Review of Literature
CHAPTER 2

REVIEW OF LITERATURE

Amihud and Lev \(^1\) evaluated a "managerial" motive for conglomerate merger to be advanced and tested. Specifically, managers, as opposed to investors, were hypothesized to engage in conglomerate mergers to decrease their largely undiversifiable "employment risk" (i.e., risk of losing job, professional reputation, etc.). Such risk-reduction activities were considered here as managerial perquisites in the context of the agency cost model. This hypothesis about conglomerate merger motivation was empirically examined in two different tests and found to be consistent with the data.

Anand and Singh \(^2\) examined the effect of five specific mergers in the Indian banking sector on the shareholders wealth namely the mergers of the Times Bank with the HDFC Bank, the Bank of Madura with the ICICI Bank, the ICICI Ltd. with the ICICI Bank, the Global Trust Bank with the Oriental Bank of Commerce, and the Bank of Punjab with the Centurion Bank. The merger announcements in the have positive and significant shareholder wealth effect both for bidder and target banks. The market value weighted CAR of the combined bank portfolio as a result of merger announcement is 4.29 per cent in a three day period \((-1, 1)\) window and 9.71 per cent in a 11-day period \((-5, 5)\) event window. The findings of the study are in agreement with the European and the US bank mergers and acquisitions except for the fact that the value to the shareholders of bidder banks has been destroyed in the US context.

Associated Chambers of Commerce and Industry\(^3\) (ASSOCHAM) examined the growth of M&A deals. They observed that the number of outbound M&A deals had increased sharply over the past six years from about 37 in 2001 to more than 170 on 2006. They also found that the main factor that fuelled the growth of M&As among

\(^3\) Associated Chambers of Commerce and Industry “ INDIA’S FDI OUTFLOW TO EXCEED INFLOW IN 2007-08”, http://www.andhracafe.com/index.php?m=show&id=20293
Indian companies were huge fund supply, globally competitive business practices, favourable regulatory environment. ASSOCHAM further pointed out that the total number of deals actually doubled in 2005 from 2004 and reached a figure of close to 150 from 70 in the previous year. ASSOCHAM thus concluded that with the growth of M&A deals, the sectors attracting investments such as automobiles, Pharma, energy, software and financial services would gather tremendous momentum.

Bedi\(^4\) analysed the trend and progress of mergers and acquisition deals in India. He observed that the total amount of M&A deals increased by 615 per cent during 2001-07. And the amount of M&A deals of manufacturing sector increased by 272 per cent, in service sector increased tremendously by 1,218 per cent. In the case of financial services, the number of M&A deals increased from Rs.1375 crores to Rs.17205 crores during 2001-07. Therefore he concluded that the total number of M&A deals decreased from 1,320 to 1,077, i.e decreased by 18.5 per cent, in manufacturing sector it has decreased from 842 to 442, i.e. decreased by 47.5 per cent, in service sector increased from 478 to 635, i.e. increased by 32.9 per cent and in financial services it was fluctuating. And he also added that even with decrease in the number of deals of M&A in India during the last couple of years the position of India fared better than some developed countries in terms of M&As.

Beena\(^5\) analysed the pre and post-merger performance of a sample of 115 acquiring firms in the manufacturing sector in India, between 1995-2000, using a set of financial ratios and t-test. She concluded that the study could not find any evidence of improvement in the financial ratios during the post-merger period, as compared to the pre-merger period, for the acquiring firms.

Beena\(^6\) analysed the pre and post merger period performance of firms in the Indian pharmaceutical industry. The pre-merger analysis ranged from 1989-90 to the year of

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first merger or acquisition of each merging firm. The period from the time of first merger or acquisition to 2003-2004 was considered for the post merger analysis. The relative firm level performance of the merging firms was also attempted. For this, each merging firms’ averages (from the respective ratios) for the pre and post merger period was calculated which revealed the comparative performance across firms before and after merger. The number of firms remained above average in terms of profitability, cost intensity and trade performance remained more or less same during the post merger period whereas that of R&D intensity showed that many firms newly entered into the upper strata, which shows nothing other than technological progress. In the case of export and import intensity, a slightly reverse trend occurred. Moreover, many of the firms could increase their profitability compared to their own pre merger period except for Return on Net Worth. Around 78 percent of the firms increased their R&D spending and 74 percent of them reduced the advertisement expenditure. The most striking point was that, around 91 percent of the firms were underutilizing their capacity compared to their own past. She concluded that the overall performance of the merging firms increased during the post-merger period as compared to the pre-merger period. However, she also observed that many of the merging firms were falling below average. Therefore she rightly stated that the post-merger profitability of the merging firms is higher than that of the pre-merger period performance.

Berg et al\(^7\) conducted a comprehensive cross-firm and cross-industry analysis to measure the effect of joint venture activities on the performance of the companies and found ambiguous but positive short-term gains and insignificant long-term impact on profitability. They further noted that even short-term gains were negative for technological or knowledge-oriented acquisitions and were positive for production and marketing oriented acquisitions, because of increased market power leading to increased profit margins and efficiency gains. They concluded that while short term gains depend

\(^6\)Exploratory Analysis”, M. Phil Dissertation submitted to the Jawaharlal Nehru University, New Delhi
on industry to industry, no industry (out of 19 industries in their sample) show long-term significant gain.

