In this chapter, the literature review which provides support for the proposed objective is presented. The review of literature is categorized into three broad perspectives. It starts with fundamental conceptualization, then secondly, the analysis of performance, and lastly, market reaction. The following chart provides a detailed picture about the chapter.

**Figure 1: Literature Review**
3.1 Fundamental conceptualization and process
The review of literature for the fundamental conceptualization has been presented under two heads: (a) Basic conceptual foundations and (b) mergers and acquisitions as a strategy. Firstly, in conceptual foundation the concepts and process is identified. Secondly, mergers and acquisitions are handy and useful mean to implement strategy. It can be helpful in most of the situations like expansion, diversification, etc. The different reviews for the same is presented as follows.

3.1.1 Basic Concept and Process
The model developed by Nakamura (2005) is employed to provide clear understanding about the

Source: Adapted from Nakamura (2005. p.18)
Mergers are commonly referred to as either ‘merger by absorption’ or ‘merger by establishment’ (Chunlai Chen and Findlay, 2003, Nakamura, 2005). Merger by absorption is the situation in which one company buys all stocks of one or more companies (i.e., absorbing) and the absorbed companies cease to exist whereas merger by establishment refers to the case where two or more firms are merged into a newly created one and the combining firms in the merger are dissolved (Chunlai Chen and Findlay, 2003). According to Nakamura (2005) merger by absorption could be considered as a de facto acquisition. Besides, suggested that the term ‘consolidation’ could be used to imply a merger by establishment (Gaughan, 2002).

It is noteworthy that the motivation behind an acquisition decision has an effect on the subsequent performance of the acquirer. In general, acquisitions that are motivated by managerial self-interest are often detrimental to shareholder value (Schoenberg, 2003). For example, a strong CEO and a weak board of directors can often lead to the CEO making acquisitions that are overpaid and do not increase the firm’s value, but instead strengthen the CEO’s personal position or increase his compensation (Hayward and Hambrick, 1997).

Haspeslagh and Jemison (1991) provide an organizing framework that groups M&A literature into three perspectives. First, the capital markets perspective explores the effects of M&A on the overall economy. Second, the strategy perspective explores the effects of M&A on individual firms. Finally, the organizational behavior perspective focuses on the effects of M&A on individuals. Haspeslagh and Jemison also identified a fourth, hybrid perspective, the process perspective, which combines elements of the strategy and organizational behavior perspectives. Following paragraphs presents the process perspective to provide the basis for the social constructionist approach to M&A integration.

Mergers and acquisitions are undertaken by companies for various reasons. Trautwein (1990) summarized the seven most prominent theories that are generally used to explain acquisition decision-making. He concludes that the most credible theories are the valuation, empire-building and process theories. Valuation theory states that firms carry out acquisitions when they have private information about the true value of the target company, and this true value is higher than the price of the firm (i.e. the firm is undervalued by the markets). The empire-building theory is
based on agency costs (Jensen, 1986) and proposes that managers make acquisitions in order to increase their personal value (e.g. salary or importance for the firm). The fairly new process theory views acquisitions as a result of a complex process instead of a distinct decision made by the firm. (Trautwein, 1990)

Other, moderately supported theories state that companies undertake acquisitions to e.g. gain synergies between the target and the acquirer (efficiency theory), or increase their market and bargaining power (monopoly theory). Furthermore, less supported theories view mergers as a result of changes in the macroeconomic environment (disturbance theory), or as takeovers where the often hostile buyer’s motive is to gain from reselling the company for a profit, either in parts or as a whole (raider theory). (Trautwein, 1990) Another classification divides acquisition motives in three broad groups. First of all, motives can be strategic, meaning that acquisitions are undertaken to achieve some distinct strategic goal. Strategic acquisitions can aim to e.g. increase a firm’s geographical or product market share, gain access to some valuable resources such as a distribution channel, or benefit from increased economies of scale. Second, acquisition can also be motivated by purely financial benefits, such as tax deductions or financial synergies. Thirdly, the motivation behind acquisitions can be managerial, which corresponds to Trautwein’s (1990) empire-building theory.

