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### **Features Of the Processes Of Mergers And Acquisitions In The Agro-Industrial Sector Of Ukraine's Economy**

**Abstract. Introduction.** The article considers mergers and acquisition deals that took place in the agro-industrial sector of Ukraine's economy in 2018-2020 and assesses key trends in the rural development of the country. Territorially the biggest part of Ukraine is rural areas, thus it's obvious that their development shall and may have significant influence on the development of the country, as a whole.

**Purpose.** The study was preceded by the following tasks: to describe and assess the main features of the processes of mergers and acquisitions in the agro-industrial sector of Ukraine's economy in 2018-2020. The theoretical basis of the study was papers related to the processes of mergers and acquisitions, the development of rural areas. Methods of synthesis and analysis were used. Data and information from the InVenture Investment database, as well as the State Statistics Service of Ukraine (SSSU), were analysed, including data on changes in employment and unemployment for 2018 – 2020 in Ukraine. The obtained data were processed descriptively by statistical analysis methods.

**Results.** According to the results of the analyses was find out that in the agro-industrial sector of Ukraine, the strategy of inorganic growth of enterprises (through the merger and acquisition deals) remains relevant and popular, the participants of the deals are mostly Ukrainian companies, and the subject in most cases is 100% stake in the company, however, foreign investors are also interested in the Ukrainian companies and find out Ukrainian economy, especially its agro sector, extremely interesting for investments.

**Conclusions.** Speaking about the potential influence of the M&A activity on the rural areas development lets look at the employment rate on such territories, as this is one of the most direct indicator of the people's prosperity. Observations show that the employment of the population of rural areas of Ukraine is declining much faster than the urban population. The connection between the activity of the local enterprises in the M&A deals and the prosperity of the local community has no linear dependences. The list of references includes appropriate literature, which forms a good base for the performed research.

**Keywords:** M&A; rural areas; agricultural companies; Ukraine; development.

**УДК 330.3**

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### **Особливості процесів злиття та поглинання в агропромисловому секторі економіки України**

У статті розглянуто угоди зі злиття та поглинання, що відбулися в агропромисловому секторі економіки України у 2018-2020 роках, та оцінено ключові тенденції розвитку сільських територій країни.

Метою даної статті є виявлення та оцінювання основних особливостей процесів злиття та поглинання в агропромисловому секторі економіки України у 2018-2020 роках. Для проведення глибокого та якісного аналізу авторами були використані прийоми аналізу, синтезу, порівняння.

За результатами аналізу встановлено, що в агропромисловому секторі України актуальною та популярною залишається стратегія неорганічного зростання підприємств (через угоди злиття та поглинання), учасниками угод є переважно українські компанії, і предметом у більшості випадків є 100% акцій компанії, однак іноземні інвестори також цікавляться українськими компаніями та демонструють, що українська економіка, особливо її агросектор, є привабливими для інвестицій. При цьому зайнятість сільського населення скорочується високими темпами, що

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негативно впливає на розвиток села. Зв'язок між активністю місцевих підприємств в угодах M&A та добробутом місцевої громади не має лінійних залежностей. Необхідно забезпечити більш суттєвий позитивний вплив на розвиток території, де працюють компанії і де проживає більшість їх працівників.

**Ключові слова:** угоди злиття та поглинання; сільські території; агрокомпанії; розвиток.

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**Formulation of the problem.** The merger of companies, as a way to increase business profitability, is a popular strategy in the Ukrainian economy in recent years. This is because the internal growth of the company has limitations in speed, cost, knowledge and experience availability, etc. The external one - through M&A, allows you to expand and strengthen the business as a whole at least quicker and often cheaper. Strengthening economic concentration leads to the concentration of capital in one economic entity which may lead to the improvement of the financial stability of the organisation and increases its economic potential in a competitive environment.

Rural areas play the key role in the agri-food sector of Ukraine. According to statistics the agri-food sector (AFS) appears to be more resilient than other economic sectors that have been severely affected by the COVID-19 pandemic. Forecasts in the early months of the pandemic suggested that AFSs would collapse, but the sector has responded well to the health, logistical and financial challenges. Moreover, it's one of the most attractive industries for investors in Ukraine.

Any transformative actions in AFS shall take into account the central role and importance of ensuring prosperous and inclusive AFSs and rural territories, given that they represent an important source of income, employment, and food for the region. These changes had already started to take place, driven primarily by three trends and major engines of change (technological change, climate change, and dietary changes), which are transforming everything — relationships, production systems, the economy, society, culture, etc.— and may or may not already be a means of spurring rural transformation to facilitate the fulfillment of the SDGs and the creation of more resilient and sustainable AFS. M&A is one of the catalisators, which may push companies to speed up such transformations.

