

Рисунок 4. Сутність глобалізаційних процесів

У результаті глобалізації відбувається також міграція в масштабах всієї планети капіталу, людських і виробничих ресурсів, стандартизація законодавства, економічних і технологічних процесів, а також зближення культур різних країн. У результаті цього світ стає більш взаємопов'язаним та взаємозалежним.

Сьогодні інтеграція ринків ще далека від досконалості. Більше того, глобалізація постійно ставить нові виклики перед світовою економікою. Очікується, що відповіддю на ці виклики буде поява нових і все більш складних наднаціональних інститутів регулювання глобального ринку. Це, своєю чергою, припускає ще більш тісну інтеграцію та ускладнення архітектури глобальної економіки.

#### Висновки

Узагальнюючи вищенаведене, можна запропонувати умовну модель взаємозв'язку чинників, що впливають на еволюцію господарської діяльності людини (рис. 4).

Основними факторами, що впливають сьогодні на еволюцію господарської діяльності, є:

а) розвиток інтелектуального капіталу, що призводить до інтелектуалізації економіки. В результаті підвищується загальнофакторна продуктивність, що є головною передумовою для стійкого економічного розвитку;

б) посилення влади фінансів, що є результатом фінансової революцією, завдяки великій кількості фінансових інновацій, що мали місце наприкінці XX та на початку XXI століття;

в) зростаюча глобалізація, в результаті якої поглиблюється світовий розподіл праці у своїй діалектичній єдності двох взаємопов'язаних процесів – міжнародної спеціалізації та міжнародної кооперації.

З урахуванням існуючих тенденцій в еволюції господарської діяльності, на наш погляд, вплив наведених факторів буде лише посилюватися. Ця обставина саме і обумовлює актуальність подальшого дослідження динаміки еволюції та її напрямів, властивостей функціонування організаційного механізму, визначення та попередження потенційних викликів та загроз.

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## Statistical analysis of merger and acquisition process in Ukraine

**Introduction.** The Ukrainian economy can still be classified as an emerging one, which understandably makes it interesting for potential investors. The country's gross domestic prod-

uct is growing considerably faster than those of most developed economies, which has led investors to look at the nation's market with increasing interest.

Ukraine has a large industrial base which it inherited from the Soviet era, and vast agricultural terrain which is also very attractive to foreign investors. In the last few years investors from different parts of the world have begun investing in quite new (for foreign capital in Ukraine) branches of the economy, such as cable television and airports. Therefore, the mergers and acquisitions market of late has shown higher growth indicators on an annual basis. Ukrainian regulations for mergers and acquisitions are quite liberal in comparison with European countries or the United States of America. No sophisticated regulation for takeovers exists; there is also no tradition of nonbinding norms or codes of practice to serve as guidelines (almost imperative in some branches).

Under Ukrainian law, mergers may take place in two ways: as a consolidation and as a joining. Both types of merger entail termination of at least one merging company by transferring all its assets, rights and obligations to its legal successor.

Consolidation occurs when two or more companies join together or merge, establishing a new entity. The merging companies are dissolved and all their assets, rights and obligations are transferred to a new company established as a result of the merger.

Joining occurs when one company is absorbed into another. In this case, the company that is joining is dissolved and all its assets, rights and obligations are transferred to the other, existing company.

Any merger requires the approval of the highest decision-making bodies of the companies involved: 3/4 of the votes of shareholders taking part in a general meeting of a joint-stock company or a simple majority of votes in a limited liability company.

Since a merger leads to the dissolution of a particular company, such termination is supposed to be performed in accordance

with special procedures. In particular, a liquidation commission must be established, which, among other requirements, is obliged to notify all the creditors of the companies, as well as the state registrar on the dissolution and merger and draw up the act of the transfer. Dissolution procedures differ according to the organisational form of the particular company.

Ukrainian legislation does not provide a definition of «acquisition». However, in practice the term means one company has gained control over the shares or assets of another company. There are three basic types of acquisition:

- the acquisition of shares: the buyer acquires the company together with all its assets, liabilities and obligations;
- the acquisition of assets: only the identified assets (and liabilities) that the buyer agrees to obtain are acquired;
- the acquisition of debts: in accordance with the Law on Bankruptcy, an insolvency plan can include the option of exchanging a creditor's demands for shares and/or assets of the target company (the debtor).