An acquisition’s price has a straightforward effect on its subsequent performance, as the price paid for a target has to be offset by the additional value created from the merger in order for the acquisition to create any abnormal returns to the acquirer (Schoenberg, 2003; Haspeslagh and Jemison, 1991). In other words, the acquisition creates value simply when its net present value (NPV) is positive. This is also illustrated in the image above (Figure 2: Value creation in acquisitions): All other things held constant, a lower price of the acquisition results in higher abnormal returns to the buyer. One common argument regarding bid price is that often an acquirer overestimates the synergies it can obtain from an acquisition, and therefore ends up paying too high an acquisition premium, which in turn results in the observed bad performance of acquisitions (Sirower, 1997: 46). However, a high bid premium does not by itself result in negative acquisition performance. It is also possible that the target is already undervalued by the market due to e.g. an information asymmetry discount of assets that are difficult to value (such as
R&D investments), and in these cases a higher bid premium could also be justified (Laamanen, 2007). Furthermore, the concept of bid premium is by definition only applicable to public targets. Therefore, when regarding the effects of bid price, total price paid for the acquisition should be considered. Factors affecting the bid price are the amount of bidders and the overall "mood" (friendly vs. hostile) of the bidding process. Competitive bidding between multiple potential buyers may result in the so-called winner's curse, a situation where competing bids drive the total price up until the acquisition's NPV is close to zero (Barney, 1988). Thus, friendly and less competitive acquisitions can result in lower acquisition price and consequently higher returns (Datta et al., 1992). This effect is somewhat moderated by information asymmetries between the target and acquirer: If the two firms operate in related businesses, the target is better aware of its true value to the buyer and can therefore demand a higher price (Flanagan and O'Shaughnessy, 2003).

Another factor that has been shown to have a positive impact on acquisition price is CEO hubris (exaggerated self-confidence) (Hayward and Hambrick, 1997). Overconfident directors often overestimate the value they can create from an acquisition, and end up paying too much for the target. Rau and Vermaelen (1998) argue that a relatively high portion of poor acquisitions have been undertaken by so-called “glamour” firms, which are already overvalued by the market and are characterized by a high level managerial over-confidence. The short-term returns from these acquisitions are often positive, which increases CEO hubris even further (Rau and Vermaelen, 1998). However, as more information on the actual value of the acquisition becomes available and the buyer’s market value is consequently corrected, the long-term returns are significantly negative. This is most evident during the dot-com boom of 1999-2000: In the bullish market nearly all acquisitions were valued highly positive by the market, but as the true value of the acquisitions became evident the market reacted by a huge drop in values (Moeller et al., 2005).

Some studies also show that the method of payment used in an acquisition has an effect on acquisition performance. The crux of the argument is that rational firms finance acquisitions using the most profitable means available; In particular, an acquiring manager tends to finance acquisitions primarily by stock if he feels his firm’s shares are overvalued, and by cash if he thinks the shares are undervalued (Travlos, 1987). Thus, the mode of payment should be a strong
indicator of the acquirer’s confidence regarding returns from the acquisition (Rau and Vermaelen, 1998).

On average, the long-term returns to acquirer have shown to be higher for cash transactions (Datta et al., 1992). For example, Loughran and Vijh (1997) studied the five-year period following an acquisition and found that the average returns for stock financed mergers created negative abnormal returns of -25.0%, whereas acquisitions paid by cash created positive returns of 61.7% to acquirer shareholders. In a more recent meta-analysis King and colleagues (2004) didn’t find any significant effect between different methods of payment, albeit with a much shorter observation window (1 to 16 days after the announcement).

3.1.2 Mergers and Acquisitions as strategy:

The developed countries of the European Union (EU15) and the United States, have been the largest acquirer and target countries of M&As. Over the 2003-2005 period, developed countries accounted for 85% of the USD 465 billion cross-border M&As, 47% and 23% of which respectively pertain EU15 and US firms either as acquirer or as target countries (UNCTAD (2006)).

As surveyed by Berger et al. (1999), a substantial literature investigates the causes and consequences of bank mergers. Bank M&As may be geared to exploit economies of scale or scope, improve the X-efficiency of the consolidating banks, may enable the merged banks to exercise increased market power, or may simply be motivated by the management’s desire for increased size.