**Analysis of recent research and publications.** Intending to maximise cash flow and increase profits, companies seek to expand their business by choosing company growth strategies (Kim et al., 2011). The first model is organic growth, which involves growth through a firm's assets, internal expansion or an increase in demand for the firm's services and products (Kim et al., 2011; Penrose, 1995). The second model of growth is referred to mergers and acquisitions, which represents expansion through the

purchase of or unification with another firm (Palmer et al., 1993; Penrose, 1995). The M&A deal implementation strategy enables the company to increase its revenues in a minimum period. Although mergers and acquisitions are associated with a possible but significant increase in business value, they are also one of the most complex types of development strategies, since they have financial and economic characteristics, aspects, and nuances that may affect the success of the transaction results. The key issues, because of which M&As fail are incorrect valuation of potential synergies, low quality due diligence, lack of the post-acquisition integration strategy, wrong managerial decisions.

Since the 2000s, agriculture has become an attractive niche for foreign investors who have recognised the benefits of Ukraine's agricultural sector, such as fertile soils, favorable weather conditions, relatively cheap land, and labor, and the ability to use economies of scale (Gagalyuk, 2017).

The inflow of external capital has led to the emergence and development of large-scale vertically and/or horizontally integrated businesses. Over the past 20 years, a characteristic feature of Ukraine's agribusiness has been the growth of so-called agro holdings (Hermans et al., 2017), which are very large, horizontally, and often vertically integrated enterprises, usually consisting of a parent company that manages numerous farms (Gagalyuk, Valentinov, 2019; Koester, 2005).

Factors that stimulate the development of agricultural holdings in Ukraine are growing global demand for food (Hermans et al., 2017); the inflow of external capital, which led to growth through the acquisition of individual farms (Gagalyuk and Valentinov, 2019; Petrick et al., 2013); reduction of transaction costs (Matyukha et al., 2015); and state support for the export orientation of agri-food production (Gagalyuk et al., 2018).

Some researchers suggest that agricultural holdings can increase productivity and reduce transaction costs by investing in modern technology and economies of scale, providing favorable access to external capital (Chaddad and Valentinov, 2017; Gagalyuk and Valentinov, 2019). Other studies have shown that agricultural holdings tend to be less profitable than independent farms (Balmann et al., 2013).

One of the potential reasons for the inefficiency of agricultural holdings is their rapid growth through the acquisition of independent farms (Mamonova, 2015). In addition, acquisitions are often unsuccessful due to poor integration of target firms (Capron and Mitchell, 1997; Karim and Capron, 2016; Steigenberger, 2017; Weber and Camerer, 2003). Under such conditions, the long-term viability and resilience of firms that grow mainly through acquisitions are questionable (Ramezani et al., 2002). However, some of the agricultural holdings have been developing for more than 20 years.

For the picture to be clearer it's important to understand the legislation basis which is used for M&A transactions and how the decisions are made on the different levels. Speaking about the legislation, the main normative legal act along with the Law of Ukraine 'On Protection of Economic Competition' (Law of Ukraine 'On protection of economic competition', 2001), which defines the general principles and concepts of economic concentration, is the AMCU order 'On approval of the Regulations submission of applications to the Antimonopoly Committee of Ukraine on prior obtaining a permit for the concentration of economic entities' dated 19.02.2002 (Antimonopoly Committee of Ukraine 'Provisions on concentration', 2002). Concentration can be both positive and a real threat to maintaining normal competition on the market, as it can promote the emergence of new monopolies, which is crucial in a democracy with a market economy. However, under certain conditions, concentration may be allowed. A concentration permit is granted by the AMCU if it can be concluded that it does not reduce competition in the market and does not lead to monopolisation. Legislation is the norm if the AMCU does not grant its permission to concentrate the company, but the Cabinet of Ministers of Ukraine will conclude that social impact of such a merger far outweighs the negative consequences of such a monopolisation, can give its permission for such a merger. In this case, the decision of the AMCU will not be valid.