Bhandarkar\(^8\) focussed on the acquisitions in various sectors of the economy and viewed that the telecom sector in India was attractive in comparison to IT sector because IT was one of the sectors where it was difficult to have an aggressive M&A strategy. The only assets in IT companies were the people and the challenge of integrating them was much bigger. While, the other sectors such as Pharma, mining, gas, oil etc offered lesser scope for growth. He stated that the real challenge in M&A deals was in the integration especially in cross-border deals. He observed that M&A volumes rebounded strongly in 2004 and 2005 after a down-turn during 2001-03. Thus, he concluded that the success or failure of M&A deals in any industry depended on how well the integration issue was handled.

Bhaumik and Selarka\(^9\) examined the impact of M&A on profitability of firms in India, where the corporate landscape is dominated by family-owned and group-affiliated businesses, such that alignment of management and ownership coexisted with management entrenchment, and they drew conclusions about the impact of concentrated ownership and entrenchment of owner managers on firm performance. They observed that, during the 1995-2002, M&A in India led to deterioration in firm performance. They also found that neither the investors in the equity market nor the debt holders can be relied upon to discipline errant (and entrenched) management. In other words, on balance, negative effects of entrenchment of owner manager stumped the positive effects of reduction in owner-vs.-manager agency problems. They concluded that their analysis was consistent with bulk of the existing literature on family-owned and group affiliated firms in India.


Brahma\textsuperscript{10} highlighted some critical human resource issues in mergers and acquisitions and suggested some guidelines as to how these issues could be resolved. He stated that human resource problems were often overlooked upon by managers and lack of integration in M&A process lead to these problems. Brahma pointed out that cultural differences between the merging firms were critical and the extent to which the cultural issues were managed and resolved would ultimately determine the success of an acquisition. He also added that the psychological and behavioural reaction of employee towards M&As would also have an impact on the productivity of the merged organisation. Therefore, Brahma suggested that M&A deals should focus both on addressing employee concerns and on the positive impact of deal on future prospects. And ‘culture assessment’ should be a part of the HR due-diligence process so that it could be used as a tool for integration thereby leading to successful M&A deals.

Cassiman\textsuperscript{11} analysed the impact on the innovation process when merging companies have similar technologies and markets. The study measured the impact of those mergers and acquisitions on managerial level more than on the enterprise level. The research showed that the impact of M&As on the nature, management and magnitude of Research and Development varied considerably, depending on the sorts of similarities that existed between the participants in the merger before it took place. According to Cassiman, if companies merged in similar technical areas, the new company created after M&A would reduce its cost, cut personnel in R&D development, cut typical time horizon for R&D projects, thereby lending to rationalisation of R&D. And if the companies merged in similar markets, they could win market share and create economies of scale. Therefore, he concluded that the impact of investments on R&D was negative in case of companies having overlapping technical strengths.


\textsuperscript{11} Bruno Cassiman “WILL MERGERS AND ACQUISITIONS BE BENEFICIAL OR HARMFUL TO INNOVATION?”, wharton.universia.net/index.cfm?fa=viewfeature&language=english&id=1147
Choi and Russell\textsuperscript{12} (2004) examined whether mergers and acquisitions in the construction sector in U.S. made positive contributions to the performance and determined the factors that may affect post-mergers and acquisitions performance as: method of payment, acquisition timing and transaction size. The study analyzed 171 transactions that occurred between 1980 and 2002 using the cumulative abnormal returns to indicate improvement in performance. His analysis revealed that the number of acquisition transactions increased dramatically during the late 1990s, firms experienced insignificant improved performance, in other words, they just reached break even after mergers, and no evidence was found that either acquisition time, method of payment, or target status had an influence on the reported performance and that related diversifications performed slightly better than unrelated diversifications. He thus concluded that his analysis covered a long time span of about 22 years which increased the reliability of the results.

Chris Mills\textsuperscript{13} explained how an integrated approach to deal with changes brought about by M&A transactions would help to reduce uncertainty. Mills pointed out that the use of spectrum risk analysis during the entire M&A cycle increased the chances for success. Spectrum Risk Analysis sets out to manage risk and uncertainty in any merger based on a firm’s understanding of the inferences that underpin the risk, in order to identify the factors that might jeopardise the success of the merger. It involved applying structured techniques to highlight most critical risks and it provided a method to monitor and resolve. Mills concluded that spectrum risk analysis highlighted key stakeholders’ concerns and could be used as an effective and integrated approach to planning and execution of a merger.

Cornett, McNutt and Tehranian\textsuperscript{14} evaluated the operating performance around commercial bank mergers. They found that industry-adjusted operating performance of


merged banks increased significantly after the merger, large bank mergers produced greater performance gains than small bank mergers, activity focusing mergers produce greater performance gains than activity diversifying mergers, geographically focusing mergers produced greater performance gains than geographically diversifying mergers, and performance gains were larger after the implementation of nationwide banking in 1997. Further, they concluded that improved performance was the result of both revenue enhancements and cost reduction activities. However, revenue enhancements are most significant in those mergers that also experienced reduced costs.

