CHAPTER 2

Review of Literature
Under this study, the researcher after viewing the research papers provided an insight into the work that is related to Mergers and Acquisitions. After going through the relevant literature on Mergers and Acquisitions, it has been understood that most of the work highlighted that Mergers and Acquisitions has an impact on various aspects of the company. A firm can grow internally as well as externally. The internal growth can be achieved by establishing various new units and the external growth can be achieved by means of Mergers and Acquisitions.

S. Pankaj and S. Gupta (2011) made a pre and post analysis of firms and arrived at a conclusion that Mergers and Acquisitions had positive effects on their profitability. After a few years of Mergers and Acquisitions, it came to light that perhaps the companies may have been able to leverage the synergies which arise out of Mergers and Acquisitions which have not been successful in managing their liquidity. The study also showed pre and post analysis comparison of the firm. It also indicated the positive effects which were on the basis of source important financial parameters like the earnings before interest and tax.

Goel and V. Joshi (2011) gave an overall view of the Indian banking industry and threw light on the various change that took place in the Indian banking sector after liberalization. Under this study, they have examined the need for Mergers and Acquisitions in India. It also highlighted the changes that took place in the Indian banking sector with respect to financial, human resource and legal aspects. They have also described the benefits which came out through the process of Mergers and Acquisitions and examined that Mergers and Acquisitions is a tool for the companies to expand their horizon and the companies like ICICI bank has used merger as a strategy for expansion in the rural market to improve their customer space as well as market share.

K. Sony and G. Kumar (2010) assessed the similarities of merged banks with respect to strategic and financial aspects and the financial variables were considered to assess them.
David (2010) analyzed the entire stock market and the bubble effect on the Mergers and Acquisitions followed by the reduction of pre-bubble and that the bursting of bubble has led to the consciousness by the investors and provides evidence that it is during the euphoric bubble period that the investors take more risk. Merger of banks is the most significant change that took place in the Indian banking sector.

A. Manoj and J. Singh (2008) made a study on the impact of five banks Mergers in the Indian banking sector. These were the Times bank and HDFC Bank, the ICICI and the Bank of Madhurai, the ICICI Bank and the ICICI Ltd., the merger of Global Trust bank with the Oriental Bank of Commerce and Centurian Bank and the Bank of Punjab.

M. Pramod and Reddy A. V. (2007) tried to evaluate that the effect of merger on the performance of the acquiring firms in several industries by using the financial ratio pre and post merger in order to examine the effect of merger on firms.

According to the studies conducted by Ivancevich, Schweiger and Power (1987), a conclusion was drawn that the aspects of communication should focus on employees’ concern like the pension, layoffs, compensations, changes in the working rules, etc.

Ivancevich, Schweiger and Power (1987), made a study of the process of merger stress in the different stages of the merger process and the stress sources being created as well as choosing guidelines in order to encourage management of stress more effectively. They suggested guidelines to manager merger stress effectively, to reduce the actual inducers of stress. Secondly, the employee's reappraisal which refers to situational changing cognitive appraisal and also effective stress management and professional aids which makes the study of those employees which are already stressed.
Cartwright and Cooper (1990), made a study of the merger wave of the current times and evaluated the valuable contribution of psychology in order to understand Mergers and Acquisitions in order to address the importance of the activity. They found out that there was positive relationship with respect to combination of people and the culture of the organization.

Cartwright and Cooper (1993) recently made a study by taking samples of 157 managers who were involved in the merger of building the societies. The post merger measures regarding mental health suggested that merger was stressful event even if there is a high degree compatibility amongst the organizations.

Proper and Jobin (2000) tried to examine the various organizational factors which made a direct impact on the merger as well as the merger process. They addressed the communication issue and its importance in the merger and Acquisition process. Further, they also studied the stress issue which is the outcome of Mergers and Acquisitions within the uncertain environment and reported that there is high level of stress. They also evolved 5 major sections such as the communication strategy, corporate culture, changes brought about by stress and the managing strategy. These were further divided into 3 subsections such as pre-merger, during the merger and after the merger.

