**Abstract:**

In the conditions of increasingly dispersed globalization processes, the rise of competition at the world level and the effects of a global crisis, different forms of integration, such as M&A activities play an important role. Moreover, M&A’s have become a corporate strategy of many companies. Do they generate benefits in economy is the question which puzzles economists, politicians and even the wider public. However, there is no single answer. M&A’s can bring about benefits to the shareholders of acquiring company as well as to the shareholders of an acquired company, but the creation of a monopoly can produce damage in the market. Increased effectiveness can produce cheaper products as well as products of a higher quality, but the consequence can be layoffs or shutting down of certain plants.

Generally speaking, if M&A activities increase the number of workplaces and capital moves from less profitable into those projects that will increase the shareholders value, it can be said that there are certain benefits deriving from M&A activities. This paper is directed towards evaluating synergy effects, testing the increase of shareholders’ wealth and towards understanding what it is that Croatian companies do. This paper presents a systematic overview of company evaluation methods and a set of potential synergy effects that can be induced as a result of M&A activities in the case of Croatian companies.

**Key words:** merger, acquisition, growth strategy, synergy effects and valuation

**JEL classification code:** G34
Introduction

To achieve or to maintain competitive advantage is one of the fundamental goals of doing business. To have competitive advantage means to achieve better industrial position than its industrial competitors and other market participants. Competitive advantage exists when a company is more efficient than competitors in the defense of the competitive forces; more successful in defense of competitive forces – successful in attracting customers and persuading them that their product have superior value; better to offer good products at low prices, or the one that has real or perceived value for customers for which they are willing to pay premium prices. In order to achieve competitive advantage a company creates a competitive strategy i.e. developing a formula how they will compete in the market. To the company are available many ways for the implementation of strategic choice. At a time of growing competition and globalization of business, one of the commonly used methods of implementation strategies are merger and acquisition, hereinafter referred to M&A. From the standpoint of the business combinations, M&A are focused on the acquisition of some company or part of that company, or subordination of certain company through acquisition of majority stake in its ownership.

M&A as a type of business combination is not novelty in the business word. First mentions of M&A appeared in the 19th century and since then they appear in cycles. In today’s word of accelerated globalization, M&A have become an indispensable part of doing business what is a key element of corporate survival. Only between the 1990’s and 2000 the value of such business dealings has increased almost six times. Or more precisely, in 2000 total of 36,700 acquisitions had been done with a total acquisition value of 3,49 billion USD. Total of 70 % of all mergers presents the acquisitions activities in the U.S., and others are mainly related to the rest of the developed industrial word.

However, these transactions often fail to achieve its purpose and as a result we find that the companies itself are worth more than their sum, after the M&A has been done. In accordance to data published by KPMG in 1999, even 83% of all takeovers and mergers had proved unsuccessful in terms of increasing shareholders value. Taking into account the growing trend of choice of M&A strategy as a way of achieving high growth of the companies and the acquisition rate of failure in achieving their strategic objectives, it’s interesting to examine the reasons for these negative statistics and draw conclusions whether the M&A activity may affect the acquisition of the competitive advantages of the company. Well structured and successfully implemented M&A activities provides to the enterprise survival and growth, while the bad ones that were planned and implemented can destroy the company faster than any other business transaction.

Regardless of the growing trend of M&A in the business world, either by their number or the value or size of company each transaction must be planned, evaluated, financed and structured. Each transaction must be verified through the due diligence activities and formally confirmed by the agreement. However, the real challenges for the company begin following the conclusion of the agreement through the integration activities when even the transactions that seemed most promising failed in terms of increasing shareholders values.

Considering the aforementioned, the objectives of this study are:

- To determine whether M&A as a model of external growth of the company influence on the increase of shareholders wealth;
- Define the best practice to conduct M&A activities;
- Define the valuation of synergy effects;
- Determine the benefits of M&A as businesses combination in relation to other forms of company growth;
- Identify the negative consequences of M&A activities;
- Determine why it’s difficult to implement a successful M&A.

As a basis for the research answers on the questionnaire were used, drafted by the authors who interviewed the companies that have conducted activities of takeovers and mergers in the Croatia.

Enterprise development strategies

Competitive advantage and the generic strategies

In accordance to Porter’s competitive forces model (Porter 1979); the profitability of industry and business strategy is affected by the formation of five competitive forces which are:

- Threat of entry for the new competitors.
- Threat of substituted products.
- Negotiation power of suppliers.
- Negotiation power of buyers, and
- An intensity of industrial competition.