Differences between mergers and acquisitions can be seen in Figure 1.

The modern processes of M&A are explained by conceptual principles of the newest theories (Figure 2).

**Merger and Acquisition Processes in Ukraine**

The value of what is known as global merger and acquisition deals has grown rapidly within Ukraine over the last few years. As an emerging market Ukraine has become both a target of strategic interest for foreign investors looking to expand into new markets and an active area for internal M&A's as local companies merge to compete on the global market.

It is expected that the number of deals in Ukraine will continue to grow significantly across all industries, following the current

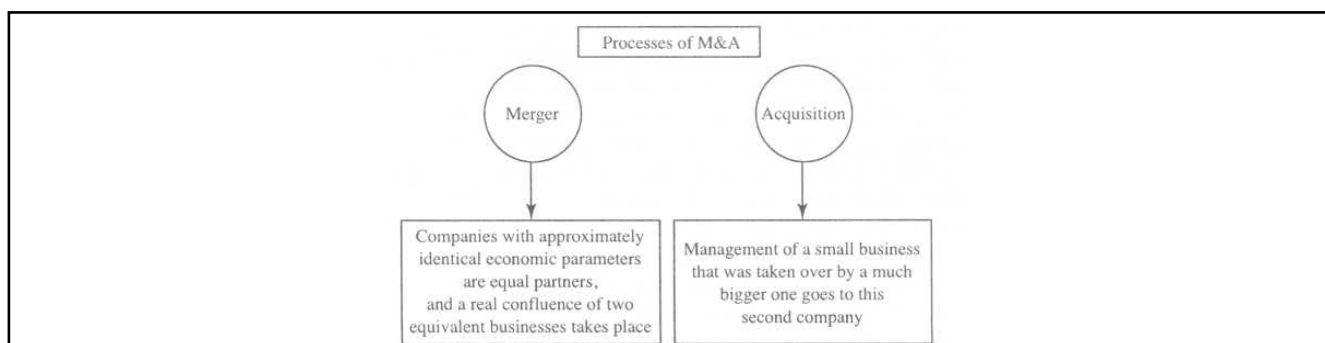


Fig. 1. Definitions of Mergers and Acquisitions

Source: (Galchinsky 2006).

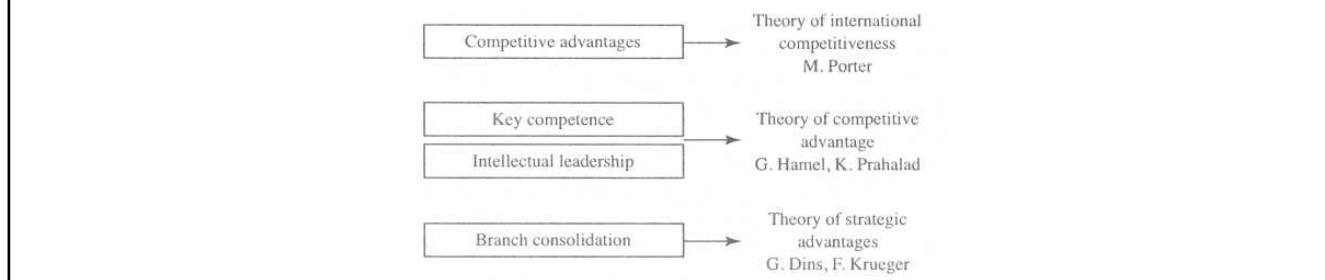


Fig. 2. Theoretical Basis of M&A processes Source: (Galchinsky 2006)

trend set by the financial sector. The integration phase of M&A is one of the most challenging and complex. Statistics show that 70% of attempted synergies are not achieved, and 47% of executives leave within one year of a merger. One of the root causes of this failure is poor post-merger management.