Schuler (2001) put forth a 3-staged model of Mergers and Acquisitions which identified most of the human resource issues and activities systematically. They had offered many examples to illustrate the activities and issues in the 3 stages. The article concluded with the description of the importance and role of human resource department to get the competitive advantage.

Bryson (2003) took a review of the literature dealing with the human resource management risk in a merger. He found out that poor merger results are mainly attributed to human resource management and problems of the organization.
Paul (2003) made a study of the merger of the Bank of Madhura with the ICICI Bank. He evaluated the valuation of swap ratio as well as the announcement of the swap ratio and the share price fluctuations of the bank before the announcement of merger decision and its impact on the share prices. The conclusion was thus drawn that the synergies generated by the merger would lead to an increase in financial capability, branch network, advanced technology as well as the base of the customer. But managing human resources and the rural branches may be a challenge given that the 2 organizations differ in the work cultures.

Salama (2003) explored the challenges and opportunities in the process of integration and studied the factors that were responsible for the success of cross-border Acquisitions within the related industries. They made a study of a case regarding the successful cooperation between the firms which resulted from the learning process which is developed by the partners.

Zollo and Singh (2004) made a study of the knowledge-based view of company Acquisitions and tested the effects of post-Acquisitions on the performance of decisions related to integration and also the capability-building mechanism. They took a sample of 228 Acquisitions in the United States Banking sector and found that the knowledge influences the Acquisition performance positively whereas the experience accumulation does not do so.

George (2004) made a report in a case for the delicate aspect of the attitude of the employees, their satisfaction and the motivational factors which are the prerequisites for the satisfaction of the customers which is necessary for the organizations competitive sustenance.

Schoenverg evaluated the primary streams of enquiry within the specific strategic and behavioural literature. They also made a study of the strategic fit, fit of the organization and also the Acquisition process.
Sarawati (2007) made a study of the merger of Global Trust Bank with the Oriental Bank of Commerce. The author found out that this merger was beneficial during the transition period and the pre merger strategy. It paved a way to find out the need for diverse cultures to arrive at an understanding and work hand in hand.

Murthy (2007) made a study of the case of merger of 5 banks i.e. Punjab National Bank with New Bank of India, ICICI Bank with Bank of Madhura, ICICI Ltd. with ICICI Bank, Oriental Bank of Commerce with Global Trust Bank and the Bank of Punjab with the Centurian Bank. The author concluded that merger is necessary on account of stronger financial and operational structures, more resources, advantages of the technology and penetration in the rural market.

Ellis (2009) explored the effects of procedural as well as informational justice on post-deal value creation in large Acquisitions. The result reveals that informational as well procedural justice affects various components of value creation.

Cascio (2010) discussed the issues of human resource professionals from the merger of health insurer i.e. Bupa Australia with the fund group of medical benefits which is the second largest health insurer in Australia. The opinion was formed that Bupa Australia is the only one who has maintained the premium below industrial average for quite a few years. Here the banking industry was provided with merger lesson which is that the transferer's employees should be given incentives to motivate them and also that they should be kept away from stressers.

Allan Gregory (2005) in his journal made a study and mentioned an important drawback of the long-term event studies. His argument is that if there is long-term returns which are the only estimate of the real value then it will follow that in the course of time abnormal returns will be incurred. Moreover, this particular problem appears to be less significant
in the case of short window event studies since the returns are supposed to be accurate and hence much more reliable.

Prager and Hannan (1998) found out that the bank Mergers and Acquisitions have resulted in the concentration of higher banks which ultimately leads to significantly much lower rates of deposits.

Berger and Mester (2003), they suggested that the US banks which are involved in the Mergers and Acquisitions improved the quality of their outputs in the year 1990 and as such those increased costs improved the profit productivity by increasing the income than costs and the employees thus got exposure to the latest bank products offered by ICICI Bank to its domestic as well as NRI customers. Now due to globalization and GATT agreement there are many changes of such Mergers in the financial sectors especially in banking to survive in the global competition.