Power of the company is determined by the influence of these forces, and for the management was set a task to determine strategy and implement operational measures that will diminish or completely eliminate their negative impacts. It’s desirable to build such a system of competitive forces that will determine the position of competitors, while simultaneously expanding own company. This can be achieved by M&A activities. There are two basics types of competitive advantages: low cost and differentiation. In other words, an advantage over its competitors if the company will achieve the same value provided to its customers by generating lower average costs than competitors or customers being given more while maintaining the same average costs that others have. At the same time having differential and cost benefits are rarely encountered in practise and exists only in special cases, noting that even then are relatively short – lived. Therefore, if you want to reach the optimum in its industry, the company must choose competitive advantage on which basis you will build your strategy. Originating from such requests, three major strategies are formed. These are:

- Cost leadership strategy which includes the acquisition of a competitive advantage by reducing costs,
- Differentiation strategies across the industry, which means achieving a sustainable, unique position through the development of specific products that customers will be able to differentiate and more evaluate from the competitor’s products and the company will realize benefits through the ability to achieve premium prices, and
- Strategy to focus, - presents a focus on a narrow market segment within to achieve a cost or differentiation advantage, in other words, a focused cost leadership or focused differentiation

In table 1 are shown the interdependence of generic strategies and models of competitive forces.
<table>
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<tr>
<th>INDUSTRIAL FORCES</th>
<th>GENERIC STRATEGIES</th>
<th>Cost leadership</th>
<th>Differentiation</th>
<th>Focusing</th>
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<td>Possibility of price reduction rejects potential entries</td>
<td>Customer loyalty can discourage new entries</td>
<td>Focusing develops core competencies that become entry barriers</td>
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<tr>
<td>Negotiating power of buyer</td>
<td>Possibility of offering lower prices to customers whose power is great</td>
<td>Large buyers have less room for negotiations because in it’s choice are few close options</td>
<td>Large buyers have less room for negotiations because it’s a choice of only a few close options</td>
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<tr>
<td>Negotiating power of supplier</td>
<td>Better protection (resilience) from the suppliers with great negotiating power</td>
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<tr>
<td>Replacements products</td>
<td>Lower prices can be used as a weapon against substitutes</td>
<td>The buyer becomes ‘dependent’ on a differentiated product what reduces the appearance of substitutes</td>
<td>Specialized products and core competencies protect against substitutes</td>
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<tr>
<td>Industrial competition</td>
<td>Greater degree of price elasticity</td>
<td>Brand loyalty provides a stable market position</td>
<td>Competitors can not deal with a company that applies a focused differentiation strategy</td>
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The basic strategic choices

Selection of a particular strategy depends largely on the activities that company deals with and on its strength and size. According to Porter (1998), there are four types of development strategies that a company can use:

- Vertical integration – includes entry in the affairs of the company in which is not currently engaged and which are associated with current operations. It has been divided into upward integration which is directed towards the procurement and initial stages of the production process and descending integration that is focused on sales, i.e. final customer. By this method of integration, competitive advantage in the production system is achieved, just-in-time;
- Horizontal expansion – means that the company increases by increasing output at any stage of production and distribution in which the company operates. In other words, it’s keeping within the existing industry branch, while expanding the scope of business which operate savings by exploiting economies of scale and scope;
- Conglomerate diversification – is a diversification when the company enters a completely new branches in which had never operated before in order to reduce risk by portfolio business expansion or entry into the more profitable industries than the home one. It’s important to pay attention that co – variance of income for the home industry and industry in which is intends to get be negative. In other words, if the behaviour of income trends in industries of opposite character, conduct of the conglomerate diversification may be worthwhile. Thus, in companies that operate in cyclic industries is useful to proceed with conglomerate diversification and enter into industries which, in relation to them, has pro – cyclical movement of revenues;
- Concentric diversification – the expansion into related industries and provides the possibility of additional utilization of existing competencies in their core business and
their transfer into new areas. On this way, company that is so differentiated begins to build corporate competitive advantages which enable it to yield higher returns than it would achieve two separate and independent companies.

Manner of implementation of development strategies

Company growth is essential for its survival on the market, a condition set by the owners, management, employees, customers and suppliers. The lack of growth in the long term means regression and loss of competitive advantage. In the view of the company, known forms of growth are as follows: internal growth, mergers and acquisitions activities and strategic alliances.