Datta et al.\textsuperscript{15} analysed a sample of 1719 acquisitions made by U.S companies during the period 1993 to 1998. They found that companies with managers having high equity-based compensation tended to receive positive stock market responses to the announcement of their acquisitions, whereas those with lower equity-based manager compensation tended to receive negative reactions. And they also looked at the firms’ magnitude of premium paid by acquiring firms and observed that companies with higher equity-based compensation tended to pay lower premiums. Thus, they concluded that lower equity-based compensation managers and companies significantly underperformed than their higher equity-based counterparts. This implied that if managements’ interests were aligned with shareholders’ they would tend to do better deals and would be paid less.

Gallet\textsuperscript{16} examined the relationship between mergers in the U.S. steel industry and the market power. He employed New Empirical Industrial Organization (NEIO) approach which estimated the degree of market power from a system of demand and supply equations. He analysed yearly observations over the period between 1950 and 1988 and his study revealed that in the period of 1968 to 1971 mergers did not have a significant effect on market power in the steel industry, whereas mergers in 1978 and 1983 did slightly boost market power in the steel industry.

\textsuperscript{15} Sudip Datta, Mai Iskandar Datta and Kartik Raman “ IN DEFENSE OF INCENTIVE COMPENSATION:ITS EFFECT ON CORPORATE ACQUISITION POLICY”, Journal of Applied Corporate Finance, Vol. 16,Issue 4,pp 82-88,Fall 2004

Gautam\textsuperscript{17} attempted to study the phenomena of merger and acquisition deals in pharmaceutical industry. Since the year 2004 there had been an increase in the mergers and acquisitions in the global pharmaceutical sector. This was reflective of the increase in the mergers and acquisitions in other industries at the same period. There was 20\% increase in the number of deals, which stood at 1,808. There were eight deals with the value of more than $1 billion. This was three more than 2003. The total financial value of the deals was $112 billion and this was an increase of 53\%. However, these figures did not include the biggest acquisition of Aventis by Sanofi-Synthelabo that was worth $60 billion. In 2007 the merger and acquisition deals in pharmaceutical industry had touched the highest number of 103 deals. He observed that at that time, the Indian economy was performing well. Due to new money fused in the market the industries wanted to expand, this become a reason for the highest deals in the year 2007. He concluded that the years 2009 and 2010 were the corrective years for the Indian economy. This has slowed down the number of merger and acquisition deals in the pharmaceutical industry. Hence his study showed the relationship between the merger and acquisition phenomena and performance of markets as at the end market reflects the financial health of the companies.

Goyal and Joshi\textsuperscript{18} attempted to study the growth of ICICI Bank Ltd. through mergers, acquisitions, and amalgamation. They examined the case of merger of Bank of Rajasthan and ICICI Bank Limited. They observed that Bank of Rajasthan had deep penetration with huge brand value in the State of Rajasthan where it had 294 branches with a market share of 9.3\% in total deposits of scheduled commercial banks. It was presumed that the merger of Bank of Rajasthan in ICICI Bank will place the Transferee Bank among the top three banks in Rajasthan in terms of total deposits and significantly augment the Transferee Bank’s presence and customer base in Rajasthan and it would significantly add 463 branches in branch network of ICICI Bank along with increase in retail deposit base. Consequently, ICICI Bank would get sustainable competitive advantage over its

competitors in Indian Banking. They concluded that the issue of employees’ perception towards mergers needs special attention from researchers and thinkers in order to convert mergers as synergy.

Gugler et al.\textsuperscript{19} analysed the effects of mergers around the world over the past 15 years. He determined the effects of mergers on corporate performance across national, international, and sector levels. He tested a sample of 45,000 completed merger transactions across the world over the period from 1981 to 1998, where 50\% of the sample is located in the United States. The effects of mergers were analysed using profitability and sales, then, and he compared the results with the performance of control groups of non-merging firms. The statistical analysis of the total sample revealed that profitability was positive in all five years after mergers and is significant in every year at 10\% level. Unlike profitability, the mean difference in sales was negative in every year and increased in absolute value through the fifth year, where most mergers led to higher actual profits than projected and lower sales. On country level, the results suggested that the U.S., the United Kingdom, Continental Europe, Australia, New Zealand and Canada had the same pattern regarding the increase in profits and decrease in sales. In Japan, the results were somewhat different as three of the five profit comparisons were negative, while sales were greater than projected in two of the five post-merger years. He also analysed the sector impact and category of merger; horizontal, conglomerate, and vertical mergers, and the analysis revealed that mergers in the manufacturing sector tend to be less profitable than in the service sector, horizontal mergers in manufacturing are the most significantly profitable type of mergers in the service sector, and hence all the three categories of mergers seemed to be equally profitable. The mean difference in service sector was more significant than that of the manufacturing sector. He found out that actual sales were below of projected sales in all of three categories in the manufacturing sector, but the short fall was considerably smaller in the horizontal merger, and within the service sector, vertical mergers exhibited the best performance in terms of sales. Thus, he concluded that there was no significant difference in the cross-border mergers than those domestic ones.

