

MERGERS AND ACQUISITIONS IN UKRAINE AND WORLDWIDE: ANALYSIS OF RECENT TRENDS

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Abstract. In this paper, we analyse recent M&A peculiarities and trends in the world, in general, and in Ukraine, in particular. The main ones are a significant increase in the transactions number and value; concentration of mergers in highly monopolized industries; emergence of many firms seeking mergers and acquisitions because of their sharp market value decrease; and alliance formation for international M&A transactions. We have compared M&A processes in Ukraine and tendencies in the world. Based on the conducted analysis, in 2016-2017 we anticipate the preservation of interest in M&A in Ukraine in such sectors as agriculture, IT and energy.

Key words: mergers & acquisitions, trends, shareholders, synergies.

Introduction

Mergers and acquisitions, as one of the business lines and their capitalization are highly popular in business. Earlier M&A transactions were mainly an instrument for a company expansion and one of the most desired kinds of investments in developed countries, including the USA, the UK, France, Germany and other countries. Now, even developing countries gradually get involved in the business of mergers and acquisitions. This was facilitated by the process of world globalization and expansion of the international companies over the past 30 years.

Theoretical and practical issues of the mergers and acquisitions are widely explored (Buffett, Cunningham 2008; Copeland et al. 1995; Jensen 1988; Roll 1986). However, M&A processes in the Ukrainian emerging market context are scarcely studied (Marchenko 2013). A number of theories justifying the processes of mergers and acquisitions are developed (McCarthy, Dolfisma 2016). Earlier research investigated the reasons and motivation for these processes implementation in Western economies (Bodolica, Spraggon 2009), however, previous research has not explored motives for M&As in Ukraine (Rohov, Soles-

vik). It is necessary to monitor constantly the dynamics, industrial and general trends of the mergers and acquisitions because of changing economic, political and other factors in particular countries and the world economy as a whole.

The aim of the paper is to identify and analyse dynamic features of the M&A processes in Ukraine and worldwide. In order to do this, we have analyzed secondary data using comparative analysis and system approach. The sources of information were databases of Eurostat and the State Statistic Service of Ukraine, and also databases of Forbes and Dealogic companies. The research question guiding this study is what are the main features of the M&A processes in Ukraine and worldwide? This could be especially useful for different market players in order to elaborate or adjust their strategies.

The paper is organized as follows. Firstly, we present the theoretical foundations and introduce the kinds of synergies from M&As and the main motives of M&As. Afterwards we offer our analysis and forecast of M&As in Ukraine and other countries. The paper ends with conclusions, limitations and avenues for further research.

1. Theoretical foundations

During the implementation of M&A transactions, international companies seek not only entering new markets, but also building the global models of firms' activities which ensure their higher efficiency in comparison with local companies. M&A transactions lead also to an absolute domination of global companies in the world market. M&As allow saving time and money necessary for the creation of a company from scratch. In addition, M&As contribute to the distribution of previously acquired skills, knowledge, authority, professionals and clientele of an existing firm.

Exploring the annual growth rate of the M&A market, we firstly consider the basic motives and reasons for mergers and acquisitions in general. One of the main motives is the firms' restructuring in order to improve competitive position. Many researchers, including Copeland et al. (1995), who explored the motives for implementation of the M&A processes, outlined three main groups of interests in the companies' management, i.e. internal, external and personal.

The basis of internal reasons is obtaining of the synergistic effect, i.e. an improvement of efficiency indicators of an enterprise activity as a result of unification, merging of separate parts into a single system, where the interaction effect of the enterprise's system elements exceeds the effects sum of each element separately. The synergistic effect can occur due to economies of scale, combination of complementary resources, increase of manufactured products competitiveness (at the expense of the market monopoly), etc. The synergistic effect in its essence can be different, that is connected with the basic purpose of enterprise-buyer management during the merger or acquisition process (Table 1).

