CHAPTER – 2

REVIEW OF LITERATURE

Mergers and Acquisitions activity in India has developed through a distinctive phase of rules and regulations. On one side, the opinion on the rigid spectrum is that there is an opposition to the formation of integration due to the fear of economic power, behavioural bias, and overconfidence. On the other side, there has been huge support to various forms of Mergers and Acquisitions activities due to the key motive factors of economies of scale, social benefits, technological innovation, growth, and competitiveness of the Indian corporate sector. Changing rules and regulations and cut-through competition and competitiveness of Indian corporate entities have brought about significant change in synergy formulations.

This section reviews the studies confined to the impact of Mergers and Acquisitions on the value of the firm. There may be several research studies which examine the driving factors of Mergers and Acquisitions. This study however is to understand whether claims made by corporate enterprises while going in for Mergers and Acquisitions is to create valuable synergy or not from the point of the Indian acquirer context.

In this study an attempt has been made to review the work previously undertaken and methodology implied. Concise reviews of several studies are classified

Brief study about Mergers and Acquisition

In recent years, Merger and Acquisition transactions as an important growth strategy for business organisations has gained popularity worldwide. The Merger and Acquisition activities have been averaging over the period around 1 to 2 trillion$, while the individual deals value that have been hit varied from as low as $500 million to high as $25 billion.

Dr.K.B. Singh (2013) in research article titled that “The impact of mergers and acquisitions on corporate financial performance in India.” did a survey among the Indian corporate managers in 2006 taking the data from Grant Thornton. The study found that Merger and Acquisition activities are a significant form of business
strategy for Indian corporates. The three main objectives behind any Merger and Acquisition, for corporates today were found to be:

a) Improving revenue and profitability,
b) Faster growth in scales and quick time to market,
c) Acquisition of new technology or competence.

Table: 2.1 Objectives of Indian corporates for Mergers and Acquisitions

<table>
<thead>
<tr>
<th>Objectives behind the Mergers and Acquisitions transactions</th>
<th>Response in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. To improve revenue and profitability</td>
<td>33%</td>
</tr>
<tr>
<td>ii. Faster growth in scale and quicker time to market</td>
<td>28%</td>
</tr>
<tr>
<td>iii. Acquisition of new technology or competence</td>
<td>22%</td>
</tr>
<tr>
<td>iv. To eliminate competition and increase market share</td>
<td>11%</td>
</tr>
<tr>
<td>v. Tax shield and investment savings</td>
<td>3%</td>
</tr>
</tbody>
</table>

(Source: Grant Thornton (India). The M & A and Private Equity scenario- 2006)

Sanjay Dhir, Amitami (2012) in research article titled “Decision-Making for Mergers and Acquisitions: The Role of Agency Issues and Behavioural Biases.” discuss on biases and agency issues in Mergers and Acquisitions. They are found the various reasons for disappointing results, which are as follows:

- **Agency Issues:** The relationship between the shareholders and managers of Mergers and Acquisitions firms fits the clarity of pure agency relationship. Pure Agency Relationship should result as no surprise to find out the issues related to the ‘separation of ownership and control’ in the recent times. The researcher was able to study the agency issues as the ownership entities are confidentially associated with the problem of agency. A negative return to shareholders in bidding firms could be examined by agency costs. That is, the manager of a bidding firm may favour takeovers, but such managerial activities are rational and not in the interest of the shareholders.

- **Behavioural Biases:** The study suggests that CEO may genuinely believe that Mergers and Acquisitions are in the best interest of the shareholders but this belief is not realistically based. The following eight aspects provide a new focus on the behaviour of CEO which is separate from agency issues and Hubris hypothesis:
a) Over confidence / Hubris bias: Hubris bias is defined as “overstated self confidence or pride”. Previous research has studied the impact of hubris or over-confidence of firm decisions and results including Merger and Acquisition premiums and venture failures. The study suggests that firms that are over confident pay higher premiums depending on internal rather than external financing. Misrealisations of forecast earnings and taking on more value destroy Mergers and Acquisitions activity.

b) Anchoring bias: Anchoring is the term used to describe a manager’s tendency to be dependent too heavily on a piece of information when making decisions. During normal decision making of acquisitions, individuals are overly dependent on specific information or a specific value and then adjust to that value to account for other elements of the acquisition that may have negative effects on Mergers and Acquisitions success.

c) Confirmation bias: Conformation bias is a tendency to search for or to interpret information in a way that confirms one’s preconception leading to statistical errors. Conformation bias is a type of cognitive bias. It represents an error of inductive inference towards conformation. Experiments tend to seek conformity data and opinions, which lead on to systematic over confidence in favoured hypotheses.

d) Availability bias: When confirmed with decision of Mergers and Acquisitions, the CEO estimates the probability of Mergers and Acquisitions based on how easy that outcome is. The CEO is mainly dependent on the media for stock information. The influence of the media tends to be in the wrong direction towards misevaluation of stock.

e) Escalation of commitment: Escalation commitment refers to the psychological considerations of people who continue to support or believe in something that is repetitively failing. In managerial decision making, escalation of commitment can refer to either continuing with high priced Mergers and Acquisitions bid, or may also refer to overestimating one’s own managerial capacity or ability. With escalation of commitment there is a compulsion to ‘not let go’.

f) Winner’s curse: A tendency for the winning bid in an acquisition to exceed the intrinsic value of the firm purchased is quite prevalent. Because of incomplete information, emotions or any other number of factors regarding the firm
being acquired, bidders can have a difficult time to determine the firm’s intrinsic value. In short, the Winner’s Curse says that in such a bidding process, the winner will tend to overpay. The winner may overpay or be cursed in one of the following two ways: i) the winning bid exceeds the value of the acquired firm such that the winner is worse off in absolute terms; or ii) the value of the assets is less than the bidder anticipated, so the bidder may still have a net gain but will be worse off than anticipated.

**g) Hindsight bias:** Hindsight bias may cause memory distortions, where the recollections and reconstructions of content can lead to false theoretical outcomes. It has been suggested that the effect can cause extreme methodological problems while trying to analyse, understand, and interpret results in Mergers and Acquisitions activities.

**h) Narrow framing or risk aversion:** Aversion to certain losses and narrow framing may result in an overly static acquisition strategy that will result in sub-optimal growth in shareholder’s wealth. However, while narrow framing may result in a too-conservative acquisition strategy that fails to fully utilize upward potential, aversion to sure losses can lead to a consolidator over investing, increasing his losses by continuing to invest when the market signals indicate otherwise throwing good money after bad.

T.B. Rubinshtein (2011) in article titled “Estimating the effect of mergers and acquisitions in Metallurgy.” explains that, the companies do not merge without a good intention. Therefore, the effect of Merger and Acquisition activities are determined by the synergetic effect when the impact of two firms is greater than the sum of the effects resulted by each of them, i.e. $2+2 > 4$. The synergetic effect of Mergers and Acquisitions in a transaction can be expressed in the form of $V_{AB} > V_A + V_B$. It is widely believed that the synergistic effect is inherent to the bidding companies. The study found that the size of the premium is the biggest factor in the competition for Mergers and Acquisitions activities.