Healy, Palepu, and Ruback\textsuperscript{20} examined post-acquisition performance for 50 largest U.S. mergers between 1979 and 1984 by measuring the cash flow performance. He suggested that acquiring firms might benefit from merging because of technical, pecuniary and diversification synergies. He pointed out that merged firms have significant improvement in asset productivity relative to their industries after the merger, leading to higher post-merger operating cash flow returns. Sample firms maintain their capital expenditure and R&D rates relative to their industries after the merger, indicating that merged firms do not reduce their long-term investments. He also found that there is a strong positive relation between post merger increase in operating cash flows and abnormal stock returns at merger announcements, indicating that expectations of economic improvements underlie the equity revaluations of the merging firms. He concluded that operating performance of merging firms improved significantly following acquisitions, when compared to their respective industries.

Indhumathi et al\textsuperscript{21} examined a sample of companies which underwent merger during the period of 2002-2005. They compared the performance of the acquirer and target companies before and after the period of mergers by using ratio analysis and t-test during the study period of three years. They concluded that the shareholders of the acquirer companies increased their financial performance after the merger event.

Ismail et al\textsuperscript{22} analysed mergers and acquisitions and its effects on the financial performance and he determined factors that might influence post-mergers and acquisitions performance. He ascertained that there was a dispute regarding the factors that affect the reported performance, where eight factors might affect performance as follows method of payment (Cash or Stock), book to market ratio, type of merger or acquisition transaction (related or unrelated), cross-border versus domestic M&A, mergers versus tender offers, firm size, macro economic conditions, and time period of

transaction. He concluded that managers should be aware of such factors and their impact on post-merger/acquisition corporate performance to accurately evaluate proposed offers of mergers and acquisitions and take sound decisions.

Ismail et al.\textsuperscript{23} studied the operating performance of a sample of Egyptian companies involved in merger and acquisition (M&A) transactions in the period from 1996 to 2003 in the construction and technology sectors. Empirical results revealed that some measures of corporate performance, such as profitability, suggest statistical significant gains in the years following M&A especially in the construction sector. Other performance measures as efficiency, liquidity, solvency, and cash flow position did not show significant improvements after mergers in the short run in both sectors. Thus, they concluded that the analysis revealed different results than those of sector level, where total sample analyses indicated that M&A did not affect the operating performance of the Egyptian merged companies. With respect to sector level, the findings suggested that M&A in the construction sector contributed in improving firms' profitability but failed to improve efficiency, liquidity, solvency and cash flow position. In the technology sector, no improvements were evidenced.

Kale and Singh\textsuperscript{24} studied the value creation from mergers in the post liberalization period in India. The study was divided into two phases; 1992-1997 and 1998-2002. They noticed important difference in the two segments. During the phase of 1992-1997, acquirers in India earned significant positive returns. They found +5 per cent mean abnormal returns. MNCs acquirer during this phase earned significantly greater stock market return to their acquisitions than their local Indian counterparts. There was no significant difference between related and unrelated acquisitions. Average acquisition returns were much lower during the period 1998-2002 \textit{vis-à-vis} 1992-1997 periods. The study also concluded that Indian acquisitions had managed to develop their acquisition capabilities over time. During this phase, they found a distinct difference in acquisition value creation between related and unrelated acquisition. The stock returns pursuant to


acquisition announcements were more favourable for related acquisitions (+3.5 per cent) than for unrelated acquisition (+1 per cent).

**Kar and Soni**\(^{25}\) analysed the impact of M&As in the post-liberalisation period (1990-91 to 2000-01). They inferred that there were thirteen hundred and eighty six M&As identified during the period of the study. The maximum number of M&As was reported in the year 1999-2000, and the lowest was found out in the year 1991-92. The momentum of M&As built up from the year 1995-96 in which thirty three M&As were found during the span of the study. In 1996-97, the number of M&As increased to 124 which is 275.75 percent growth in M&As activity. Further, there was a 100 percent increase of M&As in 1997-98 amounting to 248. There had been an increase in M&As in 1998-99 amounting 269 (8.46 % increase). Subsequently, the year 1999-2000 has reported the maximum; that is 387 numbers of M&As which is 43.86 percent above the previous year. This period was followed by a reduction in M&As activity in 2000-01 which stands at 290 (negative growth rate of 25.06). They also observed that the analysis of M&As trends for the entire period gave two distinct phases of M&As for the different sectors of the Indian industry, that is the period from 1990-91 to 1995-96 and 1996-97 to 2000-01. During the first period, there have been 68 M&As where as in the second phase 1318 M&As have been found. Thus, they concluded that, throughout the period of study, turnover increased after the companies experienced an M&A. Profit after tax and book value of the companies increased after M&As during the time periods 1994-98 and 1994-99 respectively. After that there was no significant change of M&As on these variables. Further, M&As did not have any impact on return on net worth for the period of study.

**Khanna**\(^{26}\) analysed that Indian firms were becoming globally competitive by way of acquisitions. Khanna viewed that acquisitions gave Indian firms access to developed markets. Khanna further observed that, almost 40 percent of the top 50 companies made at least one overseas acquisition in the past 3 years. He cited such companies namely Tata


Tea, Bharat Forge, Wockhardt, India Inc etc who leveraged their acquisition ability to work in challenging business environment. Therefore, Khanna concluded that these Indian companies were remarkably quick in turning around operations of their acquired overseas firm. He also added that Indian companies achieved financial and integration maturity on account of such acquisitions.