Table 1. Types of synergies in mergers and acquisitions

Types of synergies	Features
Operational savings	Efficiency increase due to the cancellation of duplicate functions in each of the united companies.
Economies of scale	Reducing the average costs per unit of output while increasing the amount of output.
Cost reduction through vertical integration	Cost reduction due to the commitments performance, increasing the level of management and coordination of the entire process chain, improving quality control and protection of the technologies.
Combining the complementary resources	The goal is to ensure the acquiring firm with the competitive advantages for business development through obtaining unique innovative technologies through M&A.
Tax burden optimization	An opportunity to use the principle of transferring the losses of one company on the future periods in order to decrease the profit before taxation of another one (reducing of the future tax payments).
Improving the management efficiency	Redistribution of ownership from poor management in favor of more effective. The classic criterion of the management effectiveness, based on value, is considered as the maximum shareholders' welfare.

External reasons for M&A can be the change in external environment which reduces the company's efficiency and affects the search for other ways and methods of its activity. Among the external factors we can name change of the political situation in a country, revision of the legislative framework regarding the regulation of business, economic activity rate in a certain industry, changes in the government regulation, globalization, scientific and technical progress, and external organizational reasons (emergence of new competitors, new methods of organization and production management).

Bearing in mind the purposes of these transactions, Buffett and Cunningham (2008) outlined the following reasons for the process of mergers and acquisitions:

- protective – companies search for the opportunities of its growth through acquisition of complementary assets, market position strengthening, and elimination of the competitors (due to their purchase or increase of the market share);
- investment – associated with the allocation of available funds, participation in a profitable business, buying undervalued assets, and using management skills;
- informative – aimed at the obtaining of information about new technologies, consumers, products or services;
- competitive advantages – associated with the creation of barriers to eliminate the market access for potential competitors;
- objectives of shareholders – partnership creation and attraction of the strategic investors to the company, allocation of part of the business in a separate business unit, sales of shares.

Exploring the reasons for mergers and acquisitions, it is expedient to consider several theories that justify these processes. Among these theories, the theory of company's economic value added or the theory of synergy (Friedman et al. 2015; Zaheer et al. 2013) is one of the most important. According to the theory of synergy, a company formed as a result of the merger or acquisition can use a wide range of benefits that arise from the unification of resources, cost reduction, production diversifying, and improving efficiency of management.

In our opinion, the theory of pride is also interesting (Roll 1986). According to this theory, the decision to do a merger or acquisition is the result of individual management decision of the firm that acquires another one. The prerequisite is that the estimation of the target company's value is correct, however, the market value of the company does not fully reflect the potential of firm's development. Thus, this decision is related to the managers' arrogance of the firm that acquires another one who might believe that only they can correctly determine the economic efficiency of a certain M&A process.

Another theory which we draw attention to is the theory of agency costs (free cash flows) which was formulated by Jensen (1986). This theory is based on the conflict of managers, who are shareholders' agents, and the stockholders themselves (Ferreira et al. 2014). According to this theory, companies' managers who control free cash flows, try to reduce the payment of dividends to the shareholders. It is proposed to transform the available funds into financing of another company's acquisition that may be economically inefficient but is in the interests of managers (Chan, Cheung 2016). In this case, there is a conflict of interests among shareholders and managers that, in turn, leads to the emergence of agency costs.

From the above-mentioned theories, we can derive main motives for carrying out the processes of mergers and acquisitions:

- tax motives associated with the optimization and tax policy minimization at the enterprise. As an example, the acquirer which is a highly profitable company, has a large tax burden, and it can purchase the enterprise with tax benefits to reduce the tax burden. In this case, all these tax incentives will be used in the newly formed corporation;
- diversification which can serve for the risk distribution from one to several businesses. The best example of this motive is the creation of holding companies or consortia which include banks, insurance companies, and industrial firms;
- improvement of the management quality;
- creation of a monopoly in the market.

