

EFFICIENCY OF MERGERS AND ACQUISITIONS: ANALYSIS OF OBJECTIVES, BENEFITS AND POSSIBLE RISKS

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Abstract. The mergers and acquisitions (M&A) market is constantly attracting the attention of experts. These transactions are considered one of the most complex and risky steps that a company's management can take. And the larger the deal, the higher the stakes. Mergers and acquisitions seem to be the most unpredictable type of business project, since the opportunities that arise in this area are unexpected and ambiguous, and due to the fear of missing out on a rare opportunity, participants in the transactions often cannot calmly evaluate all the advantages and disadvantages. Therefore, it is worth being well prepared, it is worth stocking up on the necessary specialists in advance, forming a competent team, using high-quality tools and recommendations from professionals. Having some experience in their development, M&A transactions face new problems and set new tasks. The purpose of this article is to study the effectiveness of mergers and acquisitions, analyze the goals, benefits and possible risks, as well as potential mistakes and opportunities to increase the chances of success. The methods of consideration, comparison, analysis and deduction will be used.

Key words: objectives of mergers and acquisitions, risks, opportunities

JEL classification: G14, G34

Introduction. M&A (mergers and acquisitions) is the process of combining the assets of two or more companies. It includes transactions that result in the ownership of organizations, their assets, and operating divisions being transferred to another organization or consolidated with it. Although the terms “merger” and “acquisition” are often used interchangeably, there are differences between them. A merger is a process in which companies voluntarily combine to form a new legal entity. The former organizations cease to exist, and their assets and liabilities are transferred to the new one. An acquisition is the purchase of a controlling stake (usually more than 30%) in one company by another. In this case, the acquired company ceases to exist, and the buyer continues to operate. Mergers and acquisitions are an important strategic tool in business. The main goal of M&A transactions is to increase profits through synergy, which means that the value of the whole becomes greater than the value of the individual parts. The parties to the transaction can combine their production, intellectual, and financial resources, thereby significantly reducing production costs and, consequently, increasing profits. At the same time, the goals of buyers and sellers of companies vary significantly.

“The most common goals of a buyer may be:

Increasing production volumes and market influence. For example, with horizontal integration, the owner gains the opportunity to expand production capacity and increase their market share. At the same time, production costs are reduced.

Asset optimization. Each component within the new structure will work more cohesively, resulting in increased overall profitability.

Increased value chain. Investing in production and logistics helps improve product quality and increase profits.

Acquisition of property and assets. In the process of a merger or acquisition, buyers often receive not only buildings and land, but also employees and intellectual property, which allows them to instantly expand their capabilities.

Consolidation of finances. By combining revenues, it is possible to increase financial stability and increase the company's capitalization.

Elimination of competitors. The acquisition of a company is also used as a strategy to eliminate competition and increase market share” (Okorokova, E., Demakova, A., 2024).

The main objectives of the seller are as follows:

Obtaining financial assistance. Often, the sale of a company or part of it provides the necessary capital for further development or solving current financial problems.

Liquidation of non-core assets. In some situations, the sale of non-core assets is seen as an opportunity to focus on the core business.

Getting rid of unprofitable assets. In conditions of stagnation or low profitability, sellers may look for exit points to minimize losses.

Assessment of a negative forecast. By selling the company, the owner eliminates the risks and possible losses from reduced activity.

“Depending on the form of integration of mergers and acquisitions, certain benefits can also be identified. M&A can be horizontal, vertical, or conglomerate.

Horizontal transactions occur when competitors-companies with the same type of activity-merge. They operate in the same field and produce the same product. The benefit is that it strengthens the company and reduces competition. This kind of merger helps create a monopoly.

Vertical M&A happens between organizations with different activities that aren't direct competitors but do business in the same industry. Most often, before the deal, they're suppliers and buyers. For example, one company may produce raw materials or equipment, while another may produce finished products. In this case, the goal is to reduce production costs and intermediate expenses.

Conglomerate deals bring together companies from different industries whose products are not related in any way. The goal of such transactions is to expand the product range and diversify the business: if one industry experiences a downturn, the company will still remain stable thanks to its enterprises in another industry that have not been affected by the crisis” (Danilenko, A., 2024).

So, the motives for a merger can come from both sides. Although, of course, the acquiring company always benefits more as a result. In addition, there can be many more reasons, and they can sometimes be quite unpredictable, because everything depends on individual circumstances.

In addition to the obvious advantages, there are risks involved in M&A transactions. The acquiring company may underestimate the value of the assets of the acquired company and overpay, or the profitability of the selling company may turn out to be lower than expected. Difficulties may arise during the integration of companies: cultural, production, personnel, or management issues. One of the key risks is incorrect goal setting. If a company does not have a clear strategic vision and does not understand what results it wants to achieve, the end result will usually differ from what was expected.

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“Errors in asset valuation also pose a serious threat. If the information about the target company's financial condition and potential is inaccurate, the buyer may pay more for the assets than they are actually worth.

Tactical and planning errors are another common risk. Incorrect allocation of resources or a lack of preparatory measures will lead to delays in the transaction.

Choosing the wrong strategy also plays a key role. The absence of a clear plan for how integration will take place can lead to duplication of functions and, as a result, excessive costs.

In addition, there are financial and infrastructure risks. The inability to attract financing will significantly slow down the implementation of the planned project, and underestimating the necessary costs will lead to serious financial problems.

