

## **TOPICAL ISSUES OF THE RUSSIAN STATISTICS OF MERGERS AND ACQUISITIONS DEVELOPMENT**

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### **Abstract**

Statistics of mergers and acquisitions (M&A statistics) is a traditional direction for international statistics and a new direction for the Russian statistical science. The paper analyzes the main directions of processing and analysis of statistical information on the integration transactions that contribute to the development of mergers and acquisitions statistics in Russia; a statistical analysis of integration processes and major trends in the development of the Russian market of mergers and acquisitions in the context of the introduction of economic sanctions and import substitution has been conducted.

In the article presented, the authors give a general description of the main directions of statistical accounting and analysis of various aspects of the integration activity of economic entities. To develop and improve the national statistics of mergers and acquisitions, new approaches have been proposed in the work, related to the collection and processing of data on integration transactions, in order to more fully and timely reflect the economic situation in the sphere of integration at the national and international levels. The introduction of the organizational proposals introduced in the article related to the collection and processing of M&A data could contribute to the development of Russian M&A statistics.

**Key words:** integration activity, mergers and acquisitions, statistics

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### **Introduction**

In recent decades, the role of economic integration of any state in the system of economic relations has significantly increased. The scope and the level of economic integration are substantially macroeconomic indicators of the effective functioning of the national economy and its institutions (Komlenovic, 2011). The main causes of mergers and acquisitions are the economies of scale achieved with new technologies, the entry of financial institutions on the Internet, deregulation and liberalization of the financial sector, reducing barriers for mergers (Jimber, 2016). Integration processes are the objects of close attention and numerous studies.

However, the issues of the economic content and the quantitative measurement of mergers and acquisitions remain insufficiently developed. As a result, despite the fact that quite a lot of studies of the dynamics, structure and geography of mergers and acquisitions have been published recently (for example, Ignatishin, 2005; Gvardin, 2007; Lugacheva, 2016; Musatova, 2011; Saratovsky, 2015), the problems of statistical recording of transactions of mergers and acquisitions are largely ignored.

The studies of the Russian market of mergers and acquisitions in the conditions of global transformation processes should be based on comparable statistical information, since only in this case the successive research can be carried out. In this regard, the statistics of mergers and acquisitions, as a branch of business statistics, deserves a more thorough study.

According to the materials of the meeting "Development of official statistics: the present and the future", which took place in the framework of the 61st World Statistical Congress of the International Statistical Institute<sup>1</sup> (2017, the Kingdom of Morocco), there is a necessity of the orientation of statistical services within the bounds of the statistical measurement of globalization to more fully meet the needs of the society in statistical data related to the issues of economic integration. Thus, at present, Russian statistics need to emphasize both understanding of the statistical data on mergers and acquisitions and the main components of the quality of these data, which contribute to improving the interrelation of statistics, society and business.

The development of statistics of mergers and acquisitions in Russia will facilitate the involvement of the expert community in the production of statistics and the positioning of respondents as active professional users, which will compensate for the low degree of information disclosure on integration transactions and assess the integration activity of certain sectors of the Russian economy. The obtained results can serve as a justification for updating the production apparatus and restoring the structural integrity of the domestic economy.

## **1. Russian statistics of mergers and acquisitions**

The 25th anniversary of the market reforms in the home economy (if counted from the entry into of the decree on liberalization of the prices) at the official level was is ignored (Bersenyov, 2017). But the substantial transformations in the Russian economy that occurred over the last decades have caused significant changes in the theoretical, methodical and

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<sup>1</sup> URL: <http://payment.isi2017.org>

methodological foundations of management, collection and processing of statistical information (Minashkin, 2012). The globalization of the economy, characterized by active integration processes, conditions the necessity for the formation and development of a new branch of statistics in Russia - the statistics of mergers and acquisitions.

Statistics of mergers and acquisitions (M&A statistics) is one of the most dynamically developing areas of statistics in foreign countries and contributes to the improvement of the interrelation between statistics and the business community. The statistics of mergers and acquisitions is designed to meet the needs of the society in quantitative information on corporate integration realized through the execution of mergers and acquisitions. The subject is a system of indicators and methods of statistical recording and analysis of the integration activity of economic entities.

Official statistics in Russia, making clearly aware of the role and importance of business in politics, the economy and the social sphere, systematically monitors the directions and results of entrepreneurial activity, monitors changes in market conditions that affect the transformation of business processes. Entrance to business or exit from it, as well as the choice of strategies for the development of the company on the market, are not that difficult, but in a civilized version are in general impossible without a comprehensive statistical analysis of business processes at both national and global levels.