In addition, the M&A transactions contribute not only to the property redistribution from inefficient owners to more efficient managers, but also to the redistribution of capital within different industries that has a positive impact on the economic development of the country.

2. Analysis and forecasting

In order to answer the research question of our study, i.e. what are the main features of the M&A processes in Ukraine and worldwide, we analyzed secondary data available from public sources. The main sources of information were databases of Eurostat and the State Statistic Service of Ukraine, as well as databases available from Forbes and Dealogic M&A Analytics, and other open sources.

2.1. Global trends in the M&A processes

According to the Dealogic M&A Analytics (2016), the volume of M&A deals in the world approached its maximum again in 2015, and amounted \$5 trillion (Table 2).

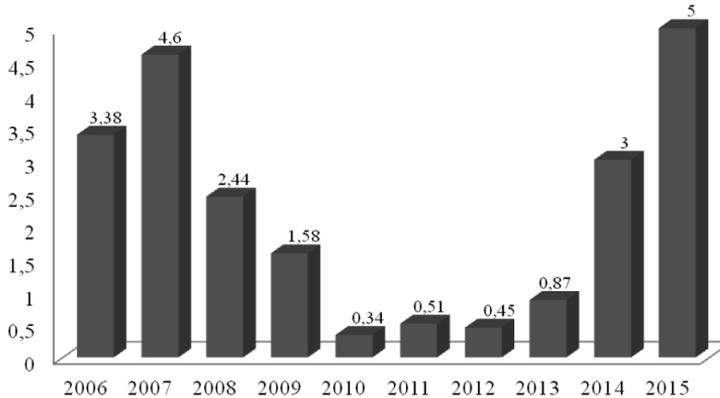
Table 2. The largest M&A deals in the world, 2013-2015

Year	Acquiring firm	Acquired firm	Transaction amount, billion
2015	Pfizer (PFE)	Allergan (AGN)	\$160
2015	Anheuser Busch InBev (BUD)	SABMiller (SBMRY)	\$117.4
2015	Royal Dutch Shell (RDS.A)	BG Group (BRGYY)	\$81.5
2015	Charter Communications (CHTR)	Time Warner Cable	\$79.6
2015	Dow Chemical (DOW)	DuPont (DD)	\$68.6
2014	Kinder Morgan Inc. (KMI)	Kinder Morgan Energy Partners LP (KMP), Kinder Morgan Management, LLC (KMR) and El Paso Pipeline Partners, LP. (EPB)	\$76
2014	Comcast Corporation (CMCSA)	Time Warner Cable Inc. (TWC)	\$70
2014	AT&T Inc. (T)	DirecTV (DTV)	\$67
2014	Actavis (ACT)	Allergan (AGN)	\$66
2014	Medtronic, Inc. (MDT)	Covidien (COV)	\$43
2013	Verizon (VZ)	Verizon Wireless Stake from Vodafone (VOD)	\$130
2013	Berkshire Hathaway (BRK.B) and 3G Partners	H.J. Heinz	\$23
2013	Michael Dell and Private Equity Firm Silverlake	Dell	\$25
2013	Comcast (CMCSA) Buys NBCUniversal Media from General Electric (GE)	Comcast (CMCSA) Buys NBCUniversal Media from General Electric (GE)	\$17
2013	Publicis Groupe (PUBGY)	Omnicom Group (OMC)	\$17

Source: based on Investorplace 2014, 2015, and 2016.

The previous peak was set in 2007 at the level of \$4.6 trillion (Figure 1).

Figure 1. The volume of transactions on the world M&A market (trillion \$)



Source: based on Forbes 2015; Investorplace 2014, 2015, and 2016; Inventure 2016.

