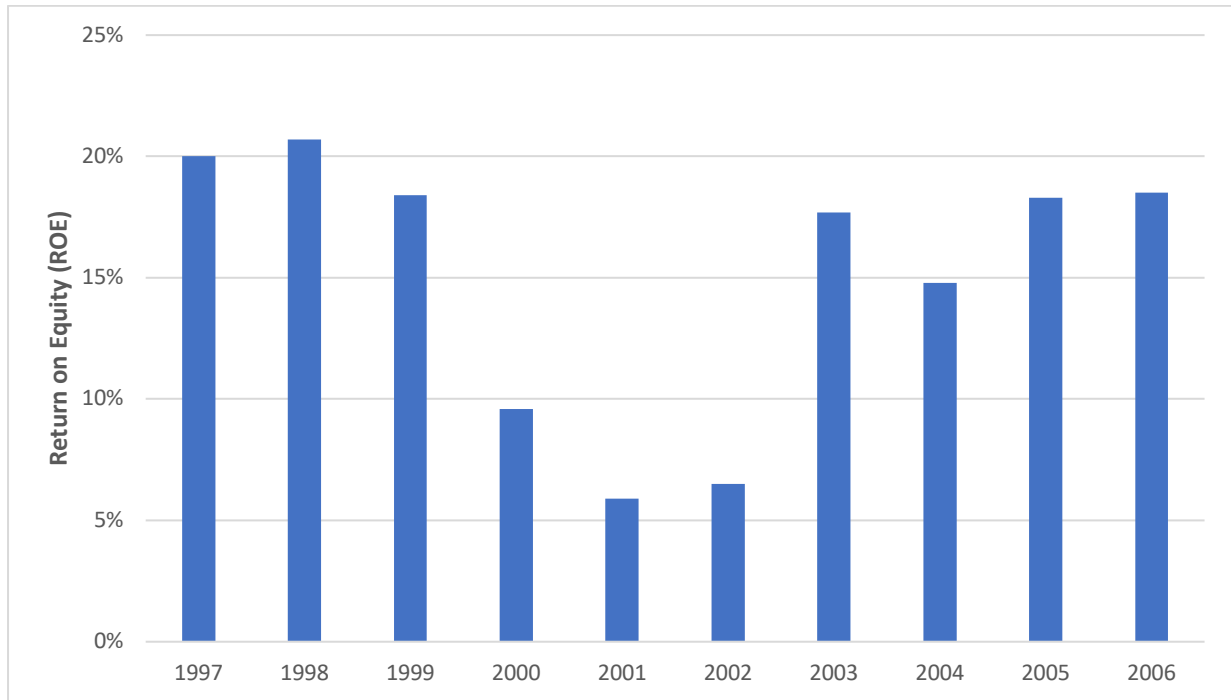


Figure 6. Return on Equity (ROE)

(Source: Author)

Return on equity (ROE) varied greatly between 1997 and 2006. The first three years (1997-1999) were very high (around 10-20%). In 1998, ROE had a maximum percentage of 22%. During 2000-2003, indicators decreased in interest (19-5%). The lowest figure was in 2001 - 6% for all years. By 2006, the figures had increased. And it reached about the previous percentage and did not decrease less than 15 percent.

5.2 Reasons for failure

The DaimlerChrysler merger sent shockwaves through the global auto industry and triggered a new round of consolidation. Ford acquired the Volvo brand and created a new division, Premier Automotive. Renault has announced its merger with Nissan. In one year, the number of Korean car corporations fell from five to two - Hyundai and Daewoo (Deal Drivers EMEA, 2019).

Sales grew 12% to \$ 146.5 billion, and operating profit rose 38% to \$ 9.6 billion. Overall, DCXB in 1998 was the most profitable auto company in the world; in addition, its staff has increased by 19 thousand workers. Other divisions (aerospace, Debis - Chrysler financial services) also achieved record results. Disadvantages of the company (Deloitte, 2020):

1. Top managers have complained that they have to spend up to 40% of their time on merger-related work instead of performing their direct responsibilities.
2. Boards of directors have talked a lot about how to increase the return on equity and which course to follow given the growing uncertainty in the economic environment.
3. From statistics, DCX executives knew that most mergers failed. Many failed mergers were not doomed to fail from the start; the failure was caused by miscalculations in implementation.
4. The German model of corporate governance has never been fast. Decision-making was slowed down not only by the strict separation of powers between the supervisory and governing boards, but also by the need to negotiate with workers' councils and representatives of labor collectives on all important issues related to employment.
5. Registration in Germany also led to the exclusion of the company from the list of Standard & Poor 500 (S&P 500, the top 500 US companies, assessed by share capital and profitability).

