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ІНСТИТУЦІОНАЛІЗМ І КРИЗА

Сучасні наукові возз'єднання та дебати зосереджені, протягом декількох років, на економічній кризі. В результаті, є незліченна кількість способів аналізу та інтерпретації кризи. Метою цієї роботи, є аналіз економічної кризи з іншої точки зору: через ролі установ. Наш науковий підхід направлений на розгляд питання про те, чи суспільні інститути відіграють роль у виникненні, прогресуванні або вирішенні економічної кризи. Для цього виберемо в якості представника державної установи Федеральну резервну систему США. Для задоволення нашої мети ми орієнтуємося тільки на діях Федеральної резервної системи та їх наслідках у період з Великої депресії до кризи 2007-2008 років. Ми спробували з'ясувати, якими були дії ФРС, підходящими й ефективними? Чи можуть вони бути кращими та більш доречними в певних ситуаціях? Ось ті питання, на які ми намагаємося відповісти в даній статті.

Ключові слова: інституціоналізм, криза, грошово-кредитна політика, Велика депресія, криза 2007-2008.

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ІНСТИТУЦІОНАЛІЗМ И КРИЗИС

Современные научные воссоединения и дебаты сосредоточены, в течение нескольких лет, на экономическом кризисе. В результате, есть бесчисленное количество способов анализа и интерпретации кризиса. Целью этой работы является анализ экономического кризиса с другой точки зрения: роли учреждений. Наш научный подход направлен на рассмотрение вопроса о том какую общественные институты играют роль в возникновении, прогрессировании или решении экономического кризиса. Для этого выберем в качестве представителя государственного учреждения Федеральную резервную систему США. Для удовлетворения нашей цели мы ориентируемся только на действиях Федеральной резервной системы и их последствиях в период с Великой депрессии до кризиса 2007-2008 годов. Мы попытались выяснить, какими были действия ФРС, подходящими и эффективными? Могут ли они быть лучше и более уместными в определенных ситуациях? Вот те вопросы, на которые мы пытаемся ответить в данной статье.

Ключевые слова: институционализм, кризис, денежно-кредитная политика, Великая депрессия, кризис 2007-2008.

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GROWING A BUSINESS – MERGERS AND ACQUISITIONS

Mergers and acquisitions analyzed as external growth strategy in the modern economic environment context; stock quote evolution analysis before and after mergers and acquisitions.

Keyword: merger, acquisition, expansion, business combination.

Introduction. Many recent studies have approached the issue of mergers and acquisitions as they have become increasingly common on the financial market, with the main goals of risk reduction and rapid business development by pooling resources, fast access to innovation and international expansion. Some studies seek the results from the financial performance perspective, for example Reddy, K.S., Nangia, V.K., and Agrawal, R. (2014) have concluded that the 2007–2008 global financial crisis had a negative impact on M&A, but they discovered that after the crisis period emerging market countries increased their foreign acquisitions; Aharon D.Y., Gavius I. and Yosef R. (2009–2010) revealed an increase in the prevalence of mergers and acquisitions transactions, with no change in pricing, during the stock market bubbles; Johnson H.E. (2014) emphasizes the importance of financial statement analysis of

the acquired company's assessment. Other studies try to explain the evolution from the organisational identity point of view, (De Bernadis L. 2010/2011) or to identify possible factors of success and failure in mergers and acquisitions (Weber Y., Tarba S., Oberg C. 2013).

Although the literature covers a wide range of studies related to mergers and acquisitions, this review will focus on external growth strategy and the way business combinations influence the market capitalisation of the newly created group. Based on data provided by finance sites, the current thesis examines top Mergers and Acquisitions for the period 2011-2014 from the transaction value point of view and aims to identify the quote evolution trends before and after the business combinations.

Methodology. The practical approach consists of the empirical study of the amounts involved in mergers and

acquisitions between 2011-2014. The theoretical approach involved descriptive-qualitative research methods by detailing specific types of external growth, based on document reviews of published academic papers, economic books, studies and journals.

Growing a business. Under the influence of several factors organizations tend to develop in order to ensure business continuity, prosperity and progress. In this context, the pressure from competitors, but also from the customers presses heavily on investors so, the decision to grow the business is very important and depends on the analysis of several variables such as the size of the company, its flexibility, the economic and commercial interdependencies created within the business environment, previous results of the company, the possibility of achieving partnerships with other companies. These are all issues that investors are considering when making a decision for growing a business since development and growth should be continuous concerns in the business environment.