Internal growth is according to Orsag and Gulin (1996), quantitative and qualitative increase in business activities of the company while using its own resources. This expansion can be based on the vertical or horizontal expansion and it can be financed by private or foreign funds. Financing by own funds is an internal growth in the full sense of the word. Debt financing, the company financed the growth with the simultaneous increase in debt and in that way ‘diluted” its substance and therefore such business policy should be lead to avoid a state of indebtedness.

Acquisitions and mergers in accordance to Martin, Petty, Keowon and Scott (1979), present all unifications of two or more business individuals in one commercial business unit. They differ according to participation in the ownership of the emerging business entities. In mergers, owners of the company participant get stake in the new business entity in accordance with the values that their companies had before the merger. In accordance to the status, i.e. legal changes that it causes, mergers are divided into mergers and consolidation. When the fusion is done, one of the parties ceases to exist as an independent entity and emerging company proceeds with the business under name of another entity. Fusion represents complete absorption of one participant, noting that process ends within its total liquidation. In the case of consolidation, the process can not survive either of the company, because the participants form an entirely new business entity in which participants carry their entire assets and liabilities. Takeover of the company or any of its parts can be achieved by acquisition. This includes the purchase of its property or property rights, and therefore it’s about of property acquisition or acquiring property (shares).

Strategic alliances are a form of connection in which two or more companies set up a third which is in their mixed ownership. In this case, the companies continue to operate as separate entities. The participants in strategic alliance formed a third entity to invest their money, knowledge and skills, the founders maintain a common right for control over newly formed entities and they shared profit pursuant to their share in investment. They are usually established in order for companies to achieve their goals that an individual companies could not be able to proceed. In accordance to BenDaniel and Rosenbloom, strategic alliances are the phase that precedes the M&A, and almost 70% of all strategic alliances in the USA are completed with the acquisition of one of the parties.
**Strategic alliances Vs. M&A**

When the company decides to expand, there is a doubt about how to choose the spread of the selection; strategic alliance or M&A. The final conclusion is to be drawn upon after the valuation of potential synergies that may result from either process. Strategic alliances include one or several joint activities for a limited period of time, while M&A encompasses many or almost all areas of business and last for an unlimited period of time. If companies have only one area where synergic actions can be achieved, then it must incline towards strategic alliance, and if it has more there is a need to consider implementation of M&A. M&A are in many respects much riskier, more difficult and expensive to run. The main differences between strategic alliances and M&A are evident in the levels of control, feasibility and risk. Degree of control implies the possibility of influencing one of the participants to other partners. The strategic alliance is possible to conceal information, resources and real intentions from the partners that is not the case in M&A, because one side almost always has full access and control over all factors. Degrees of viability and risk are not often possible to estimate. According to research by the group of authors in the work Mastering Strategy (2000), a decisive influence on decision making is the following factors:

- Impracticability which is a the most common reason why companies prefer to enter into strategic alliances then M&A. Integration is sometimes impossible to implement due to obstacles set by the partners themselves or the environment. This usually happens when companies once they adopted M&A found themselves in a monopolistic position in the market, and can be found under the impact of anti–monopolistic law;
- Non-manageability due to mergers of different cultures and management systems that manifests itself during M&A. If its estimate that the differences are irreconcilable, strategic alliance will be preferred;
- Information asymmetry that arises when is not possible to estimate the current value, i.e. the ability to create new value of the company which counts for planning common goals in the market;
- Possibility of investments in options and flexibility is the primary advantage of strategic alliances. Strategic alliances are preferred in less stable industries because it’s better to enter into less risky ventures.

**Motives of conducting M&A**

Whatever the motive may be, the basic criteria must be satisfied: M&A should generate economic benefits. These benefits occur when the value of the combined companies is greater than the sum of the values of independent companies prior to M&A. External growth through M&A may be favored for the following reasons: particular goals that are trying to reach by the growth can be realized before with external than with the internal growth; internal expansion costs can surpass the costs of acquisition. In addition to increasing market share, in this way it includes lower costs and faster implementation time, it also represents less risk. There are also possibilities that the particular resources and managerial capabilities of targeted companies can be better used by the acquisition company than are currently used in the target company which operate separately, as well as possibility of tax relief and the possibilities of complementarities in terms of supplementing of different skills and resources between the companies entering transactions of mergers and acquisitions. Internal growth is preferred
when the possibilities of achieving these benefits are minimal. According to Ross and Westerfield (1988), companies enter into these transactions from the five key reasons:

- To increase the revenues;
- Cost reduction;
- To reduce taxes;
- To reduce the need for capital;
- To reduce the cost of capital.