Mergers and Acquisitions activity as a strategy for expansion, modernisation, and technological innovation or for realising complementary benefits (synergies) has been pursued by the corporate world both in times of economic stability or instability. The increase in the numbers, size, and frequency of Mergers and Acquisitions deals have
increased the need for sound practical frameworks for the analysis and structuring of this transaction. Prasad, D.S. Reddy, D.Raghunatha (2010)

Marks and Mirvis (2008) in book titled “Joining Forces: Making one plus one equal three in Mergers, Acquisitions and Alliances.” Explain the continuum ranging from Licence agreement, alliances, and joint ventures to Mergers and Acquisitions green field start-up investments. Mergers and Acquisitions activities provide a faster path towards the objective of corporate growth. The corporate growth through Merger and Acquisition activities has several advantages compared to other modes of growth, namely Licensing, Strategic Alliances and Joint Ventures. It is because of this reason that Mergers and Acquisitions allows for accelerated growth and faster response to the market as well as a reduction in the number of competitors operating in the industry.

Figure: 2.1 Modes of Corporate Growth

<table>
<thead>
<tr>
<th>Licensing</th>
<th>Strategic Alliances</th>
<th>Joint Ventures</th>
<th>Mergers and Acquisitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Investment control</td>
<td>operation</td>
<td>High Commitment of resources</td>
</tr>
</tbody>
</table>


Angelica Kedzierska – Szczepaniak (2008) in dissertation report titled that “Financial Aspects of Mergers & Acquisitions of companies quoted on the Warsaw Stock Exchange; dean perspective for European programme since 2008.” investigates the comparisons of some Mergers and Acquisitions made all over the world. The study considers the internal risk factors and external risk factors. The study observed that 40% of the transactions failed. The previous research done in Europe and USA shows that many of the Mergers and Acquisitions are destined to fail. The Merger and Acquisition deals have high volume of risk and those risk factors are mainly
influenced by the acquirers. Therefore, mitigating the risk involved in the Mergers and Acquisitions activity is a great task to the modern financial manager. Identify and analysing those risk factors is a major function of the financial manager to evaluate the performance by considering those risk factors. The main goal of the study is to present the most important risk factors of Mergers and Acquisitions transactions.

Chart: 2.1   Risk factors behind acquisition plan average percentage of business response

(Source: Study based on acquiring in mid market Europe made by Goldsmith Agio Helms, January 2006)

The literature contains many examples of studies carried out on the success and failures of Mergers and Acquisitions. While other areas of literature lack clear outcomes and conclusions, however, the key issues frequently quoted in review of
literature as per the primary reasons for relatively unsuccessful results are as listed below:

i. An inability to agree to terms: - The proposed Mergers and Acquisitions may never even be implemented because senior managers in the two companies are unable to agree to terms for the Mergers and Acquisitions.

ii. Overestimation of the true value of the target: - The acquirer often pays more for the target than its actual worth.

iii. The target being too large relative to the acquirer: - The literature suggests that the difficulties associated with Mergers and Acquisitions increase the functions of the relative size of the target.

iv. A failure to realise all identified potential synergies: - The underlying rational behind Mergers and Acquisitions often influenced by the potential to generate and exploit synergies is significantly more difficult than anticipated.

v. An inability to implement change: - Large scale Mergers and Acquisitions generate a considerable amount of change. In Mergers and Acquisitions of equals all sections of each organisation may be subjected to change of varying degree.

vi. External change: - Mergers and Acquisitions logic is sometimes superseded by events. Even the best strategic planners can occasionally fail to see sudden and large scale changes in the external market.

vii. Short comings in the implementation and integration process: - Poor implementation frequently shows up in the literature as a primary reason for failure. The most common reason for poor implementation is inadequate planning and control.

viii. Failure to achieve technological fitness: - It can be extremely difficult to merge two entirely different technological systems. It is very common problem area in Mergers and Acquisitions.

ix. Conflicting culture: - The incompatibility of corporate culture is another reason for failure. It is very common to observe the formation of conflict when two corporate cultures are thrown together with inadequate preparation.

x. A weak central core in the target: - Targets may be unfocused on or there may be problems with the central or core elements in the company.
David. M. Schweiger and Philippe very (2003) in book titled “Creating value through merger and acquisition integration.” Investigated that, target firms have intrinsic value that is based on a firm’s worth as a stand alone entity. This synergy value is based on the cash flow stream it can produce as a going concern. If the acquirer pays more than the intrinsic value based on the market prices then the value is destroyed. Unless, a bidder can utilise the acquisition deal to increase the cash flows of either the seller or bidder, both of them can not create. This concept is called as “Synergy”. The relationship between synergy, price, and value is illustrated in Figure: 2.2

Figure: 2.2  Pricing, Synergy and Value Creation

<table>
<thead>
<tr>
<th>Range of synergy values</th>
<th>Price - 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stand alone value</td>
<td>No synergies are required</td>
</tr>
<tr>
<td></td>
<td>Price - 2</td>
</tr>
<tr>
<td>Must capture some or all synergies</td>
<td></td>
</tr>
<tr>
<td>Overpaid</td>
<td>Price - 3</td>
</tr>
</tbody>
</table>


The figure above illustrates that value can be created when the price paid for a seller (Price-1) is below it is stand alone value. In this case, an acquirer must make sure that the value does not reveal from the target. The price (Price-2) greater than the stand alone value, corporate synergies must be accumulated for value to be realised. In this case, more changes in either the seller, the bidder, or in both entities for cash flows to be increased and value is to be gained. The price (Price-3) beyond all the synergies, the acquirer has no chance of value creation by paying too much than the intrinsic value of the target.

The previous research by Sirower, (1997) has found that, when an acquirer paid more than the intrinsic value of the target as a premium it results in significant
decrease in the value creation. Sirower argues that, the over expectation of an acquirer fails to identify the synergies. It will surely result in lack of value creation and inefficiency of an acquirer. This study focuses on the extent to which acquirers can effectively blend with targets.

David M. Schweiger and Philippe Very (2003) in book titled that “Creating value through merger and acquisition integration.” explain the basic sources of synergy namely, cost synergy, revenue synergy, market power and intangibles.

Cost Synergies: - The main intention of corporate managers is that they always look for increase of cash flow by reducing the costs. It has been the most common synergy and often considered as the easiest type to increase the cash flows and reduce the costs. The cost synergy is classified into two types. They are

i. Fixed cost reduction
ii. Variable cost reduction

The two types of cost reduction technique widely associated are with economies of scale and productivity, increase in purchase power, sale force, distribution optimisation and reduction of transaction costs in the supply chain.