Kumar\textsuperscript{27} examined the post-merger operating performance of a sample of 30 acquiring companies involved in merger activities during the period 1999-2002 in India. He attempted to identify synergies, if any, resulting from mergers. He used accounting data to examine merger related gains to the acquiring firms. He inferred that the post-merger profitability, assets turnover and solvency of the acquiring companies, on average, showed no improvement when compared with premerger values.

Kumar & Bansal\textsuperscript{28} attempted to see if the claims made by the corporate sector while going for M&As to generate synergy, were being achieved or not in Indian context. They did so by studying the impact of M&As on the financial performance of the outcomes in the long run and compared and contrasted the results of merger deals with acquisition deals. This empirical study was based on secondary financial data and tabulation. Ratio analysis and correlation were also used for analysis. They concluded that in many cases of M&As, the acquiring firms were able to generate synergy in long run, that may be in the form of higher cash flow, more business, diversification, cost cuttings etc. A limitation of their research was that it showed that management cannot take it for granted that synergy could be generated and profits could be increased simply by going for mergers and acquisitions.

Lau et al.\textsuperscript{29} examined the operating performance of merged firms, compared to the performance of the pre-merger targets and acquirers, for a sample of 72 Australian

\textsuperscript{28} Kumar, S., and Bansal, L.K. (2008), “The Impact of mergers and acquisitions on corporate performance in India”, Management Decision, 46(10), 1531-1543.
mergers between 1999 and 2004. Performance measures used in the study were profitability, cash flow, efficiency, leverage and growth. Such measures were used to proxy for the success of the merger, which is defined in terms of an improvement in each merged firm’s industry-adjusted operating performance between the pre and post-merger period. The results provided some evidence that mergers improved the post merger operating performance.

**Leepsa and Mishra**\(^\text{30}\)** analysed the trend in merger and acquisition (M&A) particularly with reference to manufacturing companies. They stated that there was no conclusive evidence about the impact of M&A on corporate performance. They found out that the profitability of the companies has increased in terms of return on capital employed and decreased in terms of return on net worth. And so, the increase has been statistically significant and the decrease has been statistically insignificant. Hence they concluded that the financial performance of the companies improved after merger in terms of current ratio, quick ratio, return on capital employed and interest coverage ratio.

**Mantravadi and Reddy**\(^\text{31}\) analysed the impact of mergers on the operating performance of acquiring corporates in different industries, by examining some pre- merger and post-merger financial ratios, with the sample of firms chosen as all mergers involving public limited and traded companies in India between 1991 and 2003. He found that there are minor variations in terms of impact on operating performance following mergers, in different industries in India. He concluded that mergers seem to have had a slightly positive impact on profitability of firms in the banking and finance industry, the pharmaceuticals, textiles and electrical equipment sectors saw a marginal negative impact on operating performance (in terms of profitability and returns on investment). For the Chemicals and Agri products sectors, mergers had caused a significant decline, both in terms of profitability margins and returns on investment and assets.

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\(^{30}\) N.M.Leepsa and Chandra Sekhar Mishra, “Post Merger Performance : A Study with Reference to Select Manufacturing Companies in India”,
http://www.internationalresearchjournaloffinanceandeconomics.com/ISSUES/IRJFE_83_01.pdf

Niranjan\textsuperscript{32} examined the growth of acquisitions and takeovers among the companies. He pointed out that around 102 companies, with a total value of Rs. 5,266.79 crores, went in for acquisitions during the period 2004-05. While, the number of companies which went in for acquisitions process doubled in 2005-06. The total value of takeovers had gone by 14.33 percent or Rs.660.15 crores. Niranjan thus concluded that the number of substantial acquisition and takeovers in the Indian corporate sector was constantly growing every year with the corporates maturing and the country’s economy getting strengthened.

Patankar and Chavan \textsuperscript{33} analysed merger and acquisitions and their impact on India after globalisation. They classified the M&A as per the number of mergers and acquisitions and the amount involved industry wise, sector wise and geographical converse wise. They inferred that, in India, more recently during the year of booming markets 2004 to 2010, merger and acquisition activity was at its peak. During the years 2003 to 2007 the amount involved in acquisitions rose from Rs.23,787 crores in 2003. to Rs.60,282 crores in 2005 and jumped to Rs.2.04 lakh crores in 2007. As between mergers and acquisitions, the latter out numbered the former in India during the last few years in the new millennium. They observed that, during all the years in the new millennium, acquisitions were more than the number of mergers. The growth in the mergers and acquisitions in the new millennium due to the on going economic and financial reforms and the opening of the economy, privatization, globalization of the markets and banking and financial reforms in the process. They concluded that, Industry wise, the major activity was seen in acquisitions in the IT sector, chemicals, pharmaceuticals, metal, oil, BPO and related activities of R&D efforts, computer software and knowledge based industries and services oriented industries have seen this wave more visible in recent years.

Pathak 34 reviewed the post M&A impact of mergers and acquisitions in the Indian Cement Industry on both the acquiring and target firms. Pathak studied the operating synergy from the perspective of post-acquisition cost efficiencies, rather than the production side efficiencies. Pathak used multiple regression models to capture the synergy effect. She observed that for operational synergy to accrue in the cement industry, the intensity of operating expenditure with respect to sales should decrease. Therefore, she concluded that synergy expectations were on of the primary motives that guided M&As and operating synergy resulted in economies of scale. This reflected indivisibilities and thereby lead to better utilisation of capacities after the merger.