Infrastructure risks include resistance from management and the workforce. Such factors, as well as the inability to quickly integrate technological processes, will undermine the success of the deal even with promising forecasts” (Okorokova, E., Demakova, A., 2024).

However, there are ways to protect against potential risks. They are divided into preventive and emergency measures.

Preventive measures are part of a company's long-term strategy. They are aimed at preventing negative influence from potential acquirers or competitors and introducing protective mechanisms before aggressive attacks begin. One of the most common preventive measures is for a company to transition to a holding structure. This step allows for the creation of a more flexible and multi-level organizational model. In this model, each subsidiary can operate more independently, which makes it more difficult for external shareholders to control and influence the company.

Strategic preventive measures also include building an effective corporate structure. For example, optimizing relationships between different divisions of the company and developing a clear hierarchy. Such a structure will allow you to quickly respond to changes in the external environment.

The formation of a system of economic security for the business plays an important role in preventing unwanted mergers and acquisitions. For example, organizing an effective incentive system for top managers. In other words, top managers must be motivated so that they have the desire to act exclusively in the interests of the company.

Another method is diversification for all businesses. In terms of the production, technological, and financial complex of an enterprise, this means not concentrating all assets in one organization, as an attack on it could result in the loss of everything at once. An example of diversification is when owners do not publicly disclose their direct involvement. In other words, capital-intensive property is not on the balance sheet of the company conducting operational activities. For example, such a step minimizes the risk of seizure through the concentration of accounts payable (if most assets are financed by loans or leases).

Tactical defense methods are used when an attack has already begun or when the threat of an attack is already obvious. They do not require serious strategic and organizational innovations. As a rule, these are legal measures.

“When it comes to effectively countering aggression, it is important to consider the steps taken by the aggressor. Therefore, all actions that a company can take in response to an attack are divided into several categories:

Urgent repurchase of shares from minority shareholders – when it is necessary to quickly buy back shares from those who hold a small stake.

Additional placement of shares through a private placement – if you need to raise money, you can offer new shares to a limited group of people.

Urgent restructuring and withdrawal of assets – to protect your interests, you sometimes have to change the structure of your business or dispose of assets.

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Targeted repurchase of shares from an aggressor – that is, you buy back your shares from the person who is attacking you.

Search for a “white knight” – a stronger partner who will help defend against the aggressor.

Reincorporation – re-registering your business in another region to avoid pressure.

Litigation or legal disputes – sometimes it is simply necessary to initiate proceedings to protect your rights.

Each of these steps is part of a strategy that can be used depending on the specific situation” (Okorokova, E., Demakova, A., 2024).

Mergers and acquisitions affect stock prices. Most often, after a deal is announced, the shares of the acquired company rise in price. Stocks may start to rise in price because the market sees good prospects for the company's growth. The growth may also be related to the expected offer: shareholders are offered to buy back the shares of the old company on favorable terms. The buyback is made at no less than market value and, in most cases, with a premium. The acquirer's shares become cheaper. The buyer spends large sums on the transaction and subsequent reorganization, which can negatively affect its financial performance. Therefore, the securities may initially fall in price and then rise after some time. Sometimes the shares of the acquired company fall in price. Another exception is when the value of the shares does not change.

“To minimize disadvantages and maximize advantages in the M&A process, Watson Wyatt uses a universal model consisting of five stages:

Homework. A decision is made to acquire another company, criteria are formulated, and the prospects and limitations of the deal are assessed.

Candidate selection. Independently or with the help of intermediaries, a list of potential candidates is compiled, their businesses are analyzed, and unsuitable candidates are eliminated. Sometimes, observing potential candidates can take several years.

In-depth assessment of promising candidates. A thorough analysis of the value and activities of the selected businesses is conducted, and the possible synergistic effect is assessed.

Courtship, negotiations, and bidding. Points of contact are discussed, contradictions are overcome, and the terms of the deal are discussed. The deal is made.

Post-deal integration management. A new business model is defined, uncertainties and conflicts are eliminated, and management and production processes are fine-tuned.

The M&A process can take anywhere from several months to several years, and the deal can fall through at any stage” (Danilenko, A., 2024).

Conclusions. Mergers and acquisitions enable companies to combine assets and achieve synergies. If synergies are achieved, revenue will increase over time and share prices may rise. However, the opposite may also occur, and external factors may intervene, such as a crisis in the industry or country. Therefore, when making decisions, it is more effective to be guided by a fundamental approach and your own strategy, rather than spontaneous market reactions to M&A deals. If the prospect of a profitable deal may arise at any moment, it is worth stocking up on the necessary specialists, tools, and processes in advance. The buyer must develop a merger and acquisition strategy and link it to the company's strategic goals, review the criteria for selecting companies for acquisition, define clear financial principles for evaluating transaction options, and, even more importantly, think about post-merger integration. The experience of the buyer and seller is an important factor. The most sophisticated buyers can react faster, act quickly, and conduct a more thorough due diligence. Experienced sellers understand when it is best to enter the market, properly prepare assets for sale, and negotiate more wisely, while rejecting unfavorable deals in a timely manner. In mergers and acquisitions, as in other areas of business, choosing the right moment is half the battle. Even a slight delay in concluding a specific transaction or implementing a larger cycle of mergers and acquisitions often sharply reduces or even destroys opportunities for

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value creation. A company can increase its chances of success, especially if it has a competent team, determination, diligence, and is willing to take reasonable risks.

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