**Increase of revenues**

One of the possible benefits of M&A is to increase revenues. Increase of revenues can be achieved through:

- Marketing gains;
- Strategic benefits, and
- Market power.

*Marketing gains* include all components of the marketing, which can lead to increased company revenues. Thus for example, increasing income may be the result of product mix which company that was created by M&A activity provides, and which includes the product assortment of all M&A participants. Such a company usually offers a wide range of assortment, and possible complementary products that can result in increased demand for products from combined companies. A good example is the world-famous companies Duracell and Gillette. By acquisition of the famous battery manufacturer with 20% premium, Gillette made possible sale of their products through their own distribution channels; thereby Duracell also entered into 25 new markets, and thus significantly increased the total revenue. Marketing improvements can be conducted in the area of promotion and to the improvement of media and propaganda methods, what results in greater interest of customers and ultimately increase in sales.

*Strategic benefits* include possible new strategic business choices that are available to the company, which by M&A activities comes in contact with different technologies or areas. Therefore, the strategic advantages should be understood more as an option rather than as a standard investment opportunity. Achievement of the strategic benefits results in possibility of entering into new businesses. The effect of synergies can be achieved by a combination of resources and capabilities from existing industries whose boundaries gradually disappear, or when industries converge with each other. Examples of this can be found in telecommunication and entertainment industry.

*Market forces* of combined companies allow to increases revenues and profits by achieving higher prices and reduce competition.

**Cost reduction**

The combined company can achieve cost reductions through:
- Economies of scale;
- Economies of vertical integration, and
- Complementary resources.

*Economies of scale* have resulted in reducing average cost per unit production. It’s a typical consequence of company growth, and it’s especially true if realized in the growth of existing business operations. The full value of economies of scale indicates at horizontal integrations. With vertical integrations as well as integration of conglomerate type of business combining, economies of scale can be best used to reduce overhead costs.

*Economies of vertical integration* is a benefit that companies can achieve when the acquisition of the company become part of the vertical chain. For example, if a company that produces furniture takeover the company that produces timber products, both companies have use of it. The company that produces furniture has control over its raw material supplier (the timber manufacturer) and better control of their input costs; producer of raw materials has a certain market for their products.

*Complementary resources* are also one of the advantages that companies can achieve by means of integration. Specifically, if firms produce seasonal products and in different seasons, with combining business achieved sales more evenly distributed during the year and lower fixed costs per unit of sales.

**Tax reduction**

The combined company can reduce the tax burden in relation to the separate business operations of the companies that combines. This can result in tax reduction, through:

- Use of accumulated tax losses;
- Use of unused credit capacity;
- Use of extra profit resources;
- Possibility of increase the depreciation base, and
- Goodwill depreciation.

*Accumulated tax losses*: Company that realized losses could accumulate them and in the periods of good business written off at the expense of taxable corporate income. Then, the company reduces the tax burden of realized profit through savings on taxes that cause tax shelter from the accumulated loss and amortized over the past fiscal periods. A company that has accumulated cash losses may be good acquisition candidates; however, if the only reason of the business combination would be the use of accumulated tax losses, the state could prevent such acquisition. Also, companies that have this tax loss can takeover the profitable company to utilize it through joint business operations.

*Unused credit capacity*: An acquisition company can finance this business combination by using debts. An acquisition company by financing the merger using debts can achieve considerable savings on taxes, excluding interests that created the new debt burden on the taxable profit. Although, as a result of this way of funding increases the costs for interests, it’s convenient from the tax state of view, because the income reduces on which you pay taxes and increases cash flows that are available for shareholders.
**Extra profit resources:** The company that has achieved an ‘‘extra profit’’, i.e. earnings that are greater than the usual value of dividends and internal investments needs can pay to its shareholders a so called ‘‘extra dividends’’. Consequently, to its shareholders make tax situation worse. Therefore, a company that would increase the satisfaction of its shareholders may decide to finance a business combination from these funds. On this way, shareholders don’t pay high taxes on income from dividends and dividends of the newly bought company are not taxable in the fusion or acquisition. On this way, the company itself don’t realise savings from the tax, but the shareholders have use of it, as such tax reduction creates additional value for the owners of the company.