There has been a high volume of M&A activity in Ukraine in recent years. In the first half of 2006, 43 large deals involving transfers of stock amounting to 3.7 billion USD (about 2.8 billion euro) took place. The financial sector was Ukraine's indisputable leader in mergers and acquisitions. It was followed by the metallurgical industry, communications and insurance businesses. In 2006 the public M&A market was particularly active in the following areas:

- the banking sector, where many deals were made, including: the acquisition of UkrSotsBank by Banca Intesa (Italy) for 1.2 billion USD (about 900 million euro) and the acquisition of Raiffeisenbank Ukraine by OTP Bank (Hungary) for about 858 million USD (about 650 million euro);

- the metallurgy industry, which involved the following main deals, the acquisition of a 42.2% stake in DneproSpetsStal by interpipe for about 220 million USD (about 167 million euro) and the acquisition of 60% of, plus one stock parcel in

DneproMetiz by SeverStal – Metiz (Russia) for about 40 million USD (about 30 million euro);

- in the communication sector: the sale of Optima Telecom to System Capital Management (SCM) for 130 million USD (about 99 million euro) (Optima Telecom is Ukraine's major alternative communication operator, which incorporates the UkrCom IP provider and several other providers of internet services) and the acquisition of Germanos by Cosmote for 2.1 billion USD (about 1.6 billion euro) (Germanos owns a network of Ukrainian mobile communications chain stores).

There were four major deals in the insurance sector to the tune of 103.3 million USD (about 78 million euro). The biggest deal involved the acquisition of Garant – Avto and Garant–Life insurance companies by Generali Holding Vienna (Austria) for about 88 million USD (about 67 million euro).

The number of M&As in 2004–2006 in different countries can be seen in Figure 3, in USD billions.

In 2007 ISI Emerging Markets registered 683 M&A deals and 25 ECM transactions involving Ukrainian companies, including both completed and committed deals. The total value of M&A and ECM transactions in 2007 reached 15.6 billion USD. The largest transactions are presented in Table 1.

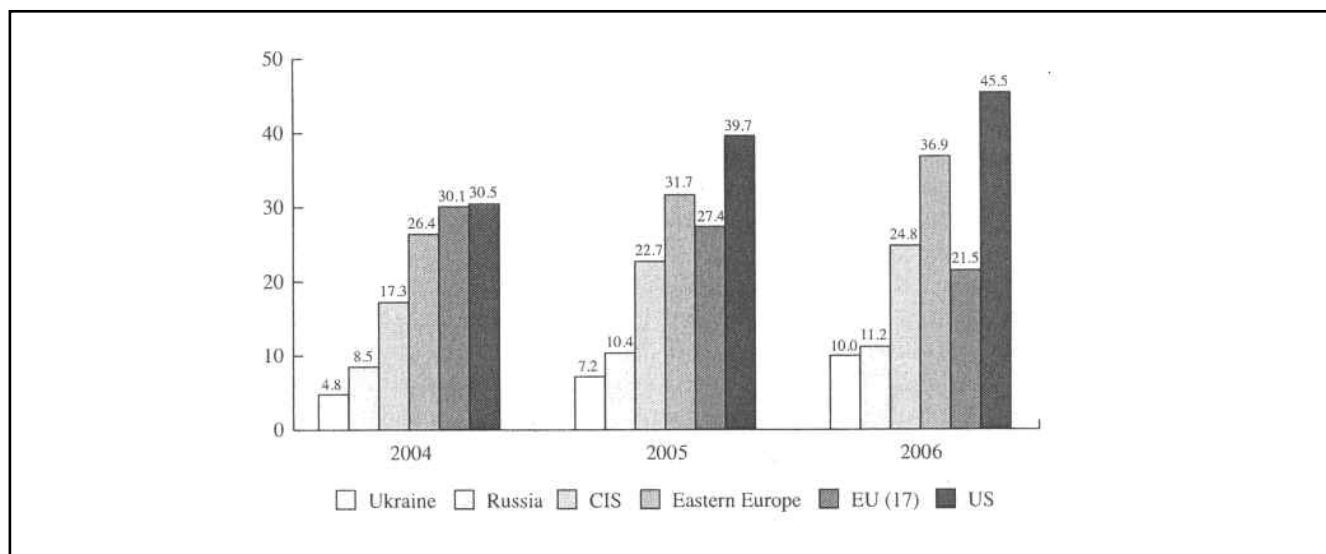


Fig. 3. Number of M&As, 2004-2006, billion USD

Source: (Galchinsky 2006).