Paul35 analysed the merger of Bank of Madura with ICICI Bank. He evaluated the valuation of the swap ratio, the announcement of the swap ratio, share price fluctuations of the banks before the merger decision announcement and the impact of the merger decision on the share prices. He also attempted the suitability of the merger between the 57 year old Bank of Madura with its traditional focus on mass banking strategies based on social objectives, and ICICI Bank, a six year old ‘new age’ organisation, which had been emphasising parameters like profitability in the interests of shareholders. He concluded that synergies generated by the merger would include increased financial capability, branch network, customer base, rural reach, and better technology. However he felt that, managing human resources and rural branches may be a challenge given the differing work cultures in the two organisations.

Pawaskar36 analysed the pre-merger and post-merger operating performance of 36 acquiring firms during 1992-95, using ratios of profitability, growth, leverage, and liquidity, and found that the acquiring firms performed better than industry average in terms of profitability. He concluded that regression Analysis however, showed that there

was no increase in the post-merger profits compared to main competitors of the acquiring firms.

**Peterson** 37 reviewed the various reasons for mergers and acquisitions. He viewed that M&As were meant for consolidation and growth of a corporation. He stated that a profit-making company acquired a company which was at a loss to benefit from tax write-offs. He also added that a small company with a good product but poor sales gained by merger or acquisition bid, that had a strong marketing set up. And merger could also take place between fledging company and a prosperous corporation. Therefore, Peterson concluded that companies merged in order to become a much stronger entity and such M&A deals would foster the shareholders wealth of the company.

**Pradhan and Abraham** 38 examined the patterns and motivations behind the overseas M&As by Indian enterprises. They detected that a large majority of overseas M&As originated within services sector led by software industry and in overwhelming cases were directed towards developed countries of the world economy. The main motivations of Indian firm’s overseas acquisitions was the access to international market, firm-specific intangibles like technology and human skills, benefits from operational synergies, overcome constraints from limited home market growth, and survive in an increasingly competitive business environment. Further they found that overseas acquirers in the case of manufacturing sector was not very large sized and research intensive, while they were older, large sized and export-oriented in the case of software sector. They stated that software industry was a major growth-contributing sector in Indian economy accounting about 55.15 percent of the electronics sector, 13 percent of the industrial sector, and 3.16 percent of GDP during the year 2000-01. They concluded that the software sector had been leading the internationalization of the Indian economy by accounting for 17 percent of India’s exports in 2001-02 and by establishing offices, merging and acquiring companies overseas, and listing on NASDAQ and NYSE. In the

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In the case of pharmaceutical industry, India was continually enjoying trade surpluses since mid-1980s.

Price Water House Coopers\(^{39}\) evaluated that over 2000 deals were in the chemicals sector during the period January 2003 to December 2005, with a cumulative deal value of over US $ 130 billion. These included 35 mega deals, with a value of US $ 1 billion and more, with an aggregate value of US $ 82.1 billion. In the year 2005 alone, number of deals witnessed by this sector was 95 with a cumulative deal value of US $ 55 billion. There were 15 deals with the deal value of US $ 1 billion or more, cumulatively accounting for 63\% (US $ 32 billion) of total deals concluded in this year. The global trends in mergers and acquisitions have indicated that most of the chemical companies were interested in improving their market position in Europe and North America, but prefer to expand in Asia by means of investments in capacity expansion. In the year 2005, Asia Pacific region witnessed 263 deals, of which China alone accounted for 112 deals, followed by Japan 63, and India 24. Majority of the deals in 2005 were in the basic chemical sector (55\%), followed by specialty and fine chemicals (20\%), polymers (16\%) and diversified chemicals (9\%). Thus, it was concluded that the strategic investors played a major role in many of the deals in the year 2005. And the strategic investors collectively invested nearly US $ 38 billion (about 68\% of the total value of deals).

Rai\(^{40}\) attempted to study the stand alone as well as the combined performance of ICICI Bank and Bank of Madura during premerger days. Actual post-merger achievements have been compared with the sum of projections made for each bank using statistical technique as also with the overall figures for the new economy private sector banks. He found that ICICI Bank remained successful in achieving rapid growth in many respects but could not realize a few expected benefits including the economy of scale. But the positive results outweighed heavily the other aspects making this merger a path-breaker and an

\(^{39}\) PriceWaterHouseCoopers, “Mergers and Acquisitions Activity in the Global Chemicals Industry” 2003-2005

example for others. He aimed at outlining the objectives with which the merger of ICICI Bank and Bank of Madura was envisaged, analyzing the financial parameters of the two banks as well as of the merged entity and tried to deduce how far synergies could be realized in this strategic deal. The data regarding the size of business (deposits and advances), total income, total expenditure, profitability (net profit and return on assets), capital adequacy ratios and non-performing assets (gross NPA/gross advances and net NPA/net advances), was obtained for the two banks for the period prior to their merger. The parameters (except ratios) was projected using projection technique available in SAS 8.2 and the projections had been compared with the actual parameters of the merged bank and also the industry average for new private sector banks. From the comparison of the projections and actual data, he concluded as to how far the merger had succeeded in creating a strategic advantage. He safely opined that this milestone strategic merger in the history of banking in addition to the merger of TIMES Bank with HDFC Bank showed a path and kindled a bright light of hope for all the players in the market so that they do not shy away from adopting M&A strategy based on the earlier experiences of myriads of mergers like PNB-New Bank. He thus, concluded that the merger was partially successful as the benefits that could have been achieved in the long run got overridden by the merger of ICICI into ICICI Bank.