The current stage of the global M&A market has some new specific characteristics:

- mergers occur mainly in the highly monopolized sectors and in much larger amounts;
- the companies-initiators of M&A are mainly private and sovereign wealth funds as well as large corporations in the countries-suppliers of raw materials to the world market, and the owners of cheap labor force (the companies from Middle Eastern countries, Russia, India and China);
- a large number of firms available for mergers and acquisitions appeared during the global financial crisis. In the result of the financial crisis, a market value of a number of companies had sharply fallen;
- creation of alliances for international M&A implementation (Solesvik, Westhead 2010; Sroka 2010).

Despite the significant increase in M&A transactions all over the world, the USA still remains the leader in the number and value of M&A transactions. Other leaders are countries with the Anglo-Saxon model of corporate governance: the UK, Canada, and Australia. The significant number of M&A transactions is observed also in France, Germany, Italy, and Russia.

The processes of mergers and acquisitions, despite the similarity of their perception in the business environment all over the world, are not identical according to the procedures and ways of implementing. Thus, there is no single mechanism of mergers and acquisitions for the companies which allows them to conduct the M&A transactions everywhere. It does not merely concern the whole world, considering that there is no common mechanism even within one country because of specificity and peculiarities of each company.

In addition, M&A transactions have not only internal differences, they also differ by the external signs, and have their own specific features, i.e. differences depending on the social, economic, legal and cultural characteristics of the country where such transactions take place. For instance, the countries of Anglo-Saxon corporate governance model, especially the USA and the UK, consider M&A transactions as an essential part of daily commercial practices and the most important part of the corporate control mechanism. This is facilitated by the developed stock market of these countries, dispersion of share capital, cultural traditions and customs, according to which a company is considered only as a shareholding for the owner. The United States is not only a leader in mergers and acquisitions both in terms of a number of transactions and their volume, it is also the founder of the M&A market. After a long path length in a century, the American M&A market has experienced all types and forms of mergers and acquisitions, ranging from privatization and raiding to the present stage of the most civilized and professionally accompanied deals in the world.

Moreover, the antitrust authorities play a considerable role during mergers and acquisitions in the United States and Europe. They check carefully the legitimacy and correspondence of the M&A transactions to the antitrust policy of the country. The mass media plays a crucial role in the M&A information support, creating a particular society's attitude to the agreement. In the UK, for example, non-state public organizations also play a significant role. Authorities review them for compliance with legislation and provide specific recommendations concerning detected shortcomings of the expected merger or acquisition before concluding the M&A transactions. And even if the appeal to such establishments is not mandated by law, the British companies, while concluding M&A deals, are committed to a positive resolution of such organizations, given the goodwill and the desire to minimize risks.

Another feature of the M&A transactions abroad is the presence of mediators – specialists and experts in conflict resolution that arise during the process of merger or acquisition. They are not financial brokers or legal advisers on M&A transactions, but namely the experts working with conflict situations which have already occurred, and the situations that might happen at any stage of M&A conduct. On the basis of practice, it can be argued that top managers or members of companies are often not able to assess the prevailing situation and take the necessary compromise solution. In such cases, the assistance of mediators is extremely important for the successful completion of such deals, and their task is to assist in the resolution of arising conflicts and receive an agreed solution between the parties. This mechanism has already been applied for 20 years.

One more positive feature of the M&A market in the United States, Europe and other developed countries is the transparency and informational openness

of the mergers and acquisitions. For example, public companies, prior to the agreement, declare the goals they seek to achieve due to a merger or acquisition. In such cases, the market, shareholders and management of other companies understand the results expected from the transaction and, respectively, how to evaluate its effectiveness in the future (Dealogic 2015).

In the US and Europe, an exclusivity agreement in the process of mergers and acquisitions is very important. For example, while adopting the M&A transaction, the parties are committed not to negotiate a deal with other persons from the beginning to the end of the merge process. In this case, the matter concerns not only the legal side of transaction, but also business ethics and the reputation of the companies.