Revenue Synergies: - These are associated with cross selling products or services through complementary sales organisations or distribution channels that serve different geographic regions, customer groups or technologies.

Market Synergies: - These are associated with elimination of competitors and capacity of a market. This is a critical element in many mature markets. It allows acquirers to maintain or increase the prices in the market by improving margins and cash flows.

Intangible Synergies: - These are associated with brand name extension and the sharing of knowledge and know-how. This type of synergy is most difficult to achieve.
Negative Synergies: - It is important to note that Mergers and Acquisitions activities are interventions in organisations that can create disruption that can destroy the intrinsic value of the firm. It is known as ‘value leakage’ or ‘negative synergy’

The author after discussing various synergies, concludes that Mergers and Acquisitions have both positive as well as negative impact on cash flows.

Aiello, Watkins (2001) in research article titled that “The fine art of friendly acquisition.” explains the five distinctive phases of Mergers and Acquisitions negotiating principles:

i. Screening potential deals
   • They look at all potential deals in the market, not just at the deal at hand. They don’t cast strategy aside in the force of an existing opportunity.

ii. Reaching an initial agreement
   • Not to focus on price.
   • To identify the details critical to the success of the deal.
   • To use early negotiations to foster a sense of trust with the target’s top executives.

iii. Conducting with due diligence
    • Looking for accuracy in the details.
    • Deepening the understanding of the target operating managers.
    • Linking due diligence with business planning

iv. Setting final terms
    • Negotiating on several fronts simultaneously.
    • Checking out for alternatives to the deal.
    • Anticipating competition.

v. Achieving closure
    • Overselling to stakeholders.
    • Closing quickly after setting final terms.
Aiello, Watkins (2001) in research article titled “The fine art of friendly acquisition.” explains the following characteristics must for an acquirer for competitive bidding situation by comparing the position with competitors:

- Ability to make quick decisions.
- Ability to realise synergies with the target.
- Attractiveness of currency, in the case of stock-for-stock acquisitions.
- Financing capacity.
- Reputation for treating target’s management with respect and for successful integrating target’s management.
- Reputation for getting deals done.
- Post acquisition performance record.

Nupponen (1995) in article titled “Post acquisition performance: Combination, Management & Performance measurement in horizontal integration.” argues for the evaluation of strategic and organisational fitness. According to the author, acquisition process shall be shown in Figure: 2.3

Figure: 2.3

Acquisition Process

<table>
<thead>
<tr>
<th>Stages in the acquisition process</th>
<th>Performance factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownerships transfer</td>
<td>Strategic planning</td>
</tr>
<tr>
<td></td>
<td>Acquisition</td>
</tr>
<tr>
<td></td>
<td>implementation</td>
</tr>
<tr>
<td>Acquisition candidate is defined</td>
<td>Strategic fitness</td>
</tr>
<tr>
<td></td>
<td>Organisational fitness</td>
</tr>
</tbody>
</table>

Post acquisition integration is started

Post acquisition integration

Timing of Efforts and quality of Post acquisition management
Further, the author also discusses key factors to be discussed on pre Acquisition Planning to reach the synergies.

Figure: 2.4  
Effect of Pre- Acquisition Planning

![Flowchart showing key success factors]

(Source: Nupponen - 1995)

The pre acquisition factors have potential effect on the post acquisition performance. The planning and implementation process takes place up to the view point where the ownership is completed.

Mergers and Acquisitions – Worldwide

The study explored the strategic action of Mergers and Acquisitions. Mergers and Acquisitions are generally driven by strategic objective that must be satisfied by both the buyers as well as sellers. This study is required for the parties who are involved in any one of the activities for one or both the organisations in order to survive. While there are many reasons to attempt Mergers and Acquisitions, these activities must be done through analysing the risks and challenges that the organisation needs to face in the future.

The previous research reported a decreasing trend of Mergers and Acquisitions activities since 2009 as global market risk and the valuation gap changed the mindset of entering deals as well as the frequency of transactions falling. Majority of the small to medium size of the deals decreased because of the emerging global market and the growing opportunity of private equity financing would rapidly increase transactions levels. But the transactions level simultaneously increased as the year improved with “huge inflows” of operational performance in the second quarter of 2013. Global
transactions increased by 5% in the first 3 quarters compared with the year 2012. So, this resulted in continuous increase in the numbers of Merger and Acquisition deals as well as in terms of value.

Several studies observed that Mergers and Acquisitions do not create value. According to a recent study done by KPMG (Klynnyeld Peat Marwick Goerdeler) resulted 85% of Mergers and Acquisitions failed. The total shareholders return of 115 global Mergers and Acquisitions activities resulted with negative 58% according to the study done A.T.Kearney. Above Chart observed that after the industrial policy as well as after the financial crises period the number of transactions became more but the total value of the deal became declined.

Source: Institute of Merger, Acquisition and Alliances
Global transaction levels were influenced by the United States which accumulated more than 40% proportion of the market share of worldwide Mergers and Acquisitions. United States has the major portion of market share due to high value where as the non-US firms have tremendous growth with big numbers of players. From the above chart results that the highest percentage of expected Merger and Acquisition activities are held in Singapore, United Arab Emirates, Spain, Peru, Netherland and Ireland. The rest of non-US firm’s resulted by less than 50% expected Merger and Acquisition activities in 2013.

The telecom media and technology sector has dominated with high value activities promoting to sectoral spurt of 116.4% on quarter one to quarter three in 2012. Half of the highest deals of US domestic accounted for 41.2% of market share. The total number of cross border activities value rose by 8% in the early three quarters in 2013.
According to Thomson Reuters of 2011 Mergers and Acquisitions transactions are mainly associated with financial services, power and energy sectors. The announced Mergers and Acquisitions deals totalled $611 billion in the second quarter and the transactions declined by 23% compared to the previous quarter. In 2011 big transactions was AT&T’s acquisition of T-Mobile for $39 billion that took place in USA. And the biggest deal of the same quarter was Johnson & Johnson’s $20.8 billion acquisition of Synthes Inc in April-2011. The above Chart-2.4 deals with expected cross border as well as domestic Merger and Acquisition activities. It is clear from the figure-2.7 that the major activities are held by US and UK, but in BRIC countries have high growth percentage in domestic rather than cross border Merger and Acquisition.

The worldwide Mergers and Acquisitions annually totalled a volume of $2.33 trillion and as a small increase from the activities volume of 2012. The number of deal counts fell from 27965 to 27830 as the average transaction size increased by 4.5% in 2013. America’s contribution to the global volume reporting 61% had a transaction volume of $1.42 trillion in 2013.