Rani, Yadav and Jain41 examined the short run abnormal returns to India based mergers by using event study methodology. The short term effects were of interest because of the immediate trading opportunities that they created. They explored the present state of the Indian Pharmaceutical Industry and analysed some specific cases of acquisitions of foreign companies by Indian pharma majors. They calculated the abnormal returns and cumulative abnormal returns for foreign based acquisitions, mergers and Indian based acquisitions separately and concluded that abnormal returns were highest in case of foreign based acquisitions lowest (negative) for India based mergers.

Ravichandran, Nor & Said\textsuperscript{42} evaluated the efficiency and performance for selected public and private banks before and after the merger, as a result of market forces. After doing a factor analysis, they narrowed down the variables for their study to Profit Margin, Current Ratio, Ratio of Advances to Total Assets, Cost Efficiency (ratio of cost to total assets) and Interest Cover and thereafter a regression was run to identify the relationship between these factors and return on shareholders’ funds. The results indicated that cost efficiency, advances to total assets and interest cover are significant during both the pre and post-merger phases. Also the returns on shareholders’ funds is negatively related to cost efficiency and interest cover but is positively related to ratio of advances to total assets.

Saboo and Gopi\textsuperscript{43} studied the impact of mergers on the operating performance of acquiring firms by examining some pre-merger and post-merger financial ratios of these firms. He also compared the differences in pre-merger and post-merger ratios of the firms that go in for domestic acquisitions and international acquisitions. He observed that there were variations in terms of impact on performance following mergers depending on the type of firm acquired – domestic or cross-border. He thus concluded that mergers had a positive effect on key financial ratios of firms acquiring domestic firms while a slightly negative impact on the firms acquiring cross-border firms.

Saraswathi\textsuperscript{44} studied the merger of Global Trust Bank and Oriental Bank of Commerce. She inferred that this merger paved the way to several things in the transition period and pre merger strategy. It visualized the need for the diverse cultures to arrive at an understanding and to work hand in hand. She pointed out that, apart from the integration of diverse cultures, a way to inherit the advanced processes and expertise of the staff in a phased and systematic manner should be paved. She concluded that it was equally

\textsuperscript{43}Sidharth Saboo and Sunil Gopi, “Comparison of Post-Merger Performance of Acquiring firms (India) involved in Domestic and Cross-Border Acquisitions”, http://mpra.ub.uni-muenchen.de/19274/1/MPRA_paper_19274.pdf
important and challenging for the transferee bank in handling the issues relating to continuance of the services of employees of the transferor bank and their career planning.

Schmidt and Fowler 45 analysed a sample of 127 companies, of which 41 bidders that used tender offers to make acquisitions, 51 were non-tender offers acquirers and 35 were control firms. They observed that bidder companies which were involved in initiating hostile takeovers showed a significant decrease in post-acquisitions shareholder returns. They also added that both acquirers and bidders paid higher managerial compensation. And takeovers paid dividends for management in the form of higher compensation while they generated losses for shareholders of those companies that used tender offers and hostile takeovers to pursue the acquisition strategy. Therefore they concluded that there was a greater risk of shareholder losses and managers are gaining at shareholder’s expense. So the board needed to maximize shareholder’s wealth and not just provide financial assistance for managers.

Selvam. M 46 analysed the implications of stock price reactions to mergers and acquisitions activities taken place in banking industry with special reference to private and public sector banks. He found from the analysis that the share prices were market sensitive. From the financial analysis it was observed that majority of the banks went for branch expansion and this has affected profitability to some extent and it resulted in unhealthy competition among the players.

Singh 47 opined that the recent up tick in M&A deals reflected the release of pent-up demand. He observed that transactions slowed down after September 11 attacks. This was due to fall in stock prices. And since then, there seemed to be an improvement in the economy whereby, interest rate were still low and stock prices were rising and M&A deals were struck. Singh explained that the two long-term factors driving the resurgence of M&A were industry consolidation and globalisation. Singh concluded that companies

47 Harbir Singh “M&A ACTIVITY”, knowledge.wharton.upenn.edu/article.cfm?articleid=900
were looking beyond national borders to seek growth in global markets and mergers offered an objective to expand into new regions.

Sinha and Gupta\(^48\) examined the Mergers & Acquisitions scenario of the Indian Financial Services Sector. The data for eighty cases of M&A in the period from March 1993- Feb 2010 was collected for a set of ten financial parameters representing the various characteristics of a firm. They analysed all the cases individually and collectively to determine the overall effects of M&A in the industry. They observed that PAT and PBDITA have been positively affected after the merger but the liquidity condition represented by Current Ratio has deteriorated. Also Cost Efficiency and Interest Coverage had improved and deteriorated in equal number of cases. They concluded that Interest Coverage remains an important factor in determining the return on shareholders’ funds both before and after the merger but Profit Margin became important after the merger.