As it is known, there are two types of company's takeovers – friendly and hostile. A friendly takeover refers to a tender offer proposed by the management of a company-buyer to the management of an acquired company. It consists in acquisition of the controlling stake of ordinary voting shares of the latter company. The conditions of this proposal are discussed in negotiations between the management of both companies and only after the agreements are signed; the proposed acquisition comes to the shareholders' attention.

A hostile takeover, in turn, refers to a tender offer proposed in the open stock market by the company-buyer's management and consists in acquisition of the controlling stake of the company which represents more interest as an object of purchase than as a seller. Herewith, the tender offer on acquisition of shares has a number of following features:

- usually occurs as an appeal of public character to all shareholders;
- provides for the acquisition of a significant stake;
- provides for a significantly greater premium to the shareholders of the target company than is stipulated in its shares market;
- the terms of such proposal are rather fixed than contractual, since the proposed acquisition of shares contains a reservation regarding the minimum required and / or maximum amount of the proposed sale of shares;
- the offer to acquire is valid for a certain period of time.

In the world, such offers to the shareholders are usually made through the financial companies where the price offered per share of the company is higher than its current market price. The difference between the price of one share declared in the tender offer and the current market price of the share is called the premium.

Also, in the US and Europe, the majority of companies have the public status that increases the protection degree of such companies from hostile takeovers and corporate raiding.

In Japan, concluding the M&A transactions is based on the exclusive voluntariness of association. There are strict institutional and social barriers for the hostile takeovers in this country. Institutional barriers lie in the fact that company management ensures itself with the permanent shareholders, usually of the same financial-industrial group (keiretsu), or finds the friendly banks. Social barriers mean that cultural traditions of Japanese business consider the company as a community of employees who work there for life. Acquisition of the company together with its employees is harshly condemned. As a rule, the employees, trade unions, management and major shareholders are in full solidarity regarding the proposed transaction. The resistance of employees is a major obstacle for Western companies in their attempts to acquire the Japanese firms. However, due to a decade of stagnation, the Japanese government revised its outlook on the foreign trade relations with other countries in 2002 and declared the policy of encouraging the foreign direct investments and, respectively, M&A transactions. After such change in legislation, Western and American companies were quick to enter the Japanese market.

However, the situation on the M&A market in Japan still remains difficult. Even the big mergers appear to be ineffective in recent years. One of the most striking examples is the great merger of equal banks carried out between “Fuji Bank” and “Industrial Bank of Japan” with the purpose to rescue from the latter from bankruptcy. This deal, worth more than \$70.8 billion, turned to a loss of control over operations, increased bureaucracy, problems in the accounting system and inability of the customers to receive their money at ATMs. One more example of M&A is purchasing the controlling stake of the second largest Japanese automaker “Nissan” by the French company “Renault”, and acquisition of the Japanese banks “Shinsei bank” and “Long Term Credit Bank” by the American investment fund “Ripple-wood”.

Another negative feature of the M&A transactions in Japan is a very long period of their preparation and implementation. Often such transactions last two or three years that is unacceptable in today’s global economy. Also a typical problem of the most Japanese mergers is the apparent resistance of staff to change and post-merger integration. The survey among employees of Japanese companies showed that the majority of them prefer a competitor-compatriot, not a foreign company, even if such transaction is less effective.

It should be noted that the motives of mergers and acquisition in developed and developing countries are different. Thus, the main drivers of M&A transactions in the industrialized countries are market liberalization, reduction of state intervention in the economy and, as a result, appearance of new participants and increased competition on the market. In the developing countries M&A transactions occur, as a rule, in the framework of privatization programs or in the course of liberalization (Inventure 2016; Marchenko 2013).

2.2. M&A processes in Ukraine

In Ukraine, the process of mergers and acquisitions corresponds to the global trends. Thus, the volume of transactions with participation of Ukraine as a seller, buyer or country of assets origin more than doubled – to \$4.2 billion in 2013 – after three years of decline (Investorplace 2015).

