**What Is A Business Combination?**

Business Combination is a process whereby entities come together in order to reposition themselves to exploit opportunities in the economic environment. It also refers to the aggregation of organizational resources (including human) of two or more separate entities, which leads to the consolidation of decision-making authority on the business operations of the resultant entity. It usually comes with the requirement to consolidate the financial statements of the individual companies as a consolidated financial statement for tax and financial reporting purposes, amongst others. In most cases, the shareholders of the original companies will normally retain their shareholdings under the newly formed company.

**Types of Business Combination**

The two broad categories of Business Combination arrangements are **Mergers and Acquisitions**. A Merger is the integration of two or more companies, usually of similar size and capacity, into one large company. It is usually voluntary with the consent of the merging entities and it utilizes exchange of stock (swaps) or outright cash payment as purchase consideration. The exchange of stock options gives the shareholders of the merging companies the opportunity to share in the risk and reward that may result from the combined entity. A Merger is often seen as a tool that enhances the long-term profitability potential of the merged entities.

Another type of Business Combination is an Acquisition (takeover); it involves the buying of one company by another. The acquirer achieves his objective by taking control through purchase of common stock of the target company. An acquisition may be friendly or hostile. This form of business combination will also be discussed in further detail.

**Motivations for Business Combination**

Several reasons exist that stimulate the interest of companies to consider acquiring or merging with other businesses. Some of the factors that have led to a number of Merger and Acquisition transactions amongst companies are:

**Statutory Requirements**: This occurs where the regulatory body of a particular industry or the executive government of a particular region requires the players within a specified industry to possess a certain level of financial capital capability in order to fulfill their regulatory requirements within such industries. A good example of this is the consolidation that took place within the Nigerian Banking industry in 2005 as a result of the requirement from the Central Bank of Nigeria (CBN) for all registered banks to recapitalize.

**To Solve Capital Problem**: Smaller business units face the challenge of inadequate capital to take advantage of opportunities to expand. In a bid to combat this, some foreign companies want to gain access to a local industry, business combinations can be used to break international trade barriers on the one hand, while the local firm can break industry-related structural barriers on the other hand.

**Effective Management**: Some businesses also choose to either merge with other similar companies or position themselves to be acquired by bigger, value-adding companies such that they can have access to better management expertise, benefit from the transfer of technical know-how and increase profitability. Though the ownership and control of the acquired smaller business changes hands under this arrangement, the current owners might consider the profitability of their business operation to be an overriding objective.

**Defensive Tactics in Business Combination**

Despite the above mentioned (benefits) of business combination, some forms of business combination methods are highly unwelcomed by shareholders and management of the target company. This usually occurs with Hostile Takeovers. Some of the take-over defensive strategies, that the management and board of such target companies usually adopt include the following; please note that some of these strategies violate corporate governance codes.

**Golden Parachute**: This is the case where top executive members of public companies request for employment contract terms that build heavy pay-offs and significant benefits into their packages in the event of terminating their employments. Top company executives do this so as to increase the forceful acquisition costs of their companies to the acquirer, and to discourage such moves.

**Non-voting Stocks**: Founding members of vulnerable companies may sell stocks that carry non-voting rights to the public, while they maintain those that carry voting right in-house. Investors sometimes buy this class of shares when they are mainly interested in the profitability and success of the subject company, but not in possessing such companies.

**Safe Harbour**: Target companies sometime utilize this approach by quickly acquiring a distressed company as soon as they sense that they run a higher risk of forceful takeover. They do this to increase their operating costs and make the purported forceful takeover economically unattractive.

**Shareholder Right Plans (Poison Pill)**: This involves an agreement whereby existing shareholders have the right (warrants or options) to buy additional shares at a discount to the current market value once a particular shareholder attains a specific ownership level in the company shares. An example is a clause that states that where any shareholder attains 20% holding in a company rights issue at a 5% discount will be enforced. This therefore effectively dilutes the interest of the shareholder with the 20% holdings.

**Greenmail**: This is another variant of a defensive tactic in business combinations. This is a situation where the target firms, viewing the situation as a hostile takeover, offer to buy back its shares at a premium price over the market price of the stock. Some investors use this to their advantage by buying large quantities of a stock to threaten a hostile takeover and then reselling it to the company at a price above the stock’s market value.

**Conclusion**

Business Combinations facilitate an active and efficient market for corporate control within global financial markets. This helps to put management teams of companies, especially publicly traded companies, in check. However, as attractive as corporate finance initiative is, compliance with regulatory requirements guiding this process has to be carefully monitored so as ensure that the newly combined entity does not end up as monopolists in its industries.

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