Thus, according to a careful analysis, the decision may be at a first stage, in favour of an internal or an external growth, both of them having advantages and disadvantages.

Organic growth strategy. Internal growth is based solely on the company's own resources. Thus, according to the company's internal capabilities, investors can make decisions to increase production while improving sales in different ways. As a strategic planning tool, the Ansoff Matrix (Figure 1) for example provides help in order to choose the proper growth strategy.

Internal growth strategy can take place through:

- Market development – through this strategy the company tries to extend by entering with its own products new segments of the market or new markets;
- Market penetration – this strategy involves use of existing products on existing markets in order to increase market share either by selling more products or services or by reaching new clients; this strategy leads to improvement of the distribution network;
- Diversification – this strategy implies entering new markets, different from the current ones, with new products;
- Product development – this strategy aims to rise the market share by offering different new products on existing markets.

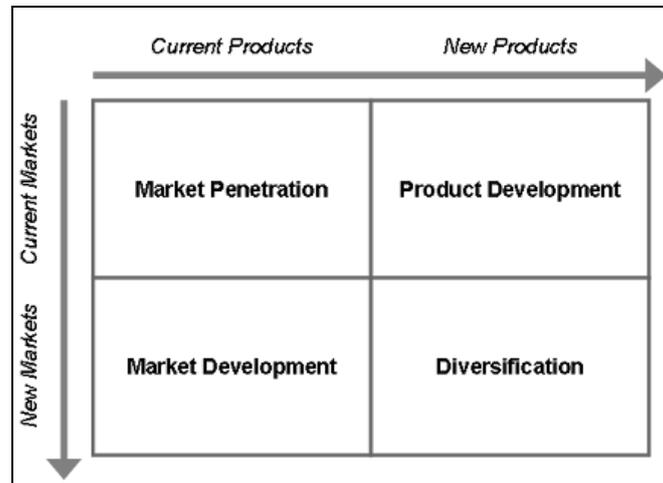


Fig.1. Ansoff Matrix

Source: <http://www.mejoracompetitiva.es/>

Organic growth implies, overall, the expansion of a company through internal funds, such as reinvested retained earnings, without relying on external loans. The finance can also be provided through shareholders contribution and may concern acquisition of new equipment or production technologies and establishment of new production lines.

Although this type of growth can be attractive for small business because the indebtedness degree remains at an acceptable level and the ownership will still be held by existing shareholders, it also presents disadvantages such as limited resources, market barriers, mandatory positive cash flows and a slow growth.

External growth strategy. In contrast with above mentioned strategies is the external growth through mergers, acquisitions and other alliances between companies. By merger we understand that a company buys with cash another firm or issues stock in exchange for the shares held by the other firm's owners. An acquisition refers to a transactions in which the major assets of the controlling shares of another company are bought. (Guerard Jr. J.B, Schwartz E. 2007, pg.425).

This growth tactic is becoming more and more common in the modern economic environment, in the

context of globalization and increased interdependencies between economies.

If in the case of internal growth the emphasis is on developing through own resources, in this case the main purpose is to create strong alliances with companies in order to add more value to the business.

Several needs and business perspectives underlie mergers and acquisitions. In normal economic conditions, more intense competition, scientific progress and customer needs diversification force companies to ensure a constant and fast improvement path in order to survive. In times of crisis and short after, companies find themselves in difficult situations when the internal development may not be strong enough in order to ensure growth. The need for new skills, new market demands, difficult access to financing, the imperative need for great results in short time intervals, all these push businesses to a new and challenging type of business combination.

Types of mergers and acquisitions. There are various types of mergers and acquisitions depending on different characteristics of business, economic environment or financing operations and, although, each term describes different types of activities. While mergers illustrate the creation of a new company by a willingly

merging of other companies, acquisitions appear when a company buys another company, in some cases under hostile circumstances.