The uncertain economic and political situation in Ukraine, depreciation of the national currency relative to major currencies, tighter credit conditions and reduced availability of loans are main reasons that pushed the foreign companies in 2014 to sell their assets in Ukraine. Some deals were planned in 2013 but political and economic factors had greatly accelerated their completion.

One of the most active figurants involved in the M&A transactions was the Russian business. Companies with the Russian capital were obliged to leave the Ukrainian market because of the conflict intensification between the two countries, unfavorable situation in Ukraine together with the reducing of purchasing power and the crisis on the Russian domestic market. Some sectors managed to maintain the investment attractiveness, so the investments were directed into business which had no rigid territorial binding. This primarily relates to e-commerce projects. Some assets in the financial sector also retained their attraction.

That small part of the Ukrainian companies, which had at their disposal the resources for investment, preferred to find the usage for them outside of Ukraine. In 2014, for example, Alfa-Bank (Ukraine) became the Bank of Cyprus owner. Thus, 202.5 million euros were spent to receive 99.8% of the bank shares, its funding from the parent bank and the credits portfolio for the Ukrainian borrowers at \$500 million. Metinvest Group finished the transaction on purchase of 49% shares of Black Iron Ltd. (Cyprus) which is a subsidiary of Black Iron (Canada). The last installment of \$5 million from \$20 million, totally paid for the stake, was transferred in the summer of 2014. In the spring of 2014, the company “Omega” in Dnipro, the operator of retail chain Varus, bought the retail network “Perekrestok” of the Russian X5 Retail Group. “Perekrestok” was the last Russian food retail network in Ukraine (Investorplace 2015).

The trends that affected the sales in Ukraine were a structure optimization and elimination of unprofitable/non-core business directions, concentration, and the deterioration of relations with Russia that led to abandon of the business development in this country. In 2016, the potential interest is connected with several sectors. First and foremost are agriculture, IT and energy sector. List of the largest transactions in Ukraine over the past year confirms their popularity among investors (Table 3). However, the emphasis in agriculture may be shifted because of changes in tax system which have significantly curtailed the application of preferential regimes in the Ukrainian agriculture.

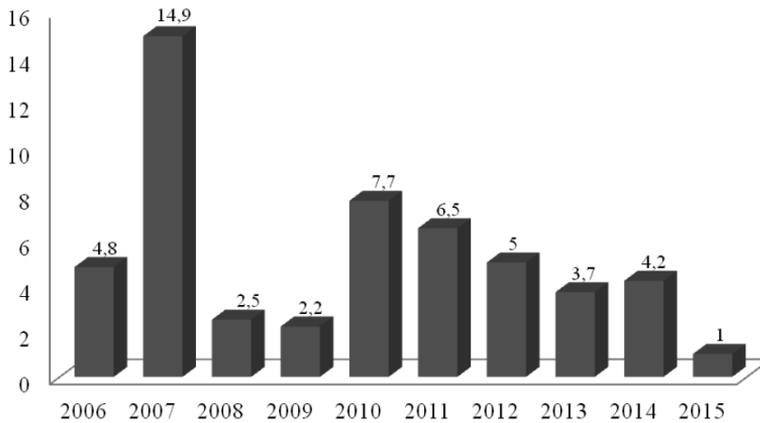
Table 3. M&A in Ukraine in 2015

#	Acquiring firm	Acquired firm	Transaction amount
1	Turkcell	SCM Group of Rinat Akhmetov	\$100 million for 44.96%
2	George Soros through Ukrainian Redevelopment Fund LP	Horizon Capital, Torben Majgaard	–
3	Meest Group (operator of postal and logistics services “Meest Express”)	PGK Group (companies of courier deliveries services “Postman”, “Tochka” and “Star Express”)	–
4	“Myronivskiy Khiboproduct”	Agrokultura	non-cash swap
5	A group of businessmen consisting of Rysbek Toktomushev, Artur Hrants and three other investors	Creative Group	–
6	Pharmaceutical company “Darnitsa”	Borshchahivskiy chemical-pharmaceutical plant	UAH171.8 million
7	Cyprian offshore	“Arena Entertainment”	\$40 million (estimated)
8	Canadian financial holding company Fairfax Financial	Insurance company “QBE Ukraine”	–
9	NCH Foundation	Astra Bank	UAH92.1 million
10	Europe Virgin Fund	Security firm “Venbest”	–

Source: based on Forbes 2016 and Inventure 2016.