Table 1. The Largest M&A Transactions in 2007 in Ukraine

Target	Industry	Buyer	Seller	Stake	Deal value (USD million)
Sukha Balka Petrovskiy metallurgical plant Bagliykoks Dniprodzerzhinsk Coke Dniprokoks South OMEP	mining & coal production	Evrax Group Lanebrook	Igor Kolo moysky (Privet Group)	Controlling stakes	3,654
UkrSotsbank	finance	Bank Austria	Ferrottrade International	95%	2,070
First Ukrainian Development	real estate	Dmitriy Buryak Yakov Goldovsky	Michail Chernoy	100%	1,300
TAS Komerzbank TAS Investbank	finance	Swedbank	Sergey Tigipko	100%	735
Bank Forum	finance	Commerzbank	The Yurushev family	60%	600

Source: www.ukrstat.gov.ua.

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The largest volume of M&A deals was recorded in the financial and mining sectors, as well as real estate and construction. Thus, the total value of mergers and acquisitions in the financial sector, mining and real estate together with construction was 4.8 billion USD, 4.3 billion USD and 2.2 billion USD, respectively. Those sectors accounted for about 72% of the total value of M&A deals in 2007.

It is worth noting that in 2007 Ukraine witnessed a record high number of M&A deals in the banking sector. IS1 Emerging Markets recorded 51 transactions totaling 4.4 billion USD.

Food and beverage production was the fourth largest sector in 2007 in terms of value, which amounted to 1.3 billion USD. In the largest transaction, Pepsi acquired 100% of Ukraine's largest juice producer, Sandora, for 680 million USD. The second largest deal in this industry was the IPO of sunflower oil producer Kernel. The company raised 220 million USD on the Warsaw Stock Exchange, in exchange for a 38% stake.

In terms of the number of transactions, the financial sector was the largest, with 110 deals. The second largest was food and beverage production (95), followed by information,

IT and telecommunications (85), and wholesale and retail trade (69) (Figure 4).

Foreign companies in 2007 continued to expand into the Ukrainian market, accounting for more than 65% of deal value and about 70% of the number of deals. High interest was shown in the financial and metals and mining sectors. Outbound acquisitions still represent a low share – 6% of the total deal value (about 900 million USD).

In Russia in 2007 the value of the M&A market reached 131.7 billion USD, almost twice the 2006 figure. The total number of transactions increased by 33% to reach approximately 590. The largest transactions were made in the oil and gas, utilities, and metals and mining industries. In terms of the number of deals, the financial, construction and real estate, telecoms and retail sectors all showed high activity.

In Kazakhstan the total value of the M&A transactions market in 2007 reached approximately 13.2 billion USD, a 60% rise from the previous year. M&A deals in Kazakhstan are mainly concentrated in the oil and gas, metals and mining, and financial sectors.