**Increase of depreciation base:** When a company acquires another company by buying its property, company may, to achieve reduction in taxes, spend the revaluation of values of the company which has been taken over. On this way, company can artificially increase the value of the property what means that the company could increase the amount of depreciation to be paid to the use of the property. This company calculates higher amounts of deprecations, which means there are higher costs, and because the costs are deductible item in the calculation of taxes, the company has the lower base to pay taxes.

**Goodwill depreciation:** If the property of the purchased company was taken over the fair market value or if the take over company is purchased over its market value, an acquisition company can realise a difference between the fair market value and the value paid for the company to capitalise on its balance sheet as goodwill. Goodwill is treated as one of the items of the assets of the company and is subjected to calculation of depreciation. In the case of depreciation of goodwill, an acquisition company realised an increase in the amount of depreciation, increase costs and reduce of the base for tax collection.

**Reducing the need for capital**

By combining the company, the overall need for net working capital can be reduced in relation to amount of net working capital of companies before the business combination. It can reach reduction of fixed assets or the size of capital for research and development. Also, reduction of fixed assets or the size of capital for research and development can be reduced. As a consequence, an acquisition company may have a lack of capacity while the company that has been taken has the excess, what combining leads to the rapid achievement of planned business activities. Integration often results in better management with cash, inventory and receivables. Sometimes the improvements in the resource management results of the increase in size of the combine company, which allows the application of considerable reduction of the required working capital through standardization, achieving more favourable terms for orders, the smaller optimal amounts ordered from the sum of the procurement quantity of company before the combining, etc.

**Reducing the cost of capital**

In the case of conducting M&A activities in the company may occur the reduction of the cost capital in relation to those companies had as they have operated as individual entities. The reason for this may be:

- Economies of scale;
- Portfolio effect of combining the companies.
Economies of scale are effective in the emission of securities. The costs of emission of securities, especially shares have an important fixed component and with the increase of broadcast range of securities, the relative decrease of costs of emission cost occurred. Company on issue doesn’t receive the full market value of securities as it covers the cost of emissions. However, the profitability required by investors is based on the broadcast market value of securities, and the company must have a higher profitability of the small amount of money that was obtained by emissions.

Portfolio effect: Reduction of risk of combined company in respect of individual risks before combining companies will cause a decrease in the required profitability for this combined company in the capital market. Reducing of the required profitability leads to increase in value of the combined company in relation to individual values of the company before the combination, as such current dividends of the combined company would be discounted with a lower discount rate rather than current of expected dividends of individual companies prior their merging. Increase in liquidity of ownership can also be a benefit realized by the shareholders from the small company after its merger with the larger one. Accepting larger company stocks, which has better reputation in the market enables them easier and faster sales.

M&A valuation methods

Business combination can be treated as a specific investment activity of companies. It’s an alternative investment projects in the acquisition of existing companies as opposed to the construction and winning new business areas or to expand areas already won for business activities. So it’s logical that the M&A are valued by methods of capital budget techniques. On the other hand, M&A market will change market indicators, i.e. indicators of investments for the owners of the acquisition company, in the case of acquisition by exchange of shares and for the shareholders of the takeover company. For that reason, the financial analysis of the acquisition must include the effects of acquisitions of the market indicator of the efficiency of ordinary shares of companies that intend to combine with the acquisition.

Application of particular methods for evaluation the effects of acquisition will certainly depend on the chosen way of acquisition. Therefore, financial analysis of acquisitions will be primarily based on capital budgeting techniques, therefore, to use the value of incremental cash flows after the acquisition, because it’s an acquisition company that has all the characteristics of long – term investment in real property.

Vidučić (2004) argues that projects that are let pass in the phase of detailed financial analysis can be assessed using simple or sophisticated methods – methods that respected the time value of money, and therefore have theoretical priority over other methods. In simpler methods are included: method of return period (PBM) and the accounting rate of return (ARR). Time value of money respects the method of internal rate of return (IRR), method of modified (internal) rate of return (MIRR), profitability index (PI), the net present value method (NPV), and the discounted period of return method (DPBP) which represents the improvement of methods of the return period.

According to Orsag (1996), in practice are most commonly used the following forms of assessment of the business combinations:
- **The value of cash flows**: where the effect of business combination are estimated to determined the present value of future incremental cash flows that will generate business combination, as well as investment costs for the acquirement of acquisition candidate. The value of the business combination based on cash flows is estimated through the following steps:

2. Determination of appropriate discount rates.
3. Determination of the present value of incremental cash flows.

According to Van Horne (1993), the price of business combination represents the investment cost of business combination as the investment project of the acquisition company.