The largest deals of the previous year were a purchase of Odessa startup Lookserly for 132.7 million euros by mobile app Snapchat, an acquisition of the Ukrainian mobile operator “Astelit” for 89.3 million euros by the Turkish group Turkcell, a purchase of 29% of shares at PJSC “Channel Inter” for 88.52 million euros, an acquisition of the entertainment complex “Arena Entertainment” for 36.71 million euros by unknown Cyprian structure, a purchase of the minority stake in online retail Rozetka.ua for 36.41 million euros by investment company Horizon Capital, a redemption at Serinus Energy 70% of the Ukrainian company “KUB-Gas” for 27.5 million euros by Burisma Holdings, a purchase of the Creative Group assets for 27.31 million euros, an acquisition of 9.3% stake in PJSC “Motor Sich” for 25.43 million euros, a purchase of the minority stake in the shopping center “Univermah Ukraina” for 10.03 million euros by Irish Bank Resolution Corporation Limited (IBRC, Dublin), and a purchase of 10% stake at PJSC “Zernoproduct MHP” (Myronivka, Kyiv region) for 8.13 million euros by agricultural holding “Myronivskiy Khiboproduct”.

Figure 2. The volume of transactions on the M&A market of Ukraine in billion \$



Source: based on Forbes 2016, Investorplace 2014, 2015, 2016, and Inventure 2016.

In 2015, the global volume of M&A deals reached the record high of \$4.6 trillion. This is the historical maximum exceeding the previous record set at the level of \$0.4 trillion in 2007 (Forbes 2016).

Ukraine made very modest contribution to the global M&A volume. The volume of mergers and acquisitions in the Ukrainian market were in the range of \$1 billion, and the deals belonged to the category of technical.

Conclusions and recommendations

The features of current M&A processes in the world are a significant increase in the transactions amounts; merge processes occur mainly in the highly monopolized industries; mergers and acquisitions are initiated by private and sovereign wealth funds or large corporations in the countries-suppliers of raw materials to the world market, and the owners of cheap labor force. There are a large number of firms for mergers and acquisitions whose market value have sharply decreased; frequent creation of the alliances for the international M&A implementation.

Motives for conducting the mergers and acquisitions in developed and developing countries are different. The main motives of M&A transactions in the industrialized countries are markets liberalization, reduction of state intervention in the economy, and, as a result, appearance of new participants and increased competition in the market. In the developing countries M&A transactions occur, as a rule, in the framework of privatization programs or market liberalization.

In Ukraine, the process of mergers and acquisitions corresponds to the global trends. Thus, the volume of transactions with participation of Ukraine as a seller, buyer or a country of assets origin demonstrated a growth. The volume

of M&A operations more than doubled in 2013 – after three years of decline. In 2014-2016, the foreign companies were forced to sell their assets in Ukraine because of political and economic factors, in particular uncertain economic and political situation in Ukraine, depreciation of the national currency hryvnia relative to major currencies, tighter conditions and reduced availability of loans. The trends, which affected the sales in Ukraine, were structure optimization and elimination of unprofitable/non-core directions, concentration, and the deterioration of relations with Russia that led to abandon of the business development in this country. In 2016-2017, the potential interest will be connected with several sectors, i.e. first and foremost are agriculture, IT and energy sectors.

The directions for further researches in this area may be an analysis of the forecasted indicators of M&A dynamics in Ukraine and worldwide, exploration of relevant trends, and analysis of the factors impacting on M&As.

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