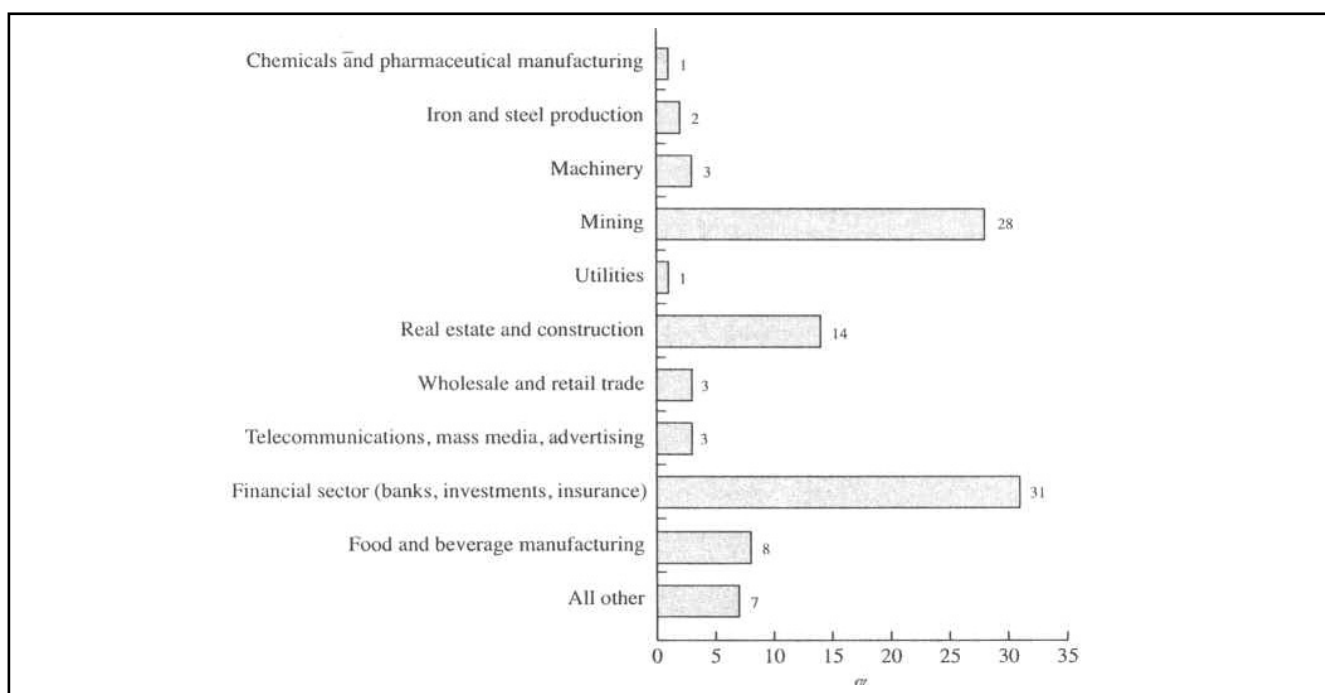


Fig. 4. Breakdown of M&A Deals by Industry, 2007 Source: (Galchinsky 2006).

Table 2. The Ten Largest Countries-buyers of Ukrainian Companies

Buyer's country of registration	Number of deals
Russia	43
Poland	18
Netherlands	18
Great Britain	17
USA	16
Austria	9
Sweden	8
France	6
Cyprus	76
British Virgin Islands	8

Source: [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

The markets in other CIS countries are characterised by higher risk and higher expected returns. The growth of transactions in the countries of Central Asia, the Caucasus, Belarus and Moldova will depend on structural reforms, political developments and legislative improvements.

Among 708 M&A and ECM deals in 2007, 297 were carried out by foreign investors. Russia remains the biggest investor with 43 transactions, followed by Poland and Netherlands with 18 deals each.

An additional 76 deals were carried out by companies registered in Cyprus and 8 in the British Virgin Islands. However, it would be incorrect to regard those deals as foreign investments, as most of those offshore companies are controlled by Ukrainian businessmen.

#### ***Ukrainian Businessmen in the Transformed Economy***

Ukrainian companies bought major stakes in only 18 foreign companies. The largest deal was completed by Privat Group. Its subsidiary, Palmary Enterprises, controlled by Igor Kolomoysky and Gennadiy Bogolyubov, purchased 95.37% of the Australian mining company Consolidated Minerals for 1.05 billion USD. The second largest acquisition abroad was carried out by the Industrial Union of Donbass, which acquired 25% of American steel producer Sparrows Point for 337.5 million USD.

One development in 2008 was the beginning of mergers between the biggest industrial groups. This will certainly include transnational deals involving the Russian business giants. 2007 was devoted to active negotiations which will now be concluded by final deals. However, it is probable that most industrial groups have not yet made their final decision on these issues.

Because many wealthy Ukrainian businessmen chose to focus their activities on several primary industries, Ukraine may witness a big sale of assets, while companies which are not considered vital for future business may be put on the market.