An example of a permitted concentration is AMCU's decision to confirm purchase of the 100% of Mriya Holding Cyprus Limited and Mriya Trading (Cyprus) Limited by Salic (UK). The markets involved are wheat, corn, barley, soybeans, sunflowers, sugar beets, potatoes, hay, sugar, flour, grain, and rapeseed markets. The total share of concentration participants in these markets does not exceed the threshold values (Report of the Antimonopoly Committee of Ukraine 2018). In this case, the precondition was the inability of the agricultural holding 'Mriya' to pay the debt, the

total amount of which was 1.3 billion US dollars. The purchase by a foreign investor is a favorable step in attracting foreign investment and expanding jobs. At the same time, from a legal point of view, the question arises as to whether this is a business with a standard market policy for a foreign investor, or whether it will act in a public food security function. In addition, the question remains whether in this case, the products will enter the domestic market. This is especially true when the acquirer of corporate rights becomes the sovereign wealth fund of a foreign state. It becomes obvious the need to create an economic and legal mechanism of state control over the transfer of corporate rights to the assets of large enterprises.

To be successful, and thus to have at least small chance to have a good influence on the rural areas, M&A projects' require the formation and implementation of a quality corporate strategy, which includes building a relationship between the buyer company and the target company in three areas:

1. Material - arise in the successful implementation of business units of their commodity, sales, and other relationships.

2. Intangible - arise from the transfer between business units of an intangible asset.

3. Competitive - arise between the corporation and its competitors. According to a leading economist, Professor of Harvard M. Porter, the competent implementation of the interaction between the buyer company and the target company in the above areas, allows the Buyer to optimise the cost and revenue of the business, and to maximise the effect of scale (Porter, 2005).

To determine the degree of influence of the above three areas on the value of the business, M. Porter proposed to analyse several company values in the context of its division into main and auxiliary activities. The main activities included the following: marketing, customer service, and service; internal and external logistics, production. Among the auxiliary activities, the following were distinguished: personnel management, infrastructure, technological development, procurement activities.

Further, the degree of influence of the relationship between the main and auxiliary activities on reducing the costs of companies was determined. As a result of the implementation of mergers and acquisitions, the combined company generates the following types of costs:

- the costs associated with internal management (they arise when both the acquiring company and the target company had divisions in the structure with

similar functions, but with different resources for activities).

- benefit costs (they arise because the acquiring company and the target company may not always have the same goals that they seek to achieve through reorganisation).

According to statistics from KPMG, mergers and acquisitions justify their costs only 23% of the time. When a company announces its upcoming merger, the company's shares rise, but not more than 30%; in the acquired companies, mass layoffs of employees are observed (47% of top managers leave within the first year after the transaction, 75% decide to leave within the next three years).

There is a chance that the fact that M&As don't have dramatical and global positive influence on the rural areas is because they are unsuccessful itself, they don't reach the planned goals.

**Formulation of research goals.** The purpose of this article is to identify and evaluate the main features of mergers and acquisitions in the agro-industrial sector of the economy of Ukraine in 2018-2020. The theoretical basis of the study was papers related to the processes of mergers and acquisitions, the development of rural areas. Methods of synthesis and analysis were used. Data and information from the InVenture Investment datatbase, as well as the State Statistics Service of Ukraine (SSSU), were analysed,

including data on changes in employment and unemployment for 2018 – 2020 in Ukraine. The obtained data were processed descriptively by statistical analysis methods.

**Outline of the main research material.** Today, agricultural holdings account for 29% of agricultural land, 59% of crop production, and 44% of livestock products among corporate farms of Ukraine (or 20% of crop production and 29% of livestock products of all types of agricultural producers, including all types of farmers and domestic producers) (UCAB, 2019). The expansion of agricultural holdings has slowed down since 2014 due to difficult socio-economic events in the country.

During the period 2018-2020 in the agricultural sector of Ukraine, there was a significant reduction in business concentration agreements, Fig. 1. The participants in the agreements are mostly Ukrainian companies, but many western investors still assess Ukraine as a large, untapped economic potential. However, the development of the M&A market in Ukraine was significantly hampered by conflicts between major foreign investors and the state of Ukraine. Investors praised the first steps towards land reform and expect further liberalisation of the land market in terms of access to foreign capital for agricultural land purchase and sale transactions, which led to the conclusion of deals in 2020.