The most common types of mergers are:

- Vertical mergers- encountered between companies within the same industry but operating on different levels, for example by merging directly with a supplier or a client;
- Horizontal mergers- common in industries with fewer companies that operate in the same industry field and offering the same products and services; in such cases the competition tends to be very high so, by merging, potential gains become much greater; however, these types of mergers can become dangerous for the market because the risk of monopolies arises when two or more powerful competitors decide to merge;
- Conglomerate mergers- in this case two or more companies activating in different domains decide to merge for other reasons.

Also, an acquisition describes a business combination achieved by asset purchase or by stock purchase. In the first case the acquirer buys a part of the assets or the assets entirely. The buyer has the privilege of selecting all the assets or liabilities he wants. A value will be assigned to each selected position, but this may be a difficult and expensive process. If the acquisition takes place by stock purchase, all the assets and liabilities are going to be transferred according to the control percentage so the process runs easier and involves low costs and the shareholder bears a lower tax.

Unlike mergers, acquisitions may need a hostile takeover in order to be accomplished. If the parties involved do not come to an agreement, the acquisition requires a management replacement in the structure of the acquired company. This situation appears when the combination process is carried out against the will of the target companies' board which rejects the offer and disrupts the acquisition process by refusing to cooperate in order to achieve the due diligence for example.

Other types of acquisitions are known, such as reverse takeovers where a private company acquires a public company or backflip takeovers when the acquiring company becomes a subsidiary of the purchased company.

Along with mergers and acquisitions, business alliances refer to agreements between businesses, such as joint ventures or strategic alliances, when two or more companies decide to unify their resources in order to cope with the economic environment challenges and ensure profitability. All companies remain independent and the benefits obtained are expected to be bigger than if they had activated for themselves on the market.

External growth characteristics. If we analyse the past 7 years we notice that external growth strategies also start from the inability of companies to survive on the market due to the severe impact of the crisis. Usually mergers, acquisitions and business combinations arise from the desire of expansion. By creating synergies, business can generate more profit and can diversify operational domains.

Among the main reasons for merger and acquisition are included strengthening and improving financial position, penetration of new markets, obtaining cheap financing sources, increasing and improving production process. In a changing world, maintaining competitiveness is becoming increasingly difficult. It is not easy for a company to keep up with the latest technologies, especially for small businesses. Instead, joining with other company can bring many benefits embodied especially in lowering of costs and obtaining good results in a much shorter period of time.

Mergers and acquisitions show both advantages and disadvantages. As benefits can be mentioned: expansion of business in different geographical regions, reduced manufacturing costs, market share growth, enlarged customer base, more financing resources available, increase of sales, expansion of research and development opportunities, increase of the production capacity, new markets opportunities, increase of the negotiation power. Overall business combinations strengthens companies, immediately expands assets and especially market share and ensures a better allocation of resources by sharing know-how and technological infrastructure. Also, through mergers is transmitted easier and with greater effect the management team knowledge.

Despite the fact that alliances of all kinds help companies to evolve, there are some disadvantages worthy of being taken into account. First of all, bigger companies involve greater risks. If in the case of a simple business the control was more easily exercised because the business was already known, in case of synergies can appear a problem of corporate governance and business administration, because difficulties may arise from cultural differences for example. The management must increase its capabilities as they enter new markets and more employees and assets are to be handled with. It is also possible for the investors to deal with an internal competition inside the company, among staff within united businesses.

Due diligence. Prior to initiate the purchase process, the buyer should make sure that it is well informed about the business that he wants to buy. This requires a careful analysis of financial and economic situation of the company to be acquired. A management review and a legal compliance review are also needed.

In this respect the due diligence aims to verify the annual financial statements of previous years and assess future projections of its future performance. An important aspect would be the existence of previous audit reports outlining an advised opinion on the company's business to be acquired.

Are taken into consideration income and expenditure budgets proposed and approved for the next period, estimated cash flows and correlation of these future business projections with previous situations, in order to ensure sustainability of the schedules.

Also, through due diligence can be evaluated the indebtedness degree and can be determined whether or not the company has sufficient resources to sustain its activity. Technological endowment and know-how are very important aspects to be evaluated and so is the client base of that will be incorporated into the new company. Buyer must take the necessary steps to determine the characteristics of clients which he will assimilate into its business portfolio. Pre-merger situation assessment involves determining client range, knowledge of satisfaction felt from the products and services received, the contractual terms under which trade relations have developed up to the acquisition or merger moment.