The financial sector was the most dynamic sector in term of Mergers and Acquisitions in 2013, focussed in the quarter – 4 by American Realty Capital’s acquisition of Coal Real Estate investment for $9.85 billion. It was the second biggest transaction of the quarter.
The telecom sector has declined by 11% of the total volume. The telecom sector has reported the biggest growth by deal volume year over year rising nearly 42% from 2012. The reason for the hike was an agreement of buy the Vodafone group stake by Verizon communications Inc for $130.1 billion to its wireless joint venture business. From the above Chart – 2.5 observed that the high volume deals are occurred in financial, communications and non-cyclical industries in the year 2013 and also the low volume of Merger and Acquisition transactions are observed in diversified, utilities and basic materials resulted less than 5%.

The top private equity target industry by volume was the consumer non-cyclical industry. This industry investment increased by $26.2 billion year over year, and the major contribution from 3G Capital and HJ Heinz was acquired by Berkshire Hathaway’s for $27.4 billion. Basic material industry gained large premiums with a yearly average of 54.4% in 2013 compared to 28.4% in the year 2012.

Trends of Mergers and Acquisitions in India

In recent years the need of outsourcing financial resources has begun to fall and resulted as accelerating the global Mergers and Acquisitions activities. India has shown a positive strength in global financial outsourcing. The private equity firms and investment bankers are major destinations for increasing Mergers and
Acquisitions. In India, there is a rapid increase in financial outsourcing after the deep struggle and global financial melt down.

In India, Merger and Acquisition deals volume increased to $23.4 billion in the second quarter of 2011. Mergers and Acquisitions volume is slightly less than the transaction volume of 2007 second quarter. The top acquirer of the Indian market is the United Kingdom and followed by the United States and Germany. The total deals were worth $15 billion, in which the major transaction of $9 billion from the deal was realised by British Petroleum against Reliance Petroleum’s 23 Oil and Gas blocks. In the below chart-2.6 observed that India has very less growth compared to Brazil, Russia, China and US due to the impact of financial crisis, strict policies and procedures, scrutinies and changes in levy results the growth rate became fall from 40% to 11% within 3 years.

Chart: 2.6 Total M&A transactions in BRIC countries 2001-2011

(Source: Grant Thornton Report – 2012)

According to the Grant Thornton Report-2012 the first quarter Mergers and Acquisitions value declined significant by 23%. The value of the previous years is deal was $5.3 billion according to Grant Thornton Deal Tracker. The number of
transactions was 128 against 131 Mergers and Acquisitions deals in the comparable period. In 2013 the number of deals as well as the total volume of the deal comparatively declined. The Mergers and Acquisitions of Indian firms have nearly 500 deals of the value close to $30 billion.

Jung Hur.et.al (2011) this study is an empirical explanation to the observed disparity in outbound Mergers and Acquisitions inflows of developing and developed countries over the past two decades. The study shows that most of cross border Mergers and Acquisitions has flown toward developed countries. These results implied that, with the current speed of institutional reforms in some developing countries, the disparity is likely to persist. The previous research shows that the effect of institutional reform on cross- border Mergers and Acquisitions in developing countries is smaller than in developed countries.

Harpreet Singh Bedi (2010) in the research article titled that “Mergers & Acquisitions in India- An analytical study.” investigated the present trends and progress of Mergers and Acquisitions by comparing the number of deals and number of transactions based year wise as well as industry wise. The findings suggest that increase in the total amount of deals was by 615%. The total of Merger and Acquisition deals of the manufacturing sector increased by 27.2% in the service sector which increased tremendously by 1.218%.

Key motives cause for Mergers and Acquisitions

The literature suggests that managers have various motives for Mergers and Acquisitions. These motives were classified into four broad categories: namely economic motives, synergy motives, strategic motives and managerial motives. It holds that some factors do contribute to a firm’s competitive advantage resulting in a positive performance. In some cases other factors can have negative effects on organisational competitiveness and performance. Two areas of motives are suggested, namely; efficiency motives and strategic motives. The efficiency motives are concerned with development of various factors, such as managerial synergies or even the use of firm specific assets. Such motive includes increasing profitability, pursuit of market power, economies of scale, cost reductions and creation of barriers to entry.
Ye Cai, Merih Sevilir (2012) examines Merger and Acquisition activities with a board connections between an acquirer and the target firm. The study shows that acquirers obtain significantly higher announcement return. “The first type is where the two firms share a common director before the deal announcements; this is referred to as first degree connections”. The second type is where one director from the acquirer and one director from the target firm have been serving on the board of a third firm before the deal announcements. This is known as second degree connections”.

The board connection between two firms may improve information flow and communication between the firms, and increase each firm’s knowledge and understanding of the other firm’s operations and corporate cultures. The study found that the average acquirer’s abnormal return from 2 days after the acquisition announcement is 0.12% in the first degree connections. The study shows that the takeover premium in first degree connections is lower. One possibility is that the more direct nature of first degree connections may result in better deals with greater possibility.

T. B. Rubinshtein (2011) explains that the decomposition of the synergies must be taken into account. The effect for the acquired company is determined by the size of which is 20%- 40%. The effect for the acquiring firm is the same synergetic effect, less premium and other costs. The study reveals that the process of Mergers and Acquisitions in the industry develops especially in the post crisis period which determines the importance of methods for assessing their effectiveness for the parties to Mergers and Acquisitions.

Valdimir.I.Ivaanov , Fie Xie (2010) examined whether mergers add value to acquired companies. The results suggest that the target firm’s yields evidence is highly consistent with that based on IPO Valuations: target firms received higher takeover premium.

David Lewis (2010) explained that a company’s profits significantly increase, to increase the cash balances and payoff debt and deal with internal affairs rather than bringing on new entities and those have a bond with both by financially and managerially to bring on growth through Mergers and Acquisitions.
Andreas Keller (2010) investigated the competition effect resulting from the horizontal mergers; the efficient hypothesis, which claims anti-competitive effects due to increased concentration. It is therefore not possible to oppose the view of the competitive authorities who predicted an overall positive effect. The study shows that increase in market power resulted from merging companies becoming more efficient.

Rabi Narayan Kar, Amit Soni (2009) investigated the Merger and Acquisition trends for different sectors of the Indian industry. The results found that Mergers and Acquisitions have been beneficial in the sense that Indian companies grew in size, and attained better market share. Throughout the period of the study turnover increased after the companies experienced Mergers and Acquisitions.

Darren J. Kisgen, Jun “QJ” Qian, Weihong Song (2009) examined the use of fairness opinion in Merger and Acquisition activities. They were the first to examine the effects of the opinions, as well as the reputation of issuing advisors, on the completion and performance transactions. Approximately 80% of targets and 37% of acquirers obtained third party assessment of the fairness of Mergers and Acquisitions. These fairness opinions do not affect deal outcomes when used by targets, but they affect deal outcomes when used by acquirers. The acquirer’s announcement period return is 2.3% lower if the acquirer has a fairness opinion especially if the acquirer pays a high premium, indicating that investors are sceptical of these transactions.

