

FACULTY OF JURIDICAL SCIENCES

Lecture-38



Objectives of Business Combinations

The basic objective of combinations is the sustained profitable growth of the combining enterprises. This basic objective is realized by achieving economies of scale, reducing competition, preventing the entry of new firms and controlling the market.

The objectives of combinations are:

- a. Achieving sustained growth and profits.
- b. Reduction in competition.
- c. Preventing the entry of new firms by creating entry barriers.
- d. Achieving monopoly status.
- e. Undertaking large scale production and benefiting from economies of scale.
- f. Investing in common facilities and infrastructure.
- g. Avoiding cut-throat competition and the evils associated with it.
- h. Achieving greater financial strength and stability.
- i. Investing in research and development to innovate new products.
- j. Pooling of material and manpower to ensure efficiency in operations.
- k. Sharing knowledge of best practices for mutual benefit.
- l. Maintaining stability in prices.
- m. To withstand the effects of business cycles.

Causes of Business Combinations

Some of the outstanding causes leading to the formation of business combinations are described below:

(i) Wasteful Competition:

Competition, which is said to be the ‘salt of trade’, by going too far, becomes a very powerful instrument for the inception and growth of business combinations. In fact, competition, according to Haney, is the major driving force, leading to the emergence of combinations, in industry.

(ii) Economies of Large-Scale Organization:

Organization of production on a large scale brings a large number of well-known advantages in its wake – like technical economies, managerial economies, financial economies, marketing economies and economies vis-a-vis greater resistance to risks and fluctuations in economic activities. Economies of large scale operations, thus become, a powerful force causing increased race for combinations.

(iii) Desire for Monopoly Power:

Monopoly, a natural outcome of combination, leads to the control of market and generally means larger profits for business concerns. The desire to secure monopolistic position certainly prompts producers to join together less than one banner.

(iv) Business Cycles:

Trade cycles, the alternate periods of boom and depression, lead to business combinations. Boom period i.e. prosperity period leading to an unusual growth of firms to reap rich harvest of profits results in intense competition; and becomes a ground for forming combinations.

Depression, the times of economic crisis-with many firms having to only option to close down-prompts business units to combine to ensure their survival.

(v) Joint Stock Companies:

The corporate form of business organization is a facilitating force leading to emergence of business combinations. In joint stock companies, control and management of various corporate

enterprises can be concentrated, in a 'small group of powerful persons through acquiring a controlling amount of shares of different companies.

(vi) Influence of Tariffs:

Tariffs have been referred to as "the mother of all trusts". (A trust is a form of business combinations). Tariffs do not directly result in combinations; they prepare the necessary ground for it. In fact, imposition of tariffs restricts foreign competition; but increases competition among domestic producers. Home producers resort to combinations, to protect their survival.

(vii) Cult of the Colossal (or Respect for Bigness):

In the present-day-world, business units of bigger size are more respected than units of small size. Those who believe in the philosophy of power and ambition, compel small units to combine; and are instrumental in forming powerful business combinations, in a craze for achieving bigness.

(viii) Individual Organizing Ability:

The scarcity of organizing talent has also induced the formation of combinations, in the business world. Many-a-times, therefore, combinations are formed due to the ambition of individuals who are gifted with organizing ability. The number of business units is far larger than the skilled business magnates; and many units have to combine to take advantage of the organizing ability of these business brains.