Mergers and acquisitions in the last period. In the last 2 years merger and acquisition activity recorded an increase. Cross border mergers and acquisitions were on a rise between 2012 and 2014, among transactions the largest share is held by the industrial sector followed by the real estate and healthcare fields.

Top mergers and acquisitions performed during last 4 years can provide an overview of business combination evolution. As shown in tables below, the amounts involved in business combinations are maintained at high levels.

Table 1. Top Mergers and Acquisitions 2011

Acquiror	Acquired	Transaction value (bil USD)
Preferred Shareholders	AIG	58,00
SAB Miller Beverage Investments	Foster's Group Ltd	12,00
Shareholders	Fiat SpA-Auto Business	18,00
Nippon Steel Corp	Sumitomo Metal Industries Ltd	22,00
Takeda Pharmaceutical Co Ltd	Nycomed Intl Mgmt GmbH	13,00
Cargill Inc	Cargill Inc	14,00
Johnson & Johnson	Synthes Inc	20,00
Duke Energy Corp	Progress Energy Inc	25,00
AMB Property Corp	ProLogis	15,00
Deutsche Boerse AG	NYSE Euronext Inc	12,00
Shareholders	Marathon Oil-Downstream Bus	16,00
BHP Billiton PLC	Petrohawk Energy Corp	15,00
Express Scripts Inc	Medco Health Solutions Inc	34,00
United Technologies Corp	Goodrich Corp	18,00
Kinder Morgan Inc	El Paso Corp	36,00

Source: www.gfmag.com

Table 2. Top Mergers and Acquisitions 2012

Acquiror	Acquired	Transaction value (bil USD)
Glencore International PLC	Xstrata PLC	45,00
Shareholders	Kraft Foods Inc-N Amer Grocery	36,00
NK Rosneft'	TNK-BP Ltd	28,00
SAREB	Bankia SA-Bad RE Assets	25,00
FROB	Banco Financiero y de Ahorros	23,00
Shareholders	ConocoPhillips-Refining ,Mktg	21,00
Walgreen Co	Alliance Boots GmbH	21,00
SoftBank Corp	Sprint Nextel Corp	20,00
Anheuser-Busch Inbev	Grupo Modelo SAB de CV	20,00
China Telecom Corp Ltd	China Telecom Corp-3G Assets	18,00
FROB	Bankia SA	17,00
CNOOC Canada Holding Ltd	Nexen Inc	17,00
Freeport-McMoRan Copper & Gold	Plains Expl & Prodn Co	17,00

Source: www.gfmag.com

Table 3. Top 10 Mergers and Acquisitions 2013

Acquiror	Acquired	Transaction value (bil USD)
Applied Materials (AMAT)	Tokyo Electron (TOLEY)	10,00
Spectra Energy Partners (SEP)	Spectra Energy Corp.'s (SE)	9,00
American Airlines (AAL)	US Airways	11,00
Thermo Fisher Scientific (TMO)	Life Technologies	13,00
Liberty Global (LBTYA)	Virgin Media	16,00
Publicis Groupe (PUBGY)	Omnicom Group (OMC)	17,00
Comcast (CMC SA)	NBC Universal Media	17,00
Michael Dell and Private Equity Firm Silverlake	Dell	25,00
Berkshire Hathaway (BRK.B)	Partners Buy H.J. Heinz	23,00
Verizon (VZ)	Verizon Wireless Stake (VOD)	130,00

Source: www.investopedia.com

Table 4. Top Mergers and Acquisitions 2014

Acquiror	Acquired	Transaction value (bil USD)
Novartis AG (NVS)	GlaxoSmithKline	20
Facebook Inc (FB)	WhatsApp	22
Actavis (ACT)	Forest Laboratories	25
Reynolds American (RAI)	Lorillard (LO)	27
Halliburton Company (HAL)	Baker Hughes Incorporated (BHI)	35
Medtronic (MDT)	Covidien	43
Actavis (ACT)	Allergan (AGN)	66
AT&T (T)	DirecTV (DTV)	67
Comcast Corporation (CMC SA)	Time Warner Cable (TWC)	70
Kinder Morgan	Kinder Morgan Energy Partners LP; Kinder Morgan Management; El Paso Pipeline Partners	76

Source: www.investopedia.com

Results. If we analyse the effects of business combinations operations on the market capitalization of listed companies we can see an improvement. The number of mergers and acquisitions increased gradually after the

crisis period up to 2014 as a Thomson Reuters study revealed, and strong gains are recorded in media, health-care and energy fields.

