

Business Combination:

Meaning, Causes

Business combinations are combinations formed by two or more business units, with a view to achieving certain common objective (specially elimination of competition); such combinations ranging from loosest combination through associations to fastest combinations through complete consolidations.

L.H. Haney defines a combination as follows:

“To combine is simply to become one of the parts of a whole; and a combination is merely a union of persons, to make a whole or group for the prosecution of some common purposes.”

Causes of Business Combinations:

1. Elimination of Cutthroat Competition

Large-scale production and intense competition have become the rule of the present day economy. Cutthroat competition leads to wasteful advertising, unnecessary duplication, over production etc., which all ultimately result in lowering the profit margin of the industrialists. Under such circumstances, small units could not survive. Therefore, the only alternative available to the industrialists is the elimination of competition, which could be possible only through business combination.

2. Economies of Large-scale Production

Large-sale production has certain definite advantages. If different firms come together and form amalgamations, the scale of operation also become larger and savings in overhead charges can be effected.

3. Influence of Tariff

The tariff policies of different countries have also furthered the causes of the combination movement. Tariff is often described as the “*Mother of Combination*“. By imposing high tariff on imported goods, the Governments throughout the world offered protection to home industries. The protection offered by the state resulted in the establishment of a number of business units. Consequently, competition amongst them became tense and the need for business combination was felt.

4. Transport Revolution

Another contributory cause for the combination movement was the revolution in transport and development of communications. The development of transport facilities accelerated the growth of large-scale undertakings. The large undertakings began to absorb smaller units to cater to the needs of the local market.