Fairness of opinions are used to provide legal protection for management and board in Merger and Acquisition transactions particularly in these transactions in which the potential legal risk is higher. The finding suggests that fairness of opinions on the acquirer side significantly affect transactions outcomes. An acquirer with a fairness of opinion pays a lower premium for the target. Fairness of opinions is indicative that these structures are more favourable to acquire shareholders. On the other hand, the use of an acquirer fairness opinion increases the likelihood of deal completion and is associated with lower announcement period returns as compared to deals without fairness of opinion.

From the overall literature survey the following key motive factors are identified:
<table>
<thead>
<tr>
<th>Sl. no</th>
<th>Sources of Gains</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Strategy</strong></td>
<td>• Develops a new strategic vision.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Achieves long-run strategic goals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Acquires capabilities in new industry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Obtains talent for fast moving industries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Adds capabilities to extend role in technologically advancing industry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Quickly moves into new products, markets.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Applies a broad range of capabilities and managerial skills in new areas.</td>
</tr>
<tr>
<td>2</td>
<td><strong>Economies of Scale</strong></td>
<td>• Cuts production costs due to large volume</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Combines R&amp;D operations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Increases R&amp;D at controlled risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Increases sales force</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Cuts overhead costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strengthens distribution systems</td>
</tr>
<tr>
<td>3</td>
<td><strong>Economies of scope</strong></td>
<td>• Broadens product line</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Provides one – stop shopping for all services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Obtains complementary products</td>
</tr>
<tr>
<td>4</td>
<td><strong>Extend advantages in differentiated products</strong></td>
<td>• Large size can afford high-tech equipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Spreads the investments in the use of expensive equipment over more units</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to get quantity discounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Better terms in deals</td>
</tr>
<tr>
<td>5</td>
<td><strong>Advantages of size</strong></td>
<td>• Operating efficiencies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Faster tactical implementation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Incentives for workers- rewards</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Better utilisation of resources</td>
</tr>
<tr>
<td>6</td>
<td><strong>Best practices</strong></td>
<td>• Increases in the market share</td>
</tr>
<tr>
<td>7</td>
<td><strong>Market expansion</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>
| **8** | **New capabilities, managerial skills** | • Obtains access to new markets  
• Applies a broad range of capabilities and managerial skills in new areas  
• Acquires capabilities in new industry  
• Obtains talent for fast moving industries  

| **9** | **Competition** | • Achieves critical mass early before rivals  
• Anticipates acquisition by competitors  
• Competes on EBIT growth for high valuations  

| **10** | **Customers** | • Develops new key customer relationships  
• Follows clients  
• Combined company can meet customers’ demand for a wide range of services.  

| **11** | **Technology** | • Enters technologically dynamic industries  
• Seizes opportunities in industries with developing technologies  
• Exploits technological advantage  
• Adds new R&D capabilities  
• Adds new key patent or technology  
• Acquires technology for areas behind lagging  

| **12** | **Shift in industry organisation** | • Adjusts to deregulation- relaxing of government barriers to geographic and product market extensions  
• Change in strategic scientific industry segment  

| **13** | **Adjust to industry consolidation activities** | • Eliminates industry excess capacity  
• Need to cut costs  

| **14** | **Shift in product strategy** | • Shifts from over capacity area to area with more favourable sales capacity.  
• Exits a product area that has become commoditised to area of speciality.  

| **15** | **Industry roll-ups** | • Taking fragmented industries- rolling up many industries into large firms, obtaining the benefits  

<table>
<thead>
<tr>
<th></th>
<th>Globalisation</th>
<th>of strong and experienced management teams over a large number of smaller units.</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td></td>
<td>• International competition</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Size and economies of scale required for effective global competition</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Growth and opportunities outside domestic markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Diversification</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Product line</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Geographically- enlarges markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Reduces systematic risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Reduces dependence on exports</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Favourable products inputs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Obtains assured sources of supply</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Labour</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Need for local manufacturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Improve distribution in other countries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Political/ Regulatory policies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Political/ economic stability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Government policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Investment in a safe, predictable environment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Taking advantage of common markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Relative exchange rate conditions</td>
</tr>
<tr>
<td>17</td>
<td>Investment</td>
<td>• Acquire a company, improve it, sell it</td>
</tr>
<tr>
<td>18</td>
<td></td>
<td>Prevent competition from acquiring target company</td>
</tr>
<tr>
<td>19</td>
<td></td>
<td>Create antitrust problem to deter potential acquirers of firm</td>
</tr>
<tr>
<td>20</td>
<td></td>
<td>Ability to get tax advantages</td>
</tr>
</tbody>
</table>

Manish Khatri (2008) analysed the significance of Mergers and Acquisitions on characteristics, measuring the performance in terms of size, profitability and risk of the firms based on pre and post Mergers and Acquisitions period. The study reveals that an increase in the number of Mergers and Acquisitions were due to economic growth, international commodity prices, growth of infrastructure and cheap labour in
the international context. The result shows that the loss at the earlier stage proved to be a strategic value in the long run.

Sathish Kumar, Lalit K.Bansal (2008) concludes that corporate enterprises can not take it for granted that synergy will be generated and profitability increase simply by going in for Mergers and Acquisitions. The results indicate that in several cases of Mergers and Acquisitions the bidding firms were able to generate synergy in the long run that may be in the form of higher cash flows, more business, diversifications and cost cuttings.

Viktor Brage (2007) measures the value creation through Mergers and Acquisitions by comparing related and unrelated firms. The studies aimed to empirically test whether unrelated firms create greater value than related Mergers and Acquisitions. The sample consisting of 15 related and 15 unrelated Mergers and Acquisitions was selected and the difference between benchmark and post consummation values of intellectual capital served as a tool of measuring the value creation by each Mergers and Acquisitions deal.

Table: 2.3 Consolidations between Organic Growth versus Mergers and Acquisitions

<table>
<thead>
<tr>
<th></th>
<th>Favours Organic Growth</th>
<th>Favours Mergers and Acquisitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Behaviour</td>
<td>• Low switching cost</td>
<td>• High switching cost</td>
</tr>
<tr>
<td></td>
<td>• Low Acquisition cost</td>
<td>• High Acquisition cost</td>
</tr>
<tr>
<td></td>
<td>• High growth of customer base</td>
<td>• Low growth of customer base</td>
</tr>
<tr>
<td>Time to Grow</td>
<td>• Longer time frame to grow</td>
<td>• Shorter time frame to grow</td>
</tr>
<tr>
<td></td>
<td>• More uncertainty allowed</td>
<td>• Less uncertainty allowed</td>
</tr>
<tr>
<td>Resource Limitations</td>
<td>• Few resource constraints</td>
<td>• Limited input resources</td>
</tr>
<tr>
<td></td>
<td>• Has new technology</td>
<td>• Need to acquire new technology</td>
</tr>
</tbody>
</table>

C. Ranganathan (2001) examined the value created for over 80 firms that were involved in Mergers and Acquisitions -1999 using event study methodology the market model that is used for estimating stock prices. The study found that Mergers and Acquisitions create significant and positive impact on the shareholders wealth of acquiring firms. This study suggests that Mergers and Acquisitions to be viable of mean corporate diversification strategies. Firms lacking resources for succeeding in firm need to consider as an alternate means of bridging their resources and capabilities.