As shown in graphs below, the decision taken for business combinations has been a very good one for the companies analyzed regarding the stock capitalization.

For example, the acquirer Berkshire Hathaway (CEO Warren Buffett), an American multinational conglomerate holding company founded in 1839 as a textile manufacturing company, has passed over the years through numerous business combinations changes and recorded steady improvement in market capitalization (Fig 2, Fig.3).

Comcast Corporation, a multinational mass media company, the largest broadcasting and largest cable company in the world by revenue, according to the Institute of Media and Communications, merged in 2014 with Time Warner Cable with good results in terms of stock quote evolution (Fig.5). However, in April 2015 the deal was called off and Comcast gave up Time Warner Cable because of regulators which concluded that there would be too much market power for one company.

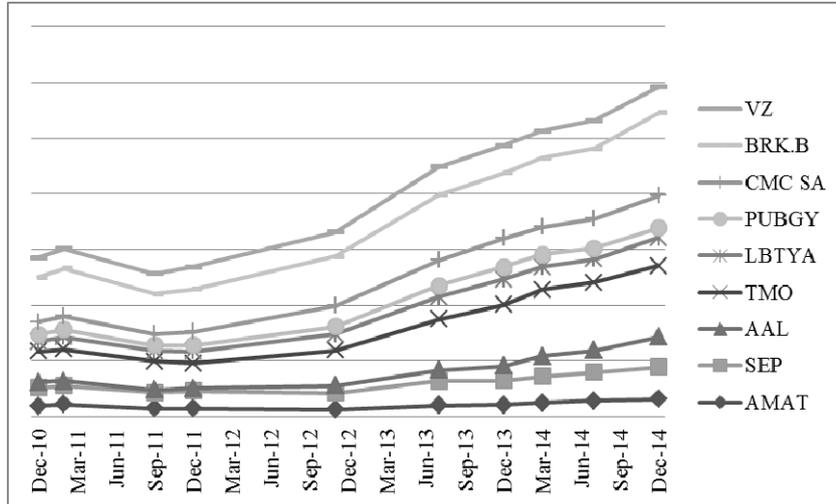


Fig. 2. Acquirer Stock Quote evolution – 2013 Mergers and acquisition

Source: finance.yahoo.com

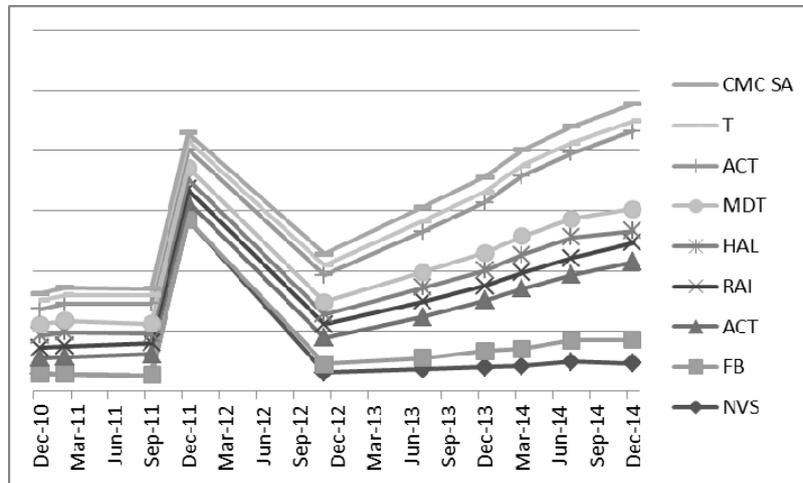


Fig. 3. Acquirer Stock Quote evolution – 2014 Mergers and acquisition

Source: finance.yahoo.com

Of course, to this development also contributed improved business environment conditions in the period following the global financial crisis, but if we consider both acquirer and acquired companies evolutions, the trends are conducive to the initial aim of the business combination, namely the development and strengthening of companies. For example Figure 4 below shows the evolution of stock quotes for both Applied Materials and Tokyo Electron, two of the leading vendors of semiconductor manufacturing equipment that merged in 2013.