Since:

\[ V_{ab} = V_a + V_b + \text{synergism} \]

where:
- \( V_{ab} \) = the value of a company after M&A
- \( V_a \) = the value of a company A before M&A
- \( V_b \) = the value of a company A before M&A

Synergism = achievements realized using M&A activities by increasing revenues or cost reduction, maximum price that the acquisition company would pay to another company is equal to \( V_{ab} - V_a \), i.e. the value of company after the merger less the value of the company takeover.

If the NPV of the business combination is positive, it contributes to increasing shareholder value of the acquisition company so it can accept a combination of business, provided that the acquisition company doesn’t have more profitable investment opportunities of the business combination itself. In the case of negative NPV, business combination may not be accepted because it would cause a reduction in value for the shareholders of the acquisition company.

- **Market value of shares**: Market value of shares of the acquisition company and targeted and also combined company can be analysed using the model of discounting future dividends, or the application of discounting model of current future dividends, or using other models of stock valuation. In doing so, P/E model distinguishes itself, i.e. the model of capitalization of earnings (profit), which includes an analysis of earnings per share of combined company.

Models of the present value of future dividends represent a modification of the methods of the present value of cash flows of the business combination. These models are used to estimate the values of the pre – acquisition companies’ in combination, especially for assessing the value of the target company’s shares as the price lower limit for business combination. This model is appropriate for forecasting stock prices of combined company, and thus to establish the price upper limit of business combinations. Analysis of trends in relative prices and earnings per share of the combined company will result in determining the value of business combinations, and approximations of maximum and minimum prices of business combinations as limits to conduct negotiations on
a business combination.

- "Chop-shop" value analysis of the acquisition candidate is focused on the multi–industry companies. The aim of the analysis is to determine whether a company whose business activities extends to the even more other industries, is perhaps undervalued and whether it was worth more if broken into its component parts. In the event that the analysis of the value of multi–industry company point out the existence of underestimation, its acquisition allows the acquirement of its property below its reproductive (replacement) cost. Therefore, this analysis of value of business combination is directed to selection of appropriate acquisition candidate to be acquired over the price that corresponds to profit power of its business activities.

Acquisition price, according to Kuhn (1988), is defined by the following factors:
- Risk;
- Possibility of financing transactions;
- Method of financing transactions;
- Tax matters;
- Liquidity;
- Cost of capital;
- Time curse of the transaction;
- Time of payment;
- Possibilities of achieving synergies;
- A competitors takeover bids;
- The importance of the target company for the customer;
- Knowledge of the target industry, and
- ‘‘Feasibility’’ of transaction.

M&A in the Croatia

Market characteristics

In introduction should be mentioned some characteristics of the market which are very important for the analysis of survey results:
- The number of M&A within a particular industry is not enough to conducted the research within the individual branches (except in banking sector);
- The majority of Croatian companies are small or medium sized, so that research can not be implemented separately for companies in groups where as a criterion would be taking their size;
- Significant companies from some industries, such as oil and telecommunications are monopolists or oligopolies and research results obtained should be taken with a grain of salt;
- The banking sector as a whole has proved to be a successful way to achieve business goals, it should be set aside because conducted M&A were conditioned by the macroeconomic situation and policy decisions unusual for other markets and because the merger in that branch is fully completed, and if certain changes occur, the same result will be caused by the situations on foreign markets.
Data processing and analysis

The survey has joined 44 companies that were participants in M&A. Average knowledge of respondents about the M&A is relatively good: the average rating was 3.4 on a scale from 1 to 5, with a note that 74% of respondents are from the ranks of top and middle management and relatively small number of those are considered experts in this area where all have more than 5 years of work experience.

Figure 1: Participation rate in M&A activities

Source: Prepared by the authors according to the conducted research on Croatian companies

In accordance to the results obtained, on the Croatian market are present conservative views on ways of expansion. What is particular form of growth independent and “safer” it is better evaluated.