One of the newest trends, and one destined to become one of the most dominant, is investment in construction and development. Numerous business centres, shopping malls and land plots have been purchased by Ukrainian and foreign investors, with residential real estate remaining a very attractive target, too.

As Ukraine is a member of the WTO, more investors will arrive in Ukraine to build roads, airports, hotels, car parks, and other infrastructure facilities. Therefore, being the first in the market is crucial as Ukrainian and Russian investors are already aggressively trying to consolidate their positions. In the years to come Ukraine will need huge investment in its infrastructure, which will improve conditions for the acquisition of companies in these fields. With concerns rising about the robustness of the credit market, deals have been harder to put together and in some cases even abandoned. Since the closing months of 2007 more cautious behaviour has been in evidence, as the results of losses due to sub-prime exposure make themselves felt and corporations and their financiers adopt new attitudes to risk management when conducting deals.

Nevertheless, in 2008–2009 the Ukrainian mergers and acquisitions market is expected to expand by at least 50%.

This will happen despite the biggest international companies' reluctance to proceed with big acquisitions, in view of a possible recession in the global economy. Although Russian investors will still be among the largest investors in the Ukrainian economy, European companies are also expected to be active in Ukraine due to the country's accession to the World Trade Organisation.

One of the problematic peculiarities of the Ukrainian legal system is the lack of protection for minority shareholders, which of course helps if you are planning to acquire a company, but may harm you if you are a target.

The general weakness of the stock market prevents it from strongly influencing state regulations. Therefore, many companies are not public and are not available for potential investors.

As a consequence of the lack of sophisticated corporate regulations, it is much easier to acquire or to sell a company in Ukraine (for example, there are no compulsory buyout rules).

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Small and middle-size enterprises usually have an effective decision-making team, good management, a level of functioning that considerably exceeds industry standards, and very often a level of efficiency greater than that of the company buying them.

The reason for such absorption is stipulated in the current conditions in Ukrainian legislation: it is much simpler to purchase an effectively operating enterprise than to build a new and effective system of management. As a result of such absorption, the level of capital concentration is higher in Ukraine than in other countries.

Some conclusions can be drawn on the basis of research conducted by analysts at the investment company Dragon Capital in co-operation with «Kommersant» magazine. For starters, the value of the property that belongs to the 50 richest businessmen of Ukraine exceeded 64.5 billion USD in 2007 year, which accounts for nearly 50% of Ukraine's national wealth.

Enterprises belonging to these individuals produce nearly 30% of GDP. Thus, property volumes and the part of GDP controlled by these oligarchs grow very fast and lead to about 80% of GDP growth as a result of the activity of their enterprises (Table 3).

The authors believe it impossible to attain such a level of capital concentration naturally. What makes it possible is the absorption of small and middle-size businesses by the large companies. The companies' targets are often small businesses with a leading position in an industry service.

We have drawn our conclusions using results obtained from the gravity model, so named for its similarity to Newton's law of gravity: large economic subjects (companies, businesses, etc.) usually attract smaller ones. This model is used to determine the small companies' absorption process by looking at production (sales). In some cases the quantity of employees of these companies is also taken into consideration.

Applying this model provides us the opportunity to not only analyse the dynamics of the capital concentration process, but also to estimate the social and economic consequences of this process. The results are presented in Table 4.

Statistical research on the capital concentration process in Ukraine shows that one of the most negative consequences of the M&A process is the decrease it leads to in the Ukrainian economy's level of innovation. This level falls when a large business takes over the most successful small and middle-size businesses and limits the aspiration to apply innovative factors of growth (Table 5).

M&A market research on Ukraine done on the basis of gravity model results showed that the government's anti-monopoly policy was used as an instrument for stimulating innovation. On one hand, antimonopoly organisations are obliged to estimate only the credible influence of price consolidation, though they should also consider the influence M&A has on innovation. On the other hand, if M&A promotes concentration in industry, effectiveness and efficiency in an innovative sphere, then permission should be granted them.