The management literature on corporate mergers is extensive. Several authors note that mergers and acquisitions became a wide-spread phenomenon in the late 1980s and early 1990s, and are likely to continue in the coming years (Greenwood et al., 1994; Morgan, 1988). It has been estimated that, by the year 2000, one in four U.S. firms will have been involved in a merger (Fulmer, 1986). Corporate merger is used as a strategy to achieve corporate growth, economies
of scale, vertical integration, and diversification (Buono et al., 1985). The frequency of mergers and acquisitions in recent years has drawn much attention from researchers, and many different aspects of mergers have been examined.

Strategic alliances have attracted considerable academic interest (Todeva and Knoke, 2005). They identified thirteen types of strategic alliances based on the level of integration and governance formalization, ranging from market relations (lowest level) to hierarchical relations (highest level, such as mergers and acquisitions). This again indicates that there exists ambiguity in the definition and interpretation of the strategic alliance concept. For our purpose we used the definition of Burgers et al. (1993) to emphasize the contractual binding and stronger sense of common goals and challenges.

Zinn and Parasuraman (1997) classified logistics-based strategic alliances into four general types, as displayed in Figure 2. In their article, the authors provide illustrative examples of each of these generic types, as well as a list of their respective advantages and disadvantages. There is a tailored relationship based on mutual trust, openness, shared risk and shared rewards that yields a competitive advantage, resulting in business performance greater than would be achieved by firms individually (Lambert et al. 1999).

The extreme case of horizontal cooperation is a merger between companies. Although some authors regard a strategic alliance to be a suitable base for a merger between the partners (e.g., Nanda and Williamson 1995), Hagedoorn and Sadowski (1999) argue that these transitions occur very rarely (2.6 percent of all strategic alliances). An elaborate study of horizontal acquisitions could be found in Hakkinen (2005).

Previous studies on strategic alliances pointed out that turbulent external environments (e.g., Emery & Trist, 1965; McCann & Selsky, 1984), shrinking product life cycles, exploding R&D costs, and the increasing dispersion of skills and knowledge across firms and other organizations (Ohmae, 1989) have heightened the needs for strategic alliances (Gomes-Casseres, 1996; Hamel et al., 1989; Nohria & Eccles, 1992). At the same time, new product developments have been rightfully placed as a central dimension of a firm's strategic processes and a vital part of its
effectiveness (Brown & Eisenhardt, 1995; Eisenhardt & Tabrizi, 1995; Schilling & Hill, 1998). It is therefore natural for researchers to began to link strategic alliances and product development and expansion (Brown & Eisenhardt, 1997; Kotabe & Swan, 1995; Lei, 1997). However, from the emerging literature on this nexus, it is unclear whether or not strategic alliances will influence new product development, and if so in what fashion.

3.2 Analysis of Performance

Post merger performance can be analyzed by different methods. For our purpose, five different aspects of performance measurement was done by using

1. The trend analysis
2. Market performance
3. Valuation and
4. Statistical tools
5. strategies

which supports the mergers and acquisitions is presented. The plenty of research has been carried out in this area of mergers and acquisitions. The details of review are as follows.

According to Indian corporate history has been a breeding ground for some groundbreaking and fantastical M&A deals over the past two decades especially since the liberalisation of trade in 1991. Kaur compared the pre merger and post merger performance of acquiring companies using a set of financial ratio. The study concluded that profitability and efficiency declined post acquisition but there was no statistically different performance. However Pawaskar who undertook the same study using firms during 1992-95 and ratios of profitability, growth, leverage and liquidity concluded that acquiring firms performed better then industry average in terms of profitability. When he performed a regression analysis, he found that to the contrary of earlier finding, there was no increase in post merger profits compared to the industry average.
Pramod Mantravadi and A Vidyadhar Reddy analysed the post merger performance of acquiring firm’s different industries in India. The study found that there are minor variations in terms of impact on operating performance following mergers, in different industries in India.

Empirical testing of post merger performance of Indian companies has so far been proved inconclusive in order to derive any meaningful inference. The studies were also highly skewed in favour of a particular sector especially manufacturing ones and have a time period bias as only short time intervals were chosen to measure the performance.

3.2.1 Trend Analysis

Beena (2004) had presented the trend analysis for mergers and acquisitions in India. She presented the trend analysis for the year 1990 to the year 2000 in form of manufacturing and non manufacturing firms owned by the domestic and foreign organizations. The evidence based on the crisis-hit countries showed that TNCs had acquired local firms that were competing with them in the same market prior to the Acquisition (Zhan & Ozawa 2001).