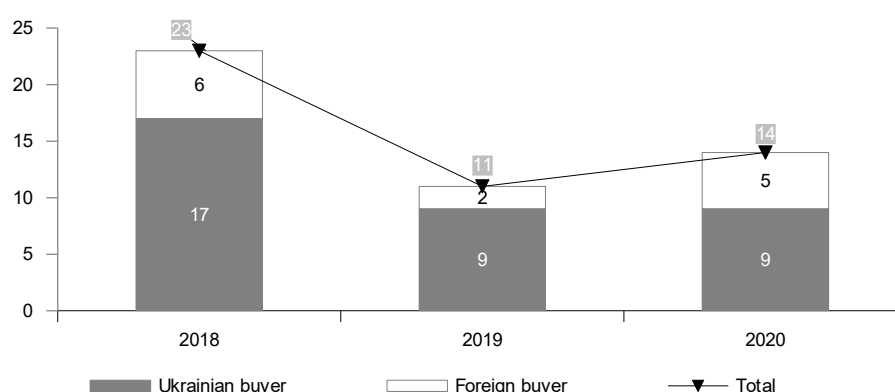


Figure 1 – Number of M&A agreements in the agricultural sector of Ukraine in 2018-2020

Source: built by the authors according to [8]

Studying the motivation of Ukrainian investors to carry out mergers and acquisitions, we have identified three main groups of motives:

- internal, due to the need to find a new direction of its further development;

- external, caused by changes in the business environment;

- personal interests of company management.

The main internal motives are the desire to gain new technologies, enter new markets, access to new products and distribution channels, to obtain a synergistic effect.

By synergetic effect, we mean an increase in the efficiency of the enterprise or the added value of assets due to the merger of enterprises into a single system, where the effect of their interaction exceeds the sum of the effects of each enterprise separately. The synergistic effect can be of different types depending on the goals of the management of the buyer company in the process of merger and acquisition. External motives for mergers and acquisitions include the company's desire to make the most efficient use of its production capacity, management, and investment resources in a changing environment, namely: market shrinkage, loss of market position due to the increasing number of competitors, strengthening the market position of strategic

competitors, strengthening competition from foreign manufacturers, development and active introduction of innovative technologies.

Speaking about the potential influence of the M&A activity on the rural areas development lets look at the employment rate on such territories, as this is one of the most direct indicator of the people's prosperity. Observations show that the employment of the population of rural areas of Ukraine is declining much faster than the urban population, Fig.2 and Fig.3. The concentration of agricultural production, growth of enterprises on the one hand, but decline of the number of jobs in rural areas and living standards.

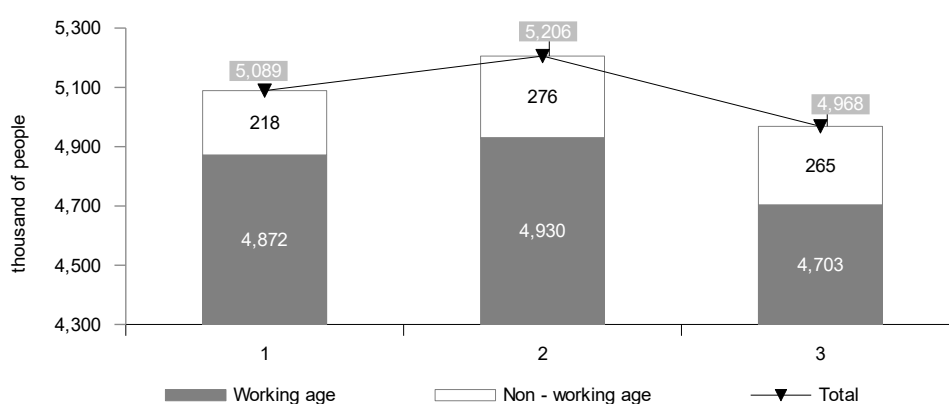


Figure 2 – Employment of rural population in 2018-2020, thousand of people

Source: built by the authors according to [8]

The Fig.2 shows that the total number of people, who leave in the rural areas, besides the short rise in 2019, has negative trend. Moreover, percentage of people

above working age in the structure of rural areas residents is growing.