Tokyo Electron Limited is a Japanese electronics and semiconductor company founded in 1963 and is the largest manufacturer of integrated circuits and flat panel displays

in Japan and the third in the world. Applied Materials, an American corporation that supplies equipment, services and software to enable the manufacture of semiconductor, flat panel display, Glass, WEB and solar (crystalline and thin film) products, began expansion in 1996 by acquiring various companies up to 2013. In 2013 Amat announced its merger with Tokyo Electron Limited and the result was to become the world's largest supplier of semiconductor processing equipment. Unfortunately, the deal that was expected to be profitable had significant regulatory problems and the shares of Amat were falling down and during 2015 the merger has been cancelled.

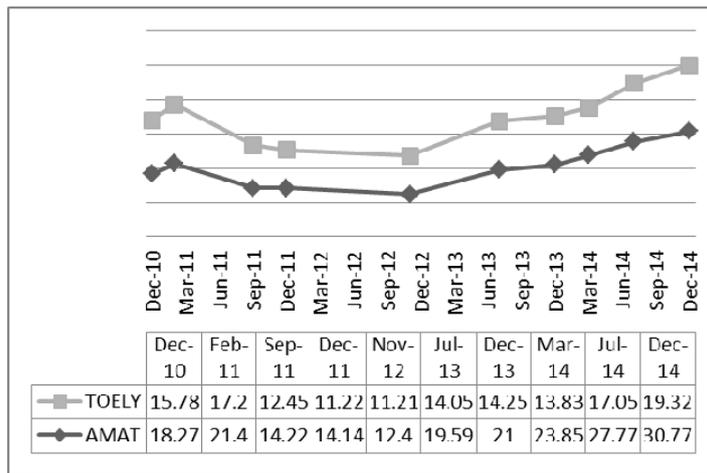


Fig. 4. Quote evolution – 2013 Applied Materials and Tokyo Electron merger

Source: finance.yahoo.com

Figure 5 shows the stock quote trends for Comcast Corporation and Time Warner Cable, the two largest U.S. cable companies.

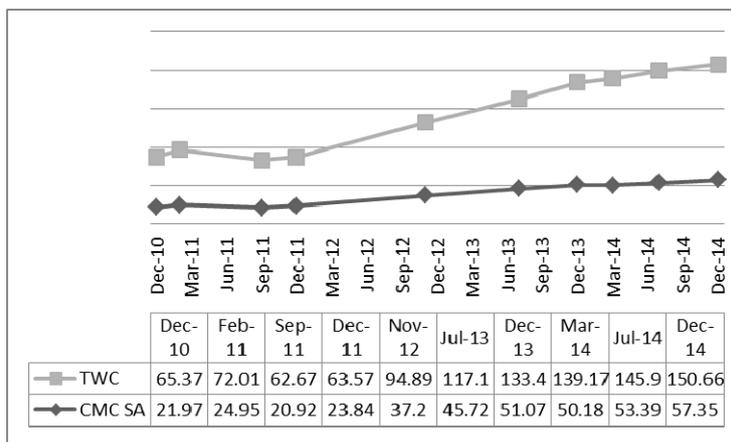


Fig. 5. Quote evolution – 2014 Comcast Corporation and Time Warner Cable merger

Source: finance.yahoo.com

Conclusion & Discussion. Six years after the financial crisis the world began to recover and the global growth prospects for the world economy show signs of strengthen for the following two years. Due to the downward trend of business during the financial crisis, investors are trying to overcome the negative impact and find new opportunities for expansion, or, in the worst case, recover as much as possible of their investment.

Organic growth is slow and sometimes arduous but offers the advantage of financial independence and reduces the risk from indebtedness to financial institutions. However, under the present circumstances a rapid and successful expansion is required. External growth through business combinations becomes an important and large part of the financial word. Involvement in such transactions brings both advantages and disadvantages, but often business success depends on flexibility and open-mindedness, hence assuming risks can bring higher future gains. Regrouping of companies pursue basically getting control over productive assets and vast knowledge available to the largest financial market actors, in order to increase the revenue. Alongside, the constant improvement of the management team is crucial in order to ensure a proper control of a growing business.