**Table 3. Property Values of the Richest 50 Persons in Ukraine, 2006-2007**

Rating	Last name	Cost of business (billion USD)		Growth rates (%)
		2006	2007	
1	Rinat Akhmetov	11.8	15.6	32.2
2	Viktor Pinchuk	3.7	7.0	89.2
3	Igor Kolomoysky	2.8	3.8	36.4
4	Gennadiy Bogolyubov	2.4	3.4	39.6
5	Konstantin Zhevago	1.9	2.7	42.1
6	Volodymyr Boiko	1.3	2.4	84.6
7	Dmitro Firtash	1.4	2.0	42.9
8	Volodymyr Matvienko	0.9	2.0	119.1
9	Oleksiy Martynov	1.4	1.9	36.4
10	Vitaliy Gayduk	1.7	1.8	5.9
11	Sergiy Taruta	1.7	1.8	5.3
12	Oleksander Yaroslavskiy	0.7	1.3	83.4
13	Viktor Husenkis	0.7	1.1	59.2
14	Tariel Vasadze	0.5	1.0	81.8
15	Sergiy Tigipko	0.5	1.0	100.4
16-50	Others	9.8	15.7	61.1
	Total	43.2	64.5	49.3

Source: (Kommersant magazine).

**Table 4. Share of National Wealth Belonging to the Richest 50 Persons in Ukraine, Share of GDP Received Due to the Functioning of Companies Belonging to These People, GDP Share Received Due to These Companies**

Indicator	2004	2005	2006	2007
Share of national wealth belonging to the 50 richest persons in Ukraine	29.0	33.0	41.0	50.0
Share of GDP received due to the functioning of companies that belong to these people	16.0	19.0	24.0	30.0
Share of GDP growth received due to these companies	40.0	50.0	65.0	80.0

Source: [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

**Table 5. Innovations Implemented by Industrial Companies in Ukraine**

Year	Percentage of the enterprises that use innovations	Percentage of the enterprises that implement innovations	Implementation of new technological processes	New products implemented	Percentage of innovations
2000	18.0	14.8	1,403	15,323	6.7
2001	16.5	14.3	1,421	19,484	6.8
2002	18.0	14.6	1,142	22,847	7.0
2003	15.1	11.5	1,482	7,416	5.6
2004	13.7	10.0	1,727	3,978	5.8
2005	11.9	8.2	1,808	3,152	6.5
2006	11.2	10.0	1,145	2,408	6.7
2007	10.6	8.7	1,024	1,978	6.3

Source: [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

### Conclusions

1. Corporate strategies seek to expand through M&A and carry the following competitive advantages:

- less competition,
- achievement of a synergistic effect due to the diminution of charges through economy on scales,
- rapid achievement of strategic purpose,
- access to strategically important intangible assets,
- an increased level of competitiveness on international markets.

The disadvantages are the large financial charges on dividend payments to shareholders. High risk also exists when incorrect company evaluation occurs. To achieve and maintain strong competitive status on an international market, the company should develop specific competitive advantages. The strategic key factors a company should consider are intellectual leadership, maintaining innovativeness and competitive advantage and rapid particular branch consolidation.

2. Existent methodical approaches are insufficient for the development and acceptance of strategic decisions about M&A in highly technological sectors that wish to increase their innovative competitiveness.

3. Experience of the countries that are key innovators shows that increasing the countries' level of international competitiveness is possible only on innovation functioning within the limits of the powerful national innovative systems. These systems foresee not only the modern developed infrastructure and co-operation between the different countries, but also stimuli and privileges for growth of innovative competitiveness.

4. The policy of adjusting small and medium-size business must focus on increasing innovative competitive advantages for producers of national goods in the spheres of communication technologies, pharmaceuticals, and the electronics industry, all of which are in the initial stages of consolidation. Regulatory mechanisms must also contain a system of stimuli for the concentration of innovative activity. Ukrainian legislation and regulatory norms should be adjusted to EU standards. It is also important to monitor the negative influences of transnationalisation processes.

5. The negative consequences of M&A processes, which include the raising of prices set by monopolies, can be limited by government control.

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