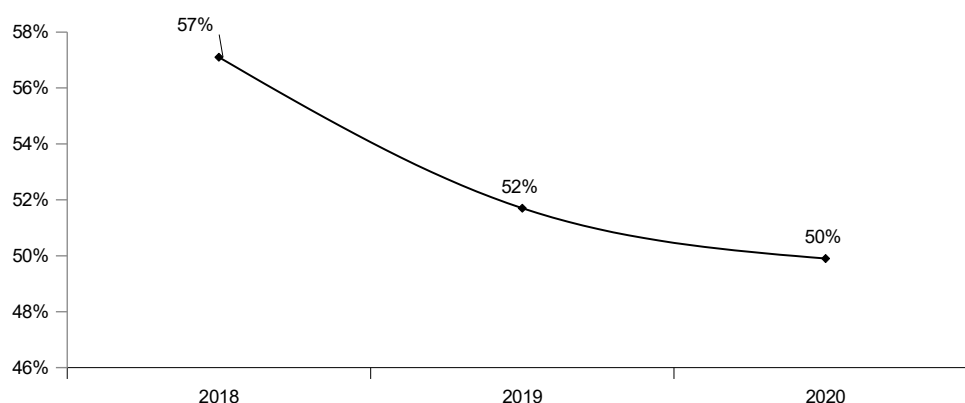


Figure 3 – Employment of the population of Ukraine by place of residence in 2018-2020, %

Source: built by the authors according to [8]

Figure 3 shows the stable negative trend in the level of employment among the rural areas residents.

Before any huge deal in the agro sector there are concerns, but the promising development of rural areas transfers the use of a complex issues of M&A, like unemployment, liquidation of businesses, and officials, as a result of the emergence of new working jobs.

Comparing data about the trend in number of M&A deals in agro sector with the number of employed rural area citizens, Fig.4, we can see interesting dependences. During the analysis period positive trend in the M&A activity, which can be observed on the Fig. 4., was accompanied with opposite situation in the number of employed rural area citizens.

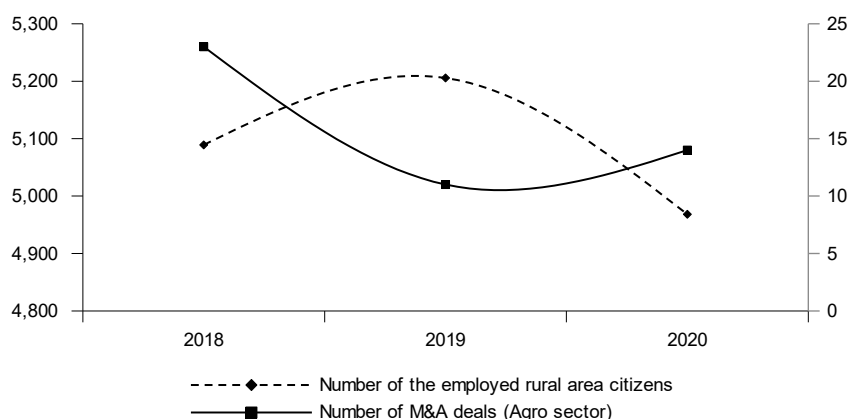


Figure 4 – Number of M&A agreements in the agro-industrial sector of Ukraine's economy, units and employment of the population of the rural territories, thousand people

Source: built by the authors according to [8]

The study shows that the mergers and acquisitions in the agro-industrial sector of Ukraine are attractive to investors, as they bring benefits to businesses due to cost optimisation, experience and resources (incl. human capital) concentration, area for price increase and strengthening of the competitive positions.

However, the postulate that the goal of creating additional company value in a merger and acquisition transaction is highly beneficial not only to shareholders, but also to society as a whole, is not confirmed in the context of rural areas of Ukraine. For sure society may benefits, through social projects realised by agro enterprises, potentially better quality of the products, increase in remuneration and potentially higher taxes paid, and maybe small local communities benefits more than citizens of the other rural areas, but this positive influence isn't high enough to be statistically significant and to show visible influence on the development of the rural areas. There is also a good thought, that the positive effect may be riched through the higher tax payments, but this is an area for future reserches. As for now we can say, that there are at least two question points: first is the level of taxes paid by the new company

(is it really higher) and another is connected with the purposes on which these taxes are used.

Conclusions. Today, mergers and acquisitions are an effective tool to boost development and growth of enterprises in rural areas of Ukraine. The main reason for the usage of mergers and acquisitions is to ensure business growth, gaining a stronger strategic position in the market. In Ukraine, with increased competition and low investment attractiveness of the economy, for national enterprises, participation in integration processes in the market of mergers and acquisitions is a significant and important opportunity to reach a qualitatively new level of development, increase capitalisation, reduce business risk, etc. According to our research the processes of mergers and acquisitions in the agro-industrial sector of Ukraine's economy do not show a satatistically visible positive impact on rural development, however, there obviously is good and valuable moments of such enterprises activity and development on the rural areas. The question is that they may have more significant positive influence and pay more attention to the development of the areas where they operate and where the biggest part of their employees lives.

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