However, the development of statistics of mergers and acquisitions in Russia occurs more slowly than in economically developed countries. The data and the methods for analyzing integration processes appear fragmentarily in business statistics, in the statistics of organizations demography, but this is insufficient for a comprehensive analysis of the Russian market of mergers and acquisitions. The statistical information system of the integration activity of the Russian companies is a necessary element of the information system of the state as a whole, providing the government, the ministries, the organizations and the public with official data on transactions of the ownership transfer of assets and capital from one owner to another.

One of the conditions for a comprehensive and objective assessment of integration processes is a qualitative and reliable information base (Lubatkin, 1983), which is a collection of data grouped in a certain way, allowing a statistical analysis of mergers and acquisitions and substantiating the rationality and effectiveness of management decisions in the sphere of integration.

It should be noted that the implementation of the integration policy was accompanied by the development of an information component in Russia, but exclusively within the companies. As is known, there is a problem of the confidentiality of corporate statistics. Despite the creation of powerful information centers (JSC "Russian Railways" and others), the availability of information for researchers was gradually reduced to a minimum, even taking into account all the difficulties in obtaining the necessary information in the relevant branch ministries in the pre-reform period.

One of the first attempts to monitor Russian legislation in the field of statistics and the formation of statistical databases on mergers and acquisitions is presented in the article by Polikarpova M.G., Ivanova T.A. "To the problem of forming a system of statistical indicators of integration activity in the Russian economy." It is noted in the article that the norms regulating integration processes are scattered according to various normative legal acts of the Russian Federation (Polikarpova, 2010). The analyses of the state information and statistical resources of various services and agencies of the Russian Federation was performed and described in the article in order to identify possible official sources of information on integration activity in Russia, reflecting various aspects of mergers and acquisitions,:

1. Federal Service of State Statistics (Rosstat);
2. The Central Bank of the Russian Federation;
3. The Federal Antimonopoly Service (FAS);
4. Federal Agency for the Management of State Property (Federal Property Management Agency).

In the database of the Federal State Statistics Service, the data related to mergers and acquisitions of economic entities are accumulated in one way or another. However, due to the incompleteness and fragmentation of the available information, its use for practical purposes of investigating the integration activity of economic entities is impossible.

The statistics of the Central Bank of the Russian Federation contain the data on cross-border integration transactions of Russian companies (purchase of at least 10% of shares without restrictions on the amount of the transaction) and there are no data on internal transactions of mergers and acquisitions, which does not allow for a comprehensive assessment of the scale and specifics of the Russian M&A market.

Transactions between small companies are not taken into account in the database on integration transactions of the Federal Antimonopoly Service, which makes it difficult to use it in a comprehensive statistical analysis of the Russian market of mergers and acquisitions.

The Federal Property Management Agency accumulates the information on M&A transactions only with the participation of the state.

Thus, the statistical accounting of various aspects of mergers and acquisitions is regulated by various normative acts and is included in the competence of different state services and departments. The absence of an official body of the executive power engaged in collecting and generalizing the information on integration activity leads to fragmentation of the official statistical information on the integration activity of the Russian companies (Karelina, 2015).

The methodology for collecting statistical information on the integration activity of economic entities needs harmonization for national and international comparisons. In accordance with the international financial reporting standards (IFRS) and the US financial reporting standards (FAS), the main requirements for accounting for transactions on mergers and acquisitions include:

1. Registration of completed transactions (in case of a corporate conflict, an integration transaction is accounted for at the moment when the buyer obtains actual control over the assets of the acquired company);
2. Registration of transactions for the acquisition of the right to exercise the functions of the executive body or the right to determine the conditions for the performance of business.

In the current conditions, various international and Russian information and analytical agencies (Thomson-Reuters, BUREAU VAN DIJK, KPMG, ReDeal Group of the Cbonds Group Company, M&A OnLine, etc.) are engaged in collection and generalization of the information on integration activity in order to meet the needs of the public and business. At the same time, the data published by them characterize rather the lower border of the cost and quantitative volume of the Russian M&A market, since many Russian integration transactions take place in non-transparent conditions.

In the process of mergers and acquisitions of infrastructural enterprises, it became evident that in order to monitor the effectiveness of their operations, it is necessary to detail the information on costs and performance results by the types of economic activity in accordance with the relevant All-Russian Classifier. The basis for obtaining such data is financial accounting reporting and the segregation within its framework of information separately by types of economic activity (Ratner, 2012). This presentation of information is a necessary condition for the enterprise restructuring and is directly related to the possibility of forming the assessments of the integration effectiveness on its basis.

In the framework of improving the statistics in the field of integration activity, the authors of the article propose the solution of the following organizational tasks related to the collection and processing of the data on mergers and acquisitions:

- Improvement of the normative and legal acts of the Russian Federation regulating the system for collecting and processing of statistical data on integration processes.
- Establishment of specialized statistical structures which deal comprehensively with the compilation, generalization and dissemination of information on integration activity.
- Intensification of the international cooperation in the framework of mergers and acquisitions statistics due to greater integration of Russia into the process of information exchange on M&A transactions between countries.
- Improvement of the data sources through the surveys use of parent companies of Russian holdings as a source of information on integration activities.