John.T.et.al (2001) observed that, the Merger and Acquisition activities are a strongly auto-correlated process. The non periodic cycle in the time series of Mergers and Acquisitions activity can be attributed to the presence of long memory dynamics. This evidence of long term dependence is robust to the estimation method employed and potential presence of shifts in the mean of the series. This study suggesting that long memory is a genuine, essential feature of data. Modelling mergers activity as a long range dependent process provides insights into the persistence of shocks, which dissipate at the low hyperbolic rate of decay. Movements in Mergers and Acquisitions activity appear to be influenced not only by their present history but also by realisations from the distant past. Persistence in mergers activity is consistent growth.

Robert G. Eccles et.al (2001) explains that the purchase price of an acquisition will nearly always be higher than the intrinsic value of the company- the price of its stock before any acquisition intentions are announced. The key is to determine the difference in “synergy value”- the value that will result from improvement made when the firms are combined. This value accrues to the acquirer’s shareholders rather than the target shareholders. The more synergy value in a particular case of acquisition by paying maximum price is justified by the acquirers. The usual expectations are when someone negotiates to buy a privately held company or in a stock-for-stock merger transactions or when the two firms are of comparable size and value. However, premium can even be paid in stock deals, especially when one company is much smaller than the other or when a disproportionate amount of the synergies are obtained from one of the firms.
Positive impact of Mergers and Acquisitions

K. B. Singh (2013) study aimed to analyse the profitability and leverage position by comparing the key financial ratios during three years prior to and a three year post merger period. These ratios were compared and tested for any statistical significant difference by using paired-T-test. The study found that there was long term improvement in financial performance of merging companies.

Bigyan Prakash Verma, Pranab Maji, Santhosh Nair (2013) in their study discovered that value addition has more to do with operational efficiency of the banking company in particular. The researcher thought that, economic growth may make its constituents to tend toward over-optimism and then price their actions to the real economic world. Most of times, over confidence leads to bad risk mitigation/management practices and thus leads the financial institutions to stare at mounting loss that culminated due to their ill-practices.

Olagunja Adebayo, Obademi Olalekan (2012) attempted to assess the implications of Mergers and Acquisitions of commercial banks in Nigeria on their profitability and other associated measure of performance. The result of the analysis revealed that there is a significant relationship between pre and post Mergers and Acquisitions capital
base of commercial banks and level of profitability. There is a significant difference between pre and post Mergers and Acquisitions EPS. Mergers and Acquisitions have also increased the capitalisation of commercial banks with evidences of changes in companies’ ownership share, increase in the cost of services and changes in their bank lending rates. The study concluded that the Mergers and Acquisitions programme has improved the overall performance of banks significantly and also has contributed immensely to the growth of the real sector for sustainable development.

Neelam Rani.ESQ, et.al(2012) examined the return of shareholders of acquiring firms in India during the period 2003-2008. Considering the abnormal return of Mergers and Acquisitions before and after five years had been examined. The results indicate that Mergers and Acquisitions generate statistically significant abnormal returns on the announcement as well as higher post Mergers and Acquisitions returns for shareholders of the acquiring firms. The Mergers and Acquisitions financed with cash, experience higher returns than the acquisitions financed with stock.

N.M Leepsa (2012) traced the difference in post merger performance compared with pre merger in terms of profitability, liquidity and solvency. The study observed that the combined cases of mergers, return on capital employed has gone up in the post Mergers and Acquisitions period. Ignoring the statistical significance, the liquidity, debt equity ratio and interest coverage ratio went up where as working capital turn over and return on networth declined. The study confirmed that the financial performance was not the only parameter for Mergers and Acquisitions success.

Iqbal Mahamood et.al (2012) investigated how Mergers and Acquisitions impact share price. It covered 8 samples of companies which passed through Mergers and Acquisitions phase in Pakistan during the years 2000-2002. All the companies listed on the Karachi Stock Exchange were observed through the study. Results indicate that positive changes resulted in the share price of five companies and negative impact in the share price of the two companies were found one month after the merger. So, the result indicates that Mergers and Acquisitions positively affect the share price of companies.

M.C. Sharma, Mahima Rai (2012) found that the value of merger lies in its synergies, but these synergies are not achieved over a short period of time. The
analysis of performance using EVA, it can suggest that EVA is a good method to study the long term effect of the efficiencies of the merger. It gives a better measure of the value which is added as a result of the merger. The comparative analysis of EVA of banks reveals that all the banks added value over a long term period.

Table: 2.4 Attributes and Results of successful Acquisitions

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>An acquired firm has assets or resources that are complementary to the acquiring firms core business</td>
<td>High profitability of synergy and competitive advantage by maintaining strengths.</td>
</tr>
<tr>
<td>Acquisition is friendly</td>
<td>Faster and more effective integration and possibly lower premiums.</td>
</tr>
<tr>
<td>Acquiring firm conducts effective due diligence to select the target firms and evaluate the target firm’s health</td>
<td>Firms with strongest complementarities are acquired and over payment is avoided</td>
</tr>
<tr>
<td>Both firms are financially slack</td>
<td>Financing is easier and less costly to obtain.</td>
</tr>
<tr>
<td>The Merged firm maintains a low to moderate debt position</td>
<td>Lower financing cost, lower risk (bankruptcy) and avoidance of trade-off that are associated with high debt.</td>
</tr>
<tr>
<td>The Acquiring firm has sustained and consistent emphasis on R&amp;D and innovation</td>
<td>Maintains long term comparative advantages in markets.</td>
</tr>
<tr>
<td>The Acquiring firm manages change well and is flexible and adaptable.</td>
<td>Faster and more effective integration facilities achievement of synergy</td>
</tr>
</tbody>
</table>


Ramakrishnan(2010) observed that the expectation, on announcement of a Mergers and Acquisitions of the firms being merged with a better performing firm and being managed more competently lead to a positive revaluation in the market resulting in wealth gains. It can be hypothesised that an investor’s expectations might be affected by a more urgent aspect of the Mergers and Acquisitions programme in economies of scale and performance, operating efficiently and taxing the managerial
energy benefits. This appears to be supporting the managerial synergy theory rather than the managerial disciplining theory about market expectations on Mergers and Acquisitions announcements.

Prakash Singh (2009) examined the profit efficiency and cost efficiency of the acquiring firm to see whether through consolidation there were gains or not. The study found that Mergers and Acquisitions do not seem to impact the cost and profit efficiency in an adverse manner and loss which incurred initially was recovered quickly in the long run. The study suggests that a lot of hype surrounding Mergers and Acquisitions in India should be driven from bottom to top and not from top to bottom. Mergers do not create value unless there is sound economic rationale and synergies that claimed but not actually realised.