Sharma and Sharma\(^49\) analysed the foreign acquisitions by Indian firms during last six years. He found that the percentage of foreign acquisition by Indian firms was highest in IT/Software and BPO sector, i.e., 29.4% while foreign acquisition by Indian firms in pharmaceuticals & healthcare sector was 20.3% during last six years which was second highest. The number of foreign acquisition in IT/Software and BPO sector was 90 firms while pharmaceuticals and healthcare sector and other sectors were in second number with 62 foreign acquisitions. While in the automotive, chemical and fertilizers, consumer goods, metals and mining, oil and gas sectors, the number of firms acquired by Indian firms were 27 firms, 19 firms, 17 firms and 14 firms respectively.

Surjit Kaur\(^50\) compared the pre and post-takeover performance for a sample of 20 acquiring companies during 1997-2000, using a set of eight financial ratios 3, during a 3-


\(^{49}\) Dr.Vijay Kumar Sharma and Rakesh Kumar Sharma, “Cross-Border merger and acquisition with special reference to India” http://www.indianmba.com/faculty_column/fc720/fc720.html

year period before and after merger, using t-test. The study concluded that both profitability and efficiency of targeted companies declined in post-takeover period, but the change in post-takeover performance was statistically not significant.

Thambi 51 analysed the impact of Mergers on the performance of Indian companies. He evaluated the impact of Mergers on Indian companies through a database of 40 companies selected from CMIE’s PROWESS using paired t-test for mean difference for four parameters; Total performance improvement, Economies of scale, Operating synergy and Financial synergy. He concluded that Indian companies were no different than the companies in other part of the world and mergers failed to contribute positively in the performance improvement.

Tse and Soufani 52 (2001) examined the wealth effects on both acquiring and acquired firms using a sample of 124 transactions over the period 1990 to 1996. He sub-divided the sample into two merger eras to examine the effect of the prevailing economic performance on the abnormal returns; the first era was Low Merger Activity Era (LMAE) from 1990 to 1993 which was a trough period and included 65 transactions; and the second era was High Merger Activity Era (HMAE) from 1994 to 1996 which was a booming period, it included 59 transactions. The basic testing tool used was "event-study" to calculate cumulative abnormal returns for both eras. The results indicated that the returns on successful bids in HMAE were positive while returns in LMAE were negative. Marginally, returns in the HMAE were better than those in LMAE. His study suggested a link between the wealth effect and the economic conditions. He thus concluded that gains to target companies (acquired) were mostly positive while those to bidders (acquirer) were debatable.

Vanitha. S and Selvam. M 53 analysed the pre and post merger performance of Indian manufacturing sector during 2000-2002 by using a sample of 17 companies out of 58

(thirty percent of the total population). For financial performance analysis, they used ratio analysis, mean, standard deviation and ‘t’ test. They concluded that the overall financial performance of merged companies in respect of 13 variables were not significantly different from the expectations.

**Watson Wyatt** 54 examined the reasons for the success of M&As. He pointed out leadership as one of the critical factors for the success. He stated that leadership acted as a change agent, ensured sharing of information, created vision and values for the company and helped forging of cultures. All of these lead to integration in the M&A process. Wyatt also added that merger deals greatly depended on such issues of human resources. He thus concluded that leadership helped to optimize the post-acquisition integration in the organisation.

**Weston and Mansinghka**55 studied the pre and post-merger performance of conglomerate firms, and found that their earnings rates significantly underperformed those in the control sample group, but after 10 years, there were no significant differences observed in performance between the two groups. He concluded that the improvement in earnings performance of the conglomerate firms was explained as evidence for successful achievement of defensive diversification.

**Yeh and Hoshino**56 (2002) examined the effects of mergers on the firms' operating performance using a sample of 86 Japanese corporate mergers between 1970 and 1994. The successfulness of mergers was tested based on their effects on efficiency, profitability, and growth. He made use of total productivity as an indicator of the firm's efficiency or productivity, return on assets and return on equity as indicators of the firm's profitability, and sales and growth in employment to indicate the firm's growth rate. The results revealed that insignificant negative change in productivity, significant downward

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54 Watson Wyatt “HR ISSUES AND ACTIVITIES IN MERGERS AND ACQUISITIONS”, www.rci.rutgers.edu/schuler/mainpages/HR_MA.doc
trend in profitability, significant negative effect on the sales growth rate, and downsize in the workforce after mergers. He concluded that mergers had a negative impact on firm performance in Japan.

Yook\textsuperscript{57} (2004) tested the impact of acquisition on the acquiring firm’s financial performance by comparing pre and post-acquisition Economic Value Added (EVA) relative to the industry average. His analysis was based on a cross-sectional variation in EVA performance according to the following transaction characteristics namely types of acquisition, methods of payment, and business similarity. The sample comprised 75 of the largest acquisitions that occurred during 1989 to 1994 in the United States. He concluded that acquiring firms experienced significantly deteriorating financial performance after the acquisitions. When calculating industry-adjusted EVA, the difference is indiscernible, hence, the decline in raw EVA was grounded by industry effects. He also added that, tender offers consistently earned larger EVA than mergers. Hence, larger premiums paid in tender offers can be justified by higher operating performance.