## **2. Statistical analysis of the development of the Russian M&A market**

The change of the global economic development paradigm, the transition to the next technological order, a radical change of industrial production organization all these factors have lead to the formation of an economy that opens up new areas of economic growth and enhances economic efficiency (Gulin, 2017). The analysis of the main trends in the development of the Russian economy testifies to the growing macroeconomic importance of economic integration. There is an active process of concentration of production and capital and today the Russian economy is the economy of large economic entities in the country (Karelina, 2015).

Despite all the efforts of recent years, small and medium-sized businesses in Russia are not developed and occupy weak positions even in those industries in which small businesses traditionally dominate in the whole world. At the same time, medium-sized enterprises in Russia are organizational structures that are not structurally stable; they are the main targets for the absorption by large multifunctional holdings, which are based on the enterprises oriented to the raw materials sector.

There was a much greater volatility on the Russian M&A market for 2010-2016 in comparison with the world market. In 2016, the number of transactions in the Russian market increased by 2.34% and amounted to 481 transactions<sup>2</sup>. The total amount of transactions in

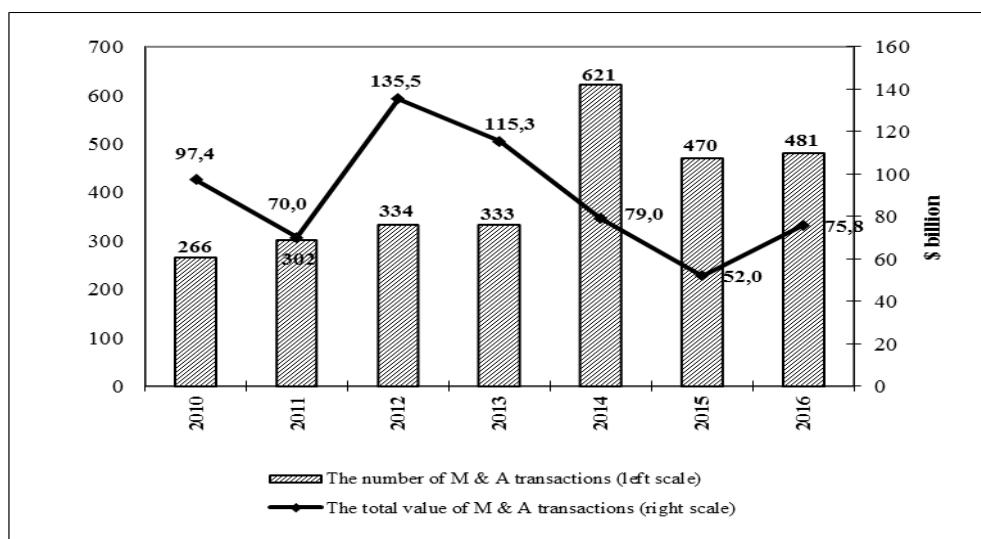
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<sup>2</sup> The presented research was prepared using the information from the database of KPMG on the Russian market of mergers and acquisitions including the transactions in which the Russian companies

2016 increased by 45.77% up to \$ 75.8 billion (Figure 1), which is due to an increase in the share of larger transactions. The main contribution to the value of the Russian market of mergers and acquisitions in 2016 brought three transactions in the oil and gas sector:

- Sale of 19.5% of Rosneft shares for \$ 11.27 billion to a consortium led by the Qatari sovereign fund;
- Acquisition of a 49% stake in Indian company Essar Oil for \$ 6.33 billion by Rosneft;
- Acquisition of a 50% stake in Bashneft for \$ 5.3 billion by Rosneft.

