Chapter VII
Summary of Findings and Conclusion
CHAPTER VII

SUMMARY OF FINDINGS AND CONCLUSION

7.1 INTRODUCTION

For more than a century, dramatic surges in M & A activity have come and gone. Many theories have been advanced to explain why M & A take place. The operating synergy theory postulates that economies of scale and/or scope help merging firms to achieve levels of efficiency in excess of the sum of the combining parts. Mergers have also been explained as a rapid means for firms to deal with powerful change forces. Some attribute mergers to the agency problem of management. Mergers face significant challenges. The combination of organisations is a difficult undertaking. Firms should use a careful due diligence process to discover not only legal factors, but also potential cultural and business problems that may emerge when firms combine. Slow and ineffective integration has destroyed value in combining firms. The present study was undertaken on the subject to understand the causes and implications of M&A and the study had come to certain conclusions. The present chapter is organised as follows: -

7.1 INTRODUCTION
7.2 SUMMARY OF FINDINGS
7.3 CONCLUSION
7.2 SUMMARY OF FINDINGS

The key findings of the present study have been summarised as follows:

1. The first objective was to find out if M & A led to operational and financial synergy in the post merger period. It was observed that, on an average, the acquirer or acquiring firms were high growth firms with higher liquidity as compared to their industry.

2. The acquired firms on the other hand, were firms with performance at industry levels and with liquidity lower than industry levels.

3. When the inter-firm comparisons between the merged firms were studied, it was found that there was no significant difference between the acquired and acquiring firms regarding profitability, leverage, liquidity and tax provision.

4. As far as the impact or effect of merger on the acquiring firms was concerned, it was found that the growth in the total assets of the acquiring firms decreased after merger.

5. However, there was no significant difference in the leverage and liquidity ratios in the post-merger period of the acquiring firms.

6. Thus, it was concluded that M & A have made no significant impact on the operational and financial synergies of merging firms.
Therefore, the null hypothesis No. 1 that M & A do not lead to operational and financial synergy was proved correct and accordingly accepted.

7. The next objective was to see if diversified mergers led to risk-reduction or not. From the analysis it was seen that there was no significant difference between the mean variabilities of the acquiring and simulated firms both in the larger (all firms) and smaller sample (diversified mergers only). Similarly, there was no significant difference between the mean variabilities of simulated and high variance firms both in the larger and smaller samples.

8. Thus, it was concluded that the null hypothesis No 2 that diversifying mergers do not lead to risk-reduction was proved right and accordingly, was accepted.

9. Another objective of the study was to see if diversified M&A have done better than non-diversified M & A. To achieve this, it was seen if there was any significant difference between the financial characteristics exhibited by diversified M&A as compared to the non-diversified firms.

10. Discriminant Function Analysis was applied to test this. It was found that there was no significant difference between the financial characteristics of diversified and non-diversified firms. Thus, the Null hypothesis No. 3 that there was no significant difference between the financial characteristics of diversified and non-diversified M & A was accepted.
11. Logistic Regression Analysis was also applied to find out the probability of a company going for diversified merger with the help of a set of financial ratios. The findings were:-

a) If quick ratio was increased by one unit, the probability of a company going in for diversified M & A reduced from 47.36% to 27%.

b) If current ratio was increased by one unit, the probability of a company going in for diversified M & A increased from 47.36% to 69.7%.

c) If interest coverage ratio was increased by one unit, the probability of a company going in for diversified M & A increased from 47.36% to 48.03%.

d) If operating profit ratio was increased by one unit, the probability of a company going in for diversified M & A decreased from 47.36% to 46.7%.

e) If net profit ratio was increased by one unit, the probability of a company going in for diversified M & A decreased from 47.36% to 45.84%.

Thus, it was concluded that the probability of a company going in for diversified M & A was not clearly indicated through logistic regression analysis using the selected financial ratios, as some ratios gave a decreasing probability while others gave an increasing
probability. This was only an attempt to explore the possibility of predicting a company going in for diversified M & A using certain selected financial ratios. The other factors like number of years the company was in existence, foreign investments made and other external factors have not been taken into consideration, as sufficient data were not available. So interpretation was made with extreme caution and hence the results cannot be generalised or polarised for any particular industry.

12. Another objective of the study was to see if M & A led to value addition and thereby to increased productivity. Six Productivity Ratios were applied and it was found that the increase in productivity due to capital employed was only marginal in the post-merger period.

13. The average value added per rupee of operating assets had risen in the post-merger period as compared to pre-merger period. Thus, productivity of operating assets had increased after merger.

14. The value addition due to investments was marginal. Thus, the productivity of investments had remained the same after merger.

15. The productivity per rupee of operating profits had not increased in the post-merger period as compared to the pre-merger period.

16. The value addition per rupee of sales in the post-merger period was not substantial as compared to the pre-merger period. Thus, productivity had not increased in the post-merger period.
17. Productivity per rupee of payroll costs had not increased in the post-merger period as compared to pre-merger period.

18. In addition to firm to firm comparison, an attempt was made to classify the sample companies on the basis of total assets and to see which group of companies (Small, Medium or Large) led to increased productivity through value addition after merger.

19. The pre and post-merger productivity ratio of value added by capital employed of large firms was higher than small and medium firms.

20. Similarly, the value added by operating assets of large firms in the post-merger periods was more than the pre-merger value. But in the case of small and medium firms, it was almost the same in both the periods.

21. The value added by cost of capital consumed of small and large firms had reduced in the post-merger period as compared to pre-merger period. But in the case of medium firms it was almost the same.

22. The operating profit by value added of large firms was higher in the post-merger period as compared to pre-merger period. But in the case of small and medium firms, it was almost the same in both the periods.
23. The value added by sales ratio of all the three types of firms was marginally higher in the post-merger period as compared to pre-merger period.

24. The value added by payroll cost of small and medium firms showed marginal improvement in the post-merger period as compared to large firms which showed a decline in this ratio from the pre-merger values.

25. In all the three types of firms, the statistical tests namely, Wilcoxon rank sum test and the t test showed no significant differences between the pre and post-merger values.

26. Thus, the null hypothesis No. 4 that value addition and M & A are independent of each other was proved right and was accepted.
7.3 CONCLUSION

This study entitled “Creative Restructuring and Accelerated Growth Through M & A in India - A Financial Analysis” was undertaken with the main objective of analysing if M & A have led to operational and financial synergy, value addition and increased productivity and if diversified M & A were undertaken for risk-pooling. The data was collected for the sample of forty-eight M & A that occurred between 1992 and 2002. Analysis was done for three years before and three years after merger omitting the year of merger. Appropriate statistical tools were used for the analysis. The findings were recorded accordingly and conclusions drawn. The study found that the following four hypotheses were proved right and hence accepted:

- M & A do not lead to operational and financial synergy.
- Diversified M & A do not lead to risk pooling.
- There was no significant difference between the financial characteristics of diversified and non-diversified M & A after merger.
- M & A and Value Addition are independent of each other.