According to Dymski (1999) merger may be desirable for banks if they are expected to enhance the acquiring banks capacity to increase profits independent of the effect they may have if any on operational efficiency.

According to Milbourm Bott and Thakor (1999), the increasing rate in the merger activity may be to increase the wealth of the shareholders or to boost up the reputation of those who are likely to release higher rate of compensation as a result of having much more assets and employment.

Heron and Lie (2002) tried to investigate the relationship between the mode of payment, earnings of the management and the operating performance. The operating income over the ratio of the sales is used in order to examine the operating performance. The ratio has considered the effect of the accounting method and the mode of payment in the case of operating performance.
Amihud and Bev (1981) made a study of the motive for conglomerate merger. In this case, the managers as opposed to investors were hypothesized in order to engage in conglomerate Mergers so that they can decrease their diversifiable employment risk which means the risk of losing job, reputation, etc. This type of risk reduction activities are considered as the requirements in the case the agency cost model. This hypothesis about the conglomerate merger is examined in 2 different tests and the data was to be consistent.

Mylonakis (2006) tried to examine the impact of the phenomenon of merger on the employment and efficiency of human resources. They have taken the selected bank data from published balance sheets from the year 1998-2003 accounting periods have been put to use. Based on this particular data, the indicators evaluating efficiency of the personnel has been calculated. The results of the Mergers and Acquisitions in the Helenic bank market in terms of employment have been negative.

Choi and Harmatuck (2006) aimed at investigating the operating performance in the long run, to define the management motives behind the Mergers and Acquisitions activities and also testing the consistencies between returns of the stock market and also the operating performance. The study provides more insights or the prices of the stock and their reactions and also the operating performance and the long time horizon of the activities of Mergers and Acquisitions 1980-2002 has been covered.

Majumdar (2007) tried to examine the effect of Mergers in US between the years 1988 and 2001 on the financial performance and the level of efficiency. The financial performance was evaluated by using cash flows and sales growth.

Hviid and Prendergast (1993) tried to examine the effect of merger on the profitability of the bidder and also the target. The study revealed a theoretical model which showed how the unsuccessful bids can increase the profitability of the target but it can also decrease
the profitability of the bidding firm in relation to the profitability of the firm before the merger activity.

Sinay and Campbell (2002) made an investigation whether the merger process is a remedy to the financial distress faced by local hospitals in the US in the 1990 era. They analyzed to make a comparison between the performance of a group of hospitals which merged with the control group i.e. merged hospitals and the total number of samples which included altogether 84 cases.

Sirower (1997) laid emphasis on the lack of proper understanding of how to gain more success in the field of Mergers and Acquisitions in spite of empirical research going on since a decade. Economists dealing with finance and strategic management are the mainstreams where literature is available to understand the merger and Acquisition process.

Bharadwaj and Shivdansi (2003). They conducted an empirical examination in order to determine the amount of gains in the merger and Acquisition activity in between the bidders and the targets. They also made a study of theory relating to the merger and Acquisition activity which included the findings of overall negative returns to the acquirers which lead to the theories relating to the agency considerations and the free flow of cash.

Horn and Persson (2004) made a provision for theoretical models wherein the foreign organizations may be in a position to acquire the domestic acquirer targets along with the price of the Acquisition being determined in an endogenous manner in the process of bargaining. In these models, apart from the tariff jumping argument, the high trade cost does not instigate the merger and Acquisition cross border. The high trade costs encourage the tariff jumping merger activity and also that it increases the channels for Mergers in the domestic market since they reduce the competitiveness in the domestic
market. They increase the Acquisition price of the domestic acquirers who are ready to pay for the domestic targets.

Neary (2007) established a model of the merger activity in the case of a two country oligopoly in the general equilibrium. However, many studies have revealed the effects of the cross border activities of Mergers and Acquisitions.