Sathish Kumar, Lalit K.Bansal (2008) found that out of 52 Mergers and Acquisitions cases, more than 60% of the cases showed a significant improvement in financial performance in post Mergers and Acquisitions period of the same companies.

Sang-Yong Tom Lee, Kim Seng Lim (2006) investigated the impact of Mergers and Acquisitions on value of IT and Non-IT firms. The result shows that the Mergers and Acquisitions announcements create significant gains in firm value. The study finds stronger support for positive impact on gains in the firm value among IT and Non-IT firms. Based on the results it suggests that the smaller strategic alliances partners are better than their large partner. However, the study fails to find any significant difference in impact of firm value between Mergers and Acquisitions and joint ventures.

Negative impact of Mergers and Acquisitions

Abhishek Raghuvanshi, Anvitha Raghuvanshi (2014) investigated the factors that have implications for shareholders gains on the announcement of acquisitions for both the target and acquiring firm. This finding suggests the following points:

a) The acquirers usually misjudge the benefits that drive out of mergers and the same may be noted by the market. Acquirers’ shareholders may not be rewarded with capital gain by the market when such firm decide to go for acquisition. The gains are very small.
b) Higher premium being paid may not be viewed adversely by the markets for acquiring firms.

c) Higher premium mean more returns for the target firms, and thus, they can earn large gain by negotiating for higher premiums from the acquiring firms.

d) Acquiring values firms may stand in good stead in terms of gaining from acquisitions, as compared to growth or glamour firms.

e) Market may be viewing acquisitions of relatively smaller companies more favourably than those large firms.

Maria Evelyn Jucunda.M, Sharon Sophia (2014) in their study aimed to find out whether acquirers add value. The result shows that acquirers have a neutral effect on the Indian stock market. The finding suggests that acquirers using stock as a method of payment no longer receive negative returns. This is an important finding as it nullifies the classical theories in the method of payment literature, which suggests that acquirers using stock will receive negative returns. The results might be due to the Hubris effect, which states that over presumption of bidders about the targets, will lead to over payment for the targets leading to negative returns.

Kanika, Nancy (2013) this study analysed and compared the pre and post Mergers and Acquisitions financial performance. Mergers and Acquisitions are not leading to a significant change in the performance of firms. Also the overall impact of these acquisitions on the firm even though not significant, has been positive for at least one of the parameters of all the firms. It is not easy for the company to regain that amount of money in a short span of few years.

Indumathi.G (2013) studied the wealth of both acquirer and target companies in the pre and post merger period. All the sample merged companies did not achieve significant t-value for the all activity ratios. The analysis found that there is a better combined performance of the acquirer and target companies than the industry in respect of solvency position during the post merger period and notify that all the sample companies did not perform better than the industry in respect of price earning ratio. The analysis is to support the findings of existing research that the acquirer companies always benefited more than the target companies in the merger event.
S. Padmavathi et al. (2012) examines that Mergers and Acquisitions announcement have an impact on stock returns. An event study conducted to find out abnormal gained by the 87 companies listed in BSE which involved Mergers and Acquisitions activity during the year 2010. The study involved a calculation of Abnormal Return (AR), Average Abnormal Return (AAR) and Cumulative Average Abnormal Return (CAAR). This study found that the acquiring firm shareholders were not getting a significant positive cumulative average abnormal return from the announcement of mergers. This suggests a further research need to be undergone to analyse the other factors like profitability ratios.

H. Kentbaker et al. (2012) investigates the relationship between post operating performance and market reactions to Mergers and Acquisitions announcements with a set of data that involves completed Canadian Mergers and Acquisitions deal from 1993-2003. The study considers the role of board structure in shaping relationship between post operating performance and Mergers and Acquisitions performance. The study examines whether the negative market reactions are likely due to the anticipation of a decrease in operating performance of acquiring firms with past superior operating performance. This study results that a significant drop in long term operating performance for those acquiring firms with superior operating performance before acquisition. Investigation of the moderating effort of board structure finds that the presence of insider directors helps to ease the negative perception of Mergers and Acquisitions made by good performers.

Christopher Ratcliffe, William Dimovski (2012) Meta analysis shows target firm experience higher wealth gains by accepting cash financed deals; acquirers enjoyed improved abnormal returns when the target is privately listed firms. A sample of 35 observations of bidders and 25 observations of targets were analysed. The study results that bidding firms need to be aware of public target firms which have a negative wealth effect for their shareholders while private target firms have generally provided positive returns.

Konstantinos Papadatos (2011) investigates the wealth effects on Greece acquiring companies with the sample size of 38 cases listed in Athens Stock Exchange. This study aims to evaluate the significant effect on the value of the firm. Finding reveals that negative abnormal returns for acquiring firm in the immediate
post announcement period. The effects were less in vertical acquisition and more in conglomerate acquisitions.

Jeffry Netter, Mike Stegemoller, M. Babajide Wintoki (2011) investigated a substantially large sample of Mergers and Acquisitions activity than those found in previous studies, including many deals usually screened out. This study found that the correlation of Mergers and Acquisitions activity is much less in full sample than others found in more restrictive samples. The aggregate market, Mergers and Acquisitions activity increases overall wealth and that acquirer’s gain in most takeovers even though acquirer announcement returns have decreased threefold from 1992-2009. This result is perhaps inconsistent with the view that acquirers do not gain in takeovers. The study found evidence that, the stock deals associated with negative Abnormal Returns for the acquirers. In activities which considers Stock as a method of payment in Mergers and Acquisitions is used more than cash deals associated with the highest cumulative abnormal returns. This study concludes that use of stock as a payment method is as frequent in the greatest value-reducing deals as in the deals that create the most value.

Qingzhong Ma et.al (2011) investigated the impact of mergers on the value of the firm by the changes in their intrinsic value. The study found that mergers destroy industry adjusted intrinsic value on average. Dependent on the literature on post mergers show that they have failed to achieve a gain to merged firms. The results suggests that overvaluation is measured against an estimated book value of equity, whether Price to Value (P/V) or Price to Book (P/B) used as a substitute for overvaluation. The study reveals that the decline in intrinsic value in post completion activity are due to both shrink in predicted earnings and to a smaller degree boost in forecast overall cost of capital.

Ismail.et.al (2010) examined after Mergers and Acquisitions operating performance of Egyptian firms using profitability, efficiency, solvency, liquidity and cash flow position. The results found that Mergers and Acquisitions have contributed in increasing the firm’s profitability in the infrastructure sectors whereas in the technology sector it has not. In both the sectors, Mergers and Acquisitions failed to improve the operational efficiency, solvency liquidity and cash flow position.
Maria Goranova, et al. (2010) study considers owners with a stake in both bidding and the target firm in the context of corporate integration. The results suggest that institutional ownership overlapped in the Mergers and Acquisitions context creates a unique agency problem. Also it was found that there is an increase in number of overlapping institutional owners. It results that overlapping institutional ownership relates negatively to the acquirer’s returns and that some corporate governance mechanism can raise this problem. The acquiring firms are experienced in decreased value to the shareholders through Mergers and Acquisitions activities.