Elimination of defects (Deal Drivers EMEA, 2019):

1. J. Schremp and B. Eaton clearly defined the structure of the integration phase after the merger. Speed was the top priority, followed by accounting and transparency. The most important condition was the participation of all top managers in the integration process.
2. To oversee the integration, an Integration Steering Board (ICB) was established, chaired by two Board Co-Chairs, Eaton and Schremp. In addition to these, this council included two executives from Chrysler and four from Daimler-Benz. The integration process was divided into 12 blocks, each of which was dealt with by a Problem-Solving Group (PIU). These 12 PIUs, organized by function (e.g. procurement PIU), identified and attempted to implement possible synergies from the merger of departments of the two companies. Each PIU consisted of two coordinators who formed a Post-Merger Integration Team (GIPS) to facilitate and oversee the integration processes. Overall, the SIPS was a collective leadership body and consisted of approximately 50 designated employees. This relatively simple coordinating structure oversaw approximately 80 integration projects involving hundreds of managers across the organization. The center for collecting information and monitoring projects of the GIPS acted as a "headquarters". Headquartered in Stuttgart, this center was equipped with the most modern computing equipment. All projects were monitored using a traffic light system. Greenlight meant that everything was going according to plan, yellow indicated delays, and red indicated serious difficulties. If a red light was detected, RCI members would email the team leader inquiring about the reasons for the poor results.
3. Maintaining the value of both brands: Mercedes and Chrysler. Prior to the merger, Mercedes-Benz was one of the ten most powerful brands, and Chrysler was firmly established in North America. Consumers perceived these brands differently. Because brands were often viewed as the company's most valuable assets, they had board representatives - James Holden (former Chrysler VP of Sales and Marketing) and Dieter Zetsche (at Mercedes-Benz). Instructions for both brands were listed in the DaimlerChrysler Brand Management Manual, which recorded a clear separation between the two brands. It banned the one-platform strategy for the Mercedes-Benz / Chrysler brands and the establishment of shared Mercedes-Benz / Chrysler dealerships in Europe.
4. Retention of salaries for all employees for a period of two years. With regard to the salary of executives in the future, Copper proposed four components: the basic salary, depending on the responsibilities of the leader; annual prize; the possibility of

purchasing the company's shares at a reduced price; payment of a certain percentage of the salary, the amount of which is associated with the achievement of certain indicators of profitability. Some employees saw the pay system as a step towards the American model of high performance-based pay for board members and executives. To retain the brightest managers, the new company planned to pay 200 senior executives globally competitive salaries. Dividend payments were also made according to the American pattern. DCX set a dividend rate similar to that of Chrysler rather than much lower than Daimler-Benz's.

5. The interest of employees in the purpose of the organization. In the spring of 1999, the vision and mission were released to communicate to workers. Management was responsible for clarifying the mission and vision as well as the goals of DaimlerChrysler. For greater clarity, the explanation was accompanied by the demonstration of video materials, slides and graphs diagrams.

The goal was also the planned savings of 1.4 billion dollars in the first year after the merger, which they achieved, and in the next three to five years this figure should increase to 3 billion dollars. J. Schremp: "The merger of DaimlerChrysler - just a prerequisite for staying in the global automotive industry, "which it certainly coped with (Bloomberg Global, 2018b).

6 Conclusions

Thus, this thesis has highlighted the importance of mergers as a technique for restructuring a company. With the right approach and timely and correct assessment of the merger, companies can have a synergistic effect, which can not only save enterprises from bankruptcy but also strengthen their position in the market. In addition, mergers of companies today are a common phenomenon in the market economy and such a procedure will help maintain efficiency and prevent stagnation in the economy. With effective management of companies prone to mergers, technologies are combined, which helps to reduce the cost of the product, as well as improve its quality, and expand the market segment. This positive effect is obtained not only by the companies that have undergone the merger but also by the state since it leads to the growth of the national economy.

In the practical part, the reasons for the merger of Daimler-Benz AG and Chrysler Corporation were described. As a result of this merger, DaimlerChrysler OJSC was formed.

From the point of view of the firm, mergers can be beneficial if they make it possible to maintain the level of production and distribution costs, allowing either to expand the existing field of activity, or move it to new areas, or eliminate unwanted competition and increase the firm's influence in the market. Based on this merger, these companies can be characterized as positive, since:

- The merger proceeded quickly, with the help of the Integration Governing Board, while the company remained "transparent";
- The main goal of the merger was achieved - saving \$ 1.4 billion;
- The company was able to keep both brands;
- The missions, goals, and values of DaimlerChrysler, to which the company was moving, were clearly formulated, in addition, at the time of the merger, all jobs and the previous salaries of employees were retained;
- As a result of the merger, in the first year, sales grew 12% to \$ 146.5 billion, and operating income was up 38% to \$ 9.6 billion.
- In 1998, DaimlerChrysler was the most profitable car company in the world

- The geographical markets and assets of the two companies practically did not overlap, this made it possible to effectively develop the market, and not challenge the technologies of each brand and seek consensus in production.
- There was an active social policy, the staff of the company as a result of the merger increased by 19 thousand employees.

On the other hand, there were negative consequences of the merger of DaimlerChrysler, but most of them were subjective, expressed in the evaluative opinions of journalists and analysts. Therefore, despite the negative consequences, the merger of DaimlerChrysler is cost-effective.

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