The antitrust law force of the 1920s was stricter than the period of the first merger wave. With a more strict environment, the second merger wave created fewer monopolies, but more oligopolies and many vertical integrations (Gaughan, 1996).

Andrews (1951) further argued that general management skills contributed to diversification, helping to create “successful diversification—because it always means successful surmounting of formidable administrative problems—develops know-how which further diversification will capitalize and extend”

The participation of foreign controlled firms in the M&As process has increased significantly during the second half of the nineties. According to Saha (2001), around 37.7 per cent of the total Foreign Direct Investment (FDI) made by multinational corporations (MNCs) during 1991-1998 was financed through cross-border M&As activity, either through Acquisition of substantial equity stakes in existing ventures or through buy-out of real assets through asset-sales.
3.2.2 Cross-Border Integrations:

There has been an extensive research on the merger and acquisition activities. Most of the studies have focus on the evaluation of the pre- and post-acquisition performance in both short and long run. Several studies were also conducted to examine the determinants of M&A performance by using different hypothesis. There are only a few studies which are dedicated to examine the impact of cross-border M&A activities on Indian firms.

Evenett (2003) presents evidence that the value of American outward M&A in a recipient country depends on the recipient nation’s gross domestic product, the distance from the United States, the recipient nation’s corporate tax rate and average tariff rate, and whether or not the recipient nation was once a British colony. The latter variable is taken to identify whether the recipient nation is more likely to use English as the language of business and to have a common law system. The presence of merger review laws in the host country was also found to reduce the amount of American M&A received.

More recently, Rossi and Volpin (2003) conducted an econometric study of cross-country determinants of international and domestic M&As. With reference to location-specific determinants of international M&A activity, they found that firms in countries with weaker investor protection are more likely to be acquired than those in countries with stronger investor protection, whereas buyers are more likely to be from countries with relatively strong investor protection. They also found that countries with more concentrated ownership have more M&As, including international M&As.

In Whette’s (2003) terminology, the dissertation seeks to make a contribution to the literatures on MNC cross-border integration and subsidiary management by introducing contributions from the sense making literature and the literature on strategy-as-practice and micro politics. The dissertation thus seeks to engage in a scholarly conversation (Huff 1999; 2002) with academics interested in cross-border integration and subsidiary management by widening the discourse.
towards considerations of the perspectives of sense making and strategy-as-practice and micro politics.

The desire to achieve integration may further require the creation of coordination mechanisms to ensure ongoing alignment. This becomes clear if we consider Mintzberg’s (1983a) six coordination mechanisms: mutual adjustment, direct supervision, and standardization of work processes, standardization of outputs, standardization of skills and standardization of norms. This illustrates that stronger coordination in the form of different types of standardization may be required to align ‘integrated organizational units given the higher degree of interdependence compared with independent, autonomous operations.

Integration can also be used to refer to the value creating activities of the corporate headquarters. In this context, Burgelman and Doz (1996) have argued that “strategic integration” ultimately is concerned with how corporate management creates value over and beyond the sum of the parts of the separate businesses within a company. With this definition, strategic integration thus provides the rationale for the existence of headquarters and for grouping a set of businesses under one owner. There are clear parallels here with Goold, Campbell and Alexander’s (1994) discussion of corporate parenting and the conditions under which the corporate parent creates value in the multi-business firm.

In the MNC strategy literature, ‘integration’ is sometimes referred to as a singular construct, often contrasted with ‘responsiveness’ as in the integration-responsiveness (IR) grid (Bartlett, 1986; Bartlett & Ghoshal, 1987a; Bartlett & Ghoshal, 1987b; Bartlett & Ghoshal, 1988; Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987). However, Prahalad and Doz (1987) argue that “integration” is in fact composed of two building blocks. The first element, ‘global integration of activities’, refers to centralized management of dispersed activities on an ongoing basis to reduce costs and optimize investments. The second element, ‘global strategic coordination’, instead refers to coordination of resource commitments and strategic decisions across organizational units in different countries. In contrast to global integration of activities, strategic coordination can be selective and non-routine. But as they assume a high degree of interdependence between