Subhan Ullah, et al. (2010) examined that, the corporate marriage is long lasting and productive in terms of value to the firm through investigating the pre and post mergers performance. The analyses consider the Net Present Value (NPV) approach of valuation. The result suggests that, the stock prices under perform both in absolute and relative terms against the market index. The mergers have resulted in a substantial Research and Development (R&D) reduction and downsizing instead of a potential employment haven.

N.K. Chidambaran, Kose John, et al. (2010) examined the influence of merger intensity on the means of payment, acquisition premium and the returns to target and acquirer shareholders. The study found that acquirers have higher valuations during merger waves and the acquisition premium is also higher in the hot merger market. However, the results suggest that the means of payment is only marginally significant in explaining the premium. Stock financing is more common after a stock price run-up for the acquiring firm in the market. Acquirer returns are lower in hot merger markets and for stock financed mergers. This result is consistent with the argument that the market interprets the announcement of mergers as a signal of overvalued equity. Few researchers found that strong support for the argument that misevaluation is the key component that drives Mergers and Acquisitions activity.

Rabi Narayan Kar, Amit Soni (2009) observed that Mergers and Acquisitions did not have any impact on return on networth for the study period. The unimpressive findings might result due to the increase in the leverage and interests costs as companies need substantial funds to complete the deals. Most of the Mergers and Acquisitions in India were focused on assets growth restructuring, rather than focusing on improving operational efficiencies.
Ashutosh Kumar Sinha (2007) analysed the long term and short term acquirers return in developed market Mergers and Acquisitions. This study found the short term cumulative return for the sample was positive but not significantly different from zero, whereas the long term cumulative return as negative, but also statistically not found to be significant. The acquisition experience of such firms in developed markets may turn out to be an important factor mitigating the liabilities of origin faced by emerging economy acquiring firms in developed markets.

Chirstian Tuch, Noel O’ Sullivan (2007) explains that the Mergers and Acquisitions have long been appreciated that the intensity of Mergers and Acquisitions activities varies over time. Not surprisingly, research has now begun to focus on the impact of acquisition timing on the subsequent performance of the acquirer. The identification of weaker post-bid performance for acquisitions undertaken towards the end of merger waves seems to suggest managers of companies making such acquisitions may be less discriminating in choosing their targets. A related line of enquiry identifies a negative link between pre-bid performance and post-acquisition performance suggesting that managers in companies with relatively high market valuation appear to pursue particularly damaging acquisitions.

Weston et al (2004) explains the relationship between motives of Mergers and Acquisitions transactions and gains to the target, the bidding company and newly combined company. The following table investigates the different pattern of gains in Mergers and Acquisitions.

Table: 2.5 Relationship between the motives of Mergers and Acquisitions and gains

<table>
<thead>
<tr>
<th>Theory</th>
<th>Combined gains</th>
<th>Gains to target</th>
<th>Gains to bidder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency/synergy</td>
<td>Positive</td>
<td>Positive</td>
<td>Non-negative</td>
</tr>
<tr>
<td>Agency costs</td>
<td>Negative</td>
<td>Positive</td>
<td>More negative</td>
</tr>
<tr>
<td>Hubris</td>
<td>Zero</td>
<td>Positive</td>
<td>Negative</td>
</tr>
</tbody>
</table>


Megginsion, W, A. Morgen, L. Nail (2004) examined the impact/relationship of the Mergers and Acquisitions by considering the abnormal return and market to
book value for evaluating long term performance. The results have identified the following a) the primary results are determinant of long run performance in the degree of changes in firm focus b) an average of 10% decline in the firm focus results in 9% loss in relative shareholders wealth, firm value discounted by 4% and 1.2% decrease in EBIT c) cash – financed merger outperform stock – financed merger in the operating performance. Study results indicate that there is no significant relationship between long term post merger performance and both managerial resistance and time period. Hence there is no evidence found to support that glamour out performs value acquirers.

Magnus Bild (2002) investigates the impact of bid premium on fundamental value creation, using the income approaches. The study found that the fundamental valuation of acquirers was significantly lower after the acquisition than before the acquisition. The acquirer value distraction relative to control firms corresponds to 30% of their pre- acquisition market value. The difference in performance is not driven by lower returns on equity instead, the deduction of goodwill expenditure which is not capitalised at the time of acquisition.

Gort (1969) argues that increase in the variance of forecast profitability, causes divergence in firm valuation between shareholders and non- shareholders. The means of both the overall distribution of firm value and that of current shareholders change by the same proportion the likelihood that current shareholders may under value activity. Key to this logic is the assumption the dispersion of the forecasts (regarding Profitability) made from post- distribution information is greater than those that use pre- disturbance information. This framework suggests that substantial amount of post disturbance information would have to accumulate before post information will be a reliable predictor for the future. Hence, there may be long periods of time where sizable discrepancies in valuations between stockholders and non- stockholders may remain, feeling the observed persistence of Mergers and Acquisitions activity.

Research gaps

- The previous studies analyse the performance by considering equal time limit for long term as well as short term. Therefore, this research analysis depend on the
long term performance in terms of value added/ shortfall by comparing three years before the acquisition and three years after the acquisition shows that acquirers of targets firms improve the economic value added as the value addition as a result of the acquisition or not.

- Mergers and Acquisitions create a value for the acquiring firm in terms of short term profitability and operating performance but generally struggle to realise longer-term value. This is an outwardly contradictory result which can perhaps be explained by the timing issues surrounding the deals.

- Previous research had mainly focused on ascertaining whether or not, acquisitions create value. It seems there is some support for a positive, negative and in few cases the results are contradictory in most of global mergers and acquisitions. Therefore, this study focuses on investigating the impact of Indian acquiring firms on value creation matters.

- Performance measured by long run event studies is overwhelmingly negative, while the evidence using accounting performance measures are mixed. There is no evidence that Mergers and Acquisitions value of firm improves overtime. Indeed, there is some evidence that more recent Mergers and Acquisitions may have been the most detrimental to shareholders wealth. Hence, this study confined to 3 years before acquisition and 3 years after acquisition to reduce contradictory and financial tools are confined to profitability, operating and leverage position for evaluating the value of the firm.

- According to the previous studies, the observations of firm value are few. In those few studies are normally considered the market capitalisation and enterprise value for evaluating the firm performance and firm value. Therefore, this study has mainly focused on Economic Value Added (EVA) as a performance metric to identify the value added or shortfall in the post period of Mergers and Acquisition. Based on the economic value added model, the calculations are done to find out Firm Value, Economic Value Added and Value Added/ Short Fall. The calculated value it helps analyse the relative objectives which are framed.