Lin (1994) found out that there are variations in the materials in the acquirer valuation according to the domicile of the target company.

Kang (1993) examined matching-pairs of Acquisitions in overseas merger and Acquisition process. He found out that there are significant wealth gains for both the companies. He places his analysis with reference to the Foreign Direct Investment since it is appropriate for overseas Acquisition.

Beena (2000) studies and analyzed the importance of Mergers and its relevant features, and reported the fact that majority of the Mergers were dominated by those Mergers which belong to the same group of business or house with the similar type of product lines. This study also highlighted that merger between companies not related to each other were gaining momentum but undoubtedly they contributed to the asset growth but only in case of one-fifth of the sampled companies that were used for the study.

Langhe (2001) evaluated the merger and Acquisition performance of the small companies which were involved in the takeover and their findings revealed that after the takeover, the profitability, solvency as well as the liquidity of most of the merged entities declined.

Pawaskar (2001) made analysis of the operating performance of the acquiring companies post-merger and tried to identify the sources that induce the merger changes. The study revealed that the Mergers had a negative impact on the performance of the acquirers as
indicated by all the profitability measures. However, there was no significant improvement in the profitability when the comparison was made between the pre and post merger activity.

Sharma and Ho (2002) reported that there is a decline in the operating performance after the merger and Acquisition process when studies were carried out on the operating performance of 36 companies in Australia which were involved in the Mergers.

Rahman and Limmack (2004) made analysis of control adjusted operating cash flow performance by using a sample of Malaysian companies which were involved in the merger and Acquisition. This study examine whether the wealth of the shareholders increased on account of the takeover. The results of the study suggested that the Acquisition led to the improvement in the long run performance of the operating cash flow.

Powell and Stark (2005) compared post-takeover performance with combined pre-takeover performance and suggested that there were no significant improvements in operating performance.

Shaver (2006) analyzed that the sensitivity of the company is assessed by the risk. He studied that merger and Acquisiton activities are necessary to help the domestic banks so that they can be more competitive especially while dealing with the entry of foreign investors in the home markets. The market power hypothesis reveals that the horizontal Mergers are likely to lessen the competition within the markets and also that they provide monopoly power to the other firms. On account of this, the other firms can increase prices within the market and make enormous profits.

M&A activities are to assist domestic banks to be more competitive especially in dealing with the participation of foreign investors in the domestic markets. Market-power hypothesis argues that horizontal Mergers tend reduce competition within
markets, thus providing increased monopoly power for the remaining firms. As a result, the remaining firms could increase prices within the market and gain excess profits (Bessler & Murtagh, 2002).

Norman and Pepall (2000) examined the profitability and the locational effects of the Mergers in the competitive market and argued that usually a two firm merger was profitable since both the merging entities could co-ordinate their locational decisions. The results indicated that the merger of two profitable firms would reduce the competitiveness which would in turn lead to higher prices and reduce consumer surplus. In other words, the total surplus could be enhanced by the locational efficiency and in turn increase the profits of the merging entities.

DeLong (2001) found out that differentiation can be made between bank Mergers which enhance values upon the announcement and the Mergers which do not create value. It was concluded that the Mergers which have similar activity and those that are geographically concentrated tend to enhance the value of stockholders whereas those Mergers that diversify either by activities or geographically or in both cases do not create value.

Moeller and Stulz (2004) examined a sample of 12023 Acquisitions made by public companies from the year 1980-2001 and found out that the small companies faced much better than the larger firms after making an Acquisition announcement. The abnormal returns linked with the announcements of Acquisition for small entities exceeded the supernormal profits that were associated with the Acquisition announcement of larger firms.

Bessler and Murtagh (2002) examined the reactions of stock market to the merger announcement and found out that foreign Acquisitions in the case of wealth management and retail banking sectors created value whereas the foreign Acquisitions in the case of insurance sector did not do so.