Figure 2: Average rating of company expansion mode

Source: Prepared by the authors according to the conducted research on Croatian companies

In the terms of growth of M&A, Croatian companies prefer complementary expansion, while the vertical expansion is of the least represented.
Figure 3: Type of companies’ growth in Croatia using the M&A

![Pie chart showing percentages of different types of company growth: Horizontal expansion 31%, Vertical expansion 13%, Complementary expansion 38%, Conglomerate expansion 18%]

Source: Prepared by the authors according to the conducted research on Croatian companies

Grade feedback of the drivers of conducting of M&A at a scale of 1 to 5 is shown in the chart form in Figure 4.

Figure 4: Drivers of conducting M&A – average grade

![Bar chart showing average grades for various drivers of M&A: Economies of scale 3.6, Human resources 3, Intellectual resources 3.2, Diversification 3.4, Approach to distribution channels 3, Negotiating power towards buyers 3, Negotiating power towards suppliers 3, Improved own brand value 3.2, Globalization 3.4, Position at financial institutions 3.8, Industrial concentration 3.8]

Source: Prepared by the authors according to the conducted research on Croatian companies

After the formal merger, the company is facing with many problems, primarily operational ones. Chart 5 shows the research on this ground. From eight ordinary problems that accompany the company’s M&A, respondents most attention were granted to the problems related to the organization and management of the company (management difficulties, bulk of the new system, lack of cohesion and focus on secondary tasks).
Figure 5: Negative consequences of M&A

Managing difficulties - 26%
Reducing of the market value of the company - 3%
Lack of cohesion - 18%
Focusing on secondary tasks - 14%
Bulk of the new system - 21%
Legal problems - 11%
Risk of loosing the key employees - 4%

Source: Prepared by the authors according to the conducted research on Croatian companies

According to the research results, companies are judged the best grades primarily of the market effects (increase sales, reducing costs and entry into new markets), as Figure 6 best shows.

Figure 6: The instruments that were used in the evaluation of M&A performance

Source: Prepared by the authors according to the conducted research on Croatian companies

As the most difficulties for the successful implementation of M&A, the subjects of Croatian companies stated the lack of quality management, resistance to change, integration of different cultures and unclear strategy, as it is shown in Figure 7.

Figure 7: Barriers to successful implementation of M&A

Source: Prepared by the authors according to the conducted research on Croatian companies
Conclusion

Over the past ten years the problems of success of M&A as a tool to achieve strategic goals has become very important in the word, and on national level. It turned out that the art of managing such complex processes requires multiple skills and knowledge in almost all areas of economic and management disciplines. It is also showed, that neither of all available information and instructions used can not guarantee a favorable outcome of M&A because attempts to cover all forces that affect the success are never complete. The reason for this is because each M&A is specific and separate case that may go with a new, hitherto unknown or negligible moments that could have a decisive influence on the final outcome. However, there are number of key factors for success which fulfillment, i.e. implementation is necessary, and in many cases sufficient for the success of M&A.

The research results showed that the importance of operational efficiency in the Croatian market is fairly unknown to Croatian managers. Renowned world literature lists a variety of motives, or strategic objectives that can be achieved with the implementation of M&A. Be sure that their number and importance depends greatly on the industry and market where the companies are located. It was the size of the market, the relative early stages of the market economy and small market concentration of most industries branches in Croatia, the main factor which contributes to the diversity of motifs that generate a new M&A. The main majority of these motives relate to the entry and occupying of even greater market share and achievement of economics of scale. Only as secondary motives appears to arrive in the possession of high quality human resources, intellectual capital or improve their own operational capabilities. By analyzing various business development strategies, it’s clear that the M&A can be used as useful tools for implementing each of them.

In the concluding discussion, it’s important to note that in the work the key success factors of M&A were elaborated, which due to their origin can be divided into external and internal. External factors are certainly important to the final outcome of M&A, and it’s relatively easy to perceive them and they are highly predictable. There is specially thinking of the business environment; competition, collaborative business, market and financial institutions that will all have expectations of the business combination. Although easily comprehensible, they can still be overlooked or incorrectly assessed, and thus have a negative impact on the final outcome. Numerous abroad studies have shown that in the process of M&A are key internal factors, which mostly depend on the human factor and that has to put the greatest emphasis in the implementation of M&A. Therefore, for the M&A activities are often said that are combination of art and science. In fact, in developed markets, the competitiveness of companies is so high, that the success or failure is often decided by small nuances in the internal capabilities, and their biggest generator are talent and knowledge of management. Conducted research proved that the M&A is becoming an increasingly important mode of companies’ growth, although currently leads internal growth as a way of expanding companies’ growth.

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