**Fig. 1: Dynamics of the number and total value of M&A transactions in the Russian M&A market for 2010-2016**



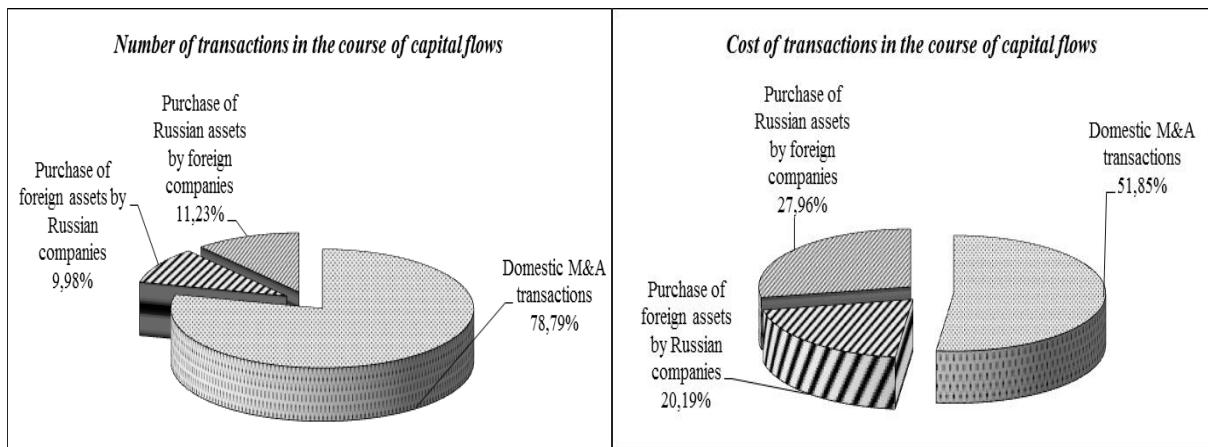
Source: author's own work

Figure 2 shows the structure of the integration activity of Russian companies in the direction of the capital flows. In 2016, the number of domestic transactions increased by 9.22% compared to 2015 (379 units), accounting for 78.79% of the number of transactions in the market of mergers and acquisitions. The cost of domestic transactions increased by 9.17% and amounted to \$ 39.3 billion (51.85% of the total cost of integration transactions in the Russian market of mergers and acquisitions in 2016).

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are the object of acquisition (when purchased by foreign companies) or the buyer (when purchasing foreign assets), or the object as well as the buyer(during the domestic transactions)

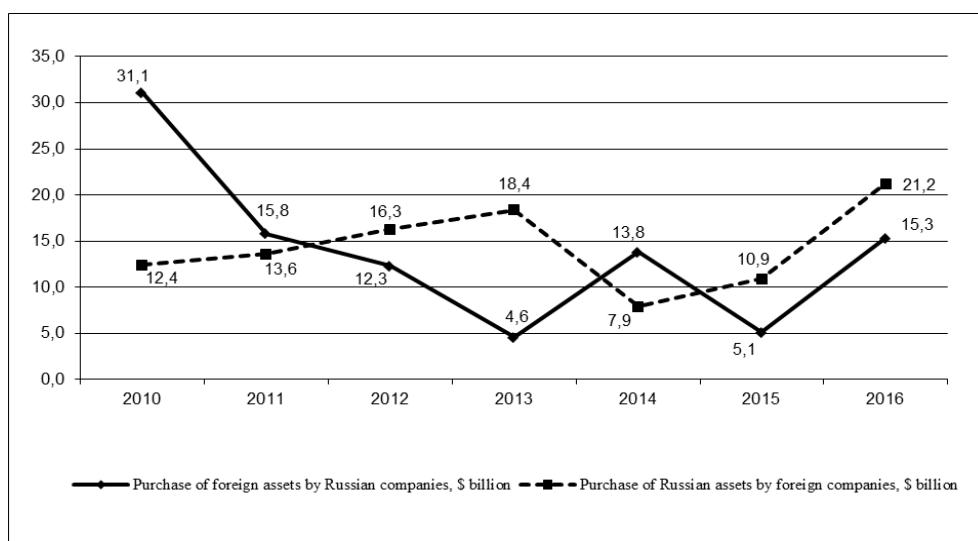
**Fig. 2: Structure of the integration activity of Russian companies depending on the course of capital flows, 2016**



Source: author's own work

In 2016, no deals were made on the acquisition of Russian assets by US strategic investors, which reflects the geopolitical concerns of this group of investors. Although the share of transactions in the purchase of Russian assets by European investors remained significant, the aggregate value of such transactions fell to \$ 1.4 billion. The amount of transactions for the purchase of foreign assets by Russian companies increased 3-fold and was \$ 15.3 billion (Fig. 3).

**Fig. 3: Dynamics of cross-border integration transactions in the Russian M&A market for 2010-2016**



Source: author's own work

Historically in Russia, the bulk of mergers and acquisitions have been carried out in the oil and gas sector and mining industry. However, in the process of implementation of the Government programs to reform the economy, there should be more incentives and opportunities for integration deals in a wider range of industries.

### **3. Conclusion**

Currently the system of information collection and processing on the integration activity is insufficiently developed in Russia (thus collection of the information on integration activity in general was episodic till 2003). Monitoring of the existing legislation of the Russian Federation in the field of statistics and the formation of statistical databases on mergers and acquisitions showed the absence of a formal executive body engaged in collecting and summarizing information on integration activity. At the same time, the introduction of the organizational proposals introduced in the article related to the collection and processing of M&A data could contribute to the development of Russian M&A statistics by comprehensive coverage of information, timeliness of delivery and sufficient detailing.

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