As shown in the above tables and graphs, amounts involved in business combinations are at high levels and

results of mergers and acquisitions can be regarded as underlying an increase in market capitalization. Analyzing the evolution from the period between 2010 and 2014 we can identify an uptrend for the stock quotation but there are other several important aspects to be considered when analyzing the profitability and the long term trend of quote evolution. For example, if we take into account the cases of Amat and Comcast and we expand the analyzed period, we discover that, in fact, the business combination process resulted in a positive outcome on a short run only and the mergers were eventually cancelled because of regulation problems.

The analysis of the market capitalization is not enough in order to establish whether a business combination is a successful one or not. As a suggestion for future research, different directions regarding merger and acquisition results should be taken into account such as market capitalization analysis on a long term period after the business combination takes place, management issues and antitrust regulatory matters.

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ЗРОСТАННЯ БІЗНЕСУ – ЗЛИТТЯ ТА ПОГЛИНАННЯ

Злиття та поглинання проаналізовані як елементи зовнішньої стратегії зростання в сучасних умовах економічного середовища. Проаналізовано еволюцію котирування акцій до і після злиттів і поглинань.

Ключові слова: злиття, поглинання, розширення, об'єднання бізнесу.

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РОСТ БИЗНЕСА – СЛИЯНИЯ И ПОГЛОЩЕНИЯ

Слияния и поглощения проанализированы как элементы внешней стратегии роста в современных условиях экономической среды. Проанализирована эволюция котировки акций до и после слияний и поглощений.

Ключевые слова: слияние, поглощение, расширение, объединение бизнеса.

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ANALYSIS MODELS OF PROFITABILITY IN AGRICULTURE

In this article there is developed a synthetic theoretical framework regarding the profitability analysis through economic and financial rates of return using different models, and also it is made a case study on the similarities and differences between various models of rates of return analysis in agriculture. The motivation of choosing this theme is to determine the relationship between financial and economic profitability using Pearson correlation coefficient. The research conducted leads to two main categories of results; on the one hand there is made a qualitative theoretical synthesis on the rates of return in models, on the other hand it is determined the correlation between financial and economic profitability in the agriculture organizations.

Keywords: economic rates of return, financial rates of return, Pearson correlation coefficient, agriculture.

Introduction. It is known that agriculture is an important branch of the national economy, holding a significant share in Gross Domestic Product. In this context it must be taken measures that contribute to increasing of agricultural holdings profitability. The need to develop a profitable business derives from the fact that the use of inputs who are obtained with a particular effort should be balanced by the effects obtained from the execution of the activity, ie getting a surplus of effects (results) compared with the efforts (expenses) involved. The profitability is the main part of the economic and financial mechanism, reflecting the leverage of available resources.

The farm profitability reflects the measuring of effects materialized in revenues with the efforts involved materialized in expenditure. The economic efficiency principle requires that any economic activity to achieve an increase of net economic effects in a higher level of the efforts needed to obtain them. The most important effect is the profit, specially the net profit, which remains at the disposal of associates/shareholders.

Methodology. In order to achieve the proposed objectives, in this paper there were studied a series of material from the specialized literature: books, articles, websites and other relevant material. This research is conducted over a period of four years (2010-2013) at a farm. Determination and analysis of financial and economic rates of return was made at the level of each year, using a series of

specific models. After that we proceeded to calculate the Pearson correlation coefficient between: financial rate of return-economic rate of return; financial rate of return-commercial rate of return; economic rate of return-commercial rate of return.

The research hypotheses that we wanted to check consists of:

1. The calculation of the economic and financial rate of return using different models leads to different results;
2. There is a high correlation between the financial, economic, commercial rate of return.

1. Profitability and its importance for organizations

In the literature there are different approaches of the profitability. So the profitability may be defined as the expression of the result obtained by the organization as a result of an activity of transformation/exchange (Pavaloaia et al, 2010). We appreciate that one of the most relevant definitions of profitability is: In terms of heritage, the profitability can be defined as the measurement of the two components at the year end, on the one hand the volume of production expenses incurred in carrying out basic activity and other activities, works and services, and on the other hand, the income earned (Burja, 2009).

The profitability of a farms, as well as for any organization, is a form of expression of economic efficiency, including a number of key economic and financial aspects of an organization, as a relevant indicator for decision making