II.1. Literature Survey

There have been numerous studies on merger and acquisitions (M&As) in India and abroad in the last few decades, and several theories have been proposed and tested for empirical validation by researchers. Researchers have studied the economic impact of M&As on industry consolidation, returns to shareholders following M&As, and the post-merger performance of firms. Whether or not a merged firm achieves the expected performance is the critical question that has been examined by most of the researchers, resulting in the proposal of several measures for analysing the impact and success of mergers. Such measures have included both short-run, as well as long-run impacts of merger announcements, effects on shareholders’ wealth (SW) and more.

A number of studies were done in the developed capital markets of Europe, Australia, China, India, and the USA on the evaluation of corporate financial performance following mergers. Lubatkin (1983)\(^1\) analysed the findings of various studies that have investigated either directly or indirectly the question, “Do mergers provide real benefits to the acquiring firms?”, which resulted in the suggestion that acquiring firms might benefit from merging because of technical, monetary and diversification synergies. Healy et al. (1992)\(^2\) listed several reasons given by chief executive officers (CEOs) to justify a merger or acquisition, which include: to obtain synergies, economies of scale, cost savings, increased products, and rationalisation of distribution channels.
Harari (1997)\(^3\) analysed on cost efficiency, economies of scale, and the scope of the Taiwanese banking industry, specifically focusing on how bank mergers affect cost efficiency, and concluded that bank merger activity is positively related to cost efficiency. According to Hopkins (1999)\(^4\), Peng and Wang (2004)\(^5\), Epstein (2005)\(^6\), and Duncan and Mtar (2006)\(^7\) M&As can enhance cost efficiency. So, the need question is, why are some M&As more successful than that of the others. Many a time, the answer has been sought in case studies. But, Coontz (2004)\(^8\) stated that M&As did not improve the SW of the acquiring firms rather it actually decreased it.

In many respects, the process of M&As is a world of paradox. Stahl and Mendenhall (2005)\(^9\) stated that many researchers have proved that M&As fail to create additional value for the shareholders, and are for that reason are said to be unsuccessful. They also claim that waves of M&As have been seen time and again in history and researchers agree that this is a continuous process as long as it is attractive and beneficial. Hence, some firms should gain something from their decision in M&As as the popularity of the transactions would otherwise logically fall. The potential benefits of interacting in international transactions are access to new markets, new technology, successful brand names, and well-functioning distribution networks. Some firms – for example, general electric – have grown rapidly from acquisitions and seem to be able to handle them successfully (Stahl and Mendenhall, 2005)\(^10\) however, M&As in the USA banking sector did not show a positive impact on performance in terms of improved financial efficiency. Pazarskis Collins et al. (2006)\(^11\) examined empirically the impact of M&As on the OP of firms in Greece; there is a strong evidence that the profitability (P) of a firm decreases due to the M&As event. Long and Young (2007)\(^12\) examined post-acquisition performance for 50 largest USA mergers between 1979 and 1984 by measuring cash flow performance and concluded that the OP of merging firms improved significantly following acquisitions. Vanitha and Selvam (2007)\(^13\) stated that the merging firms were taken over
by firms with reputed and good management and therefore, it was possible for the merged firms to turn around successfully in due course. Mantravadi and Reddy (2008)\textsuperscript{14} stated that the type of industry does seem to make a difference to the post-merger OP of acquiring firms. According to McGowan and Sulong (2008)\textsuperscript{15} who studied the effect of M&As completion announcement on the stock price behaviour for two anchor banks in Malaysia, the M&As completion announcements are treated as positive information by the market. Azhagaiah and Sathishkumar (2011)\textsuperscript{16} proved that Indian manufacturing corporate firms involved in M&As have achieved an increase in the liquidity position, operating performance, profitability, and financial and operating risk which leads to an increase in the overall efficiency of the acquiring firms. They also proved that the acquiring corporate firms in India appear to have performed well financially after the merger, as compared to that of in the pre-merger period.\textsuperscript{17}

II.2. Review of Literature

II.2.1. Studies of M&As in Respect of Accounting Performance

The following review of literature comes under the OP of acquiring firms after merger.

Simkowitz and Monroe (1971)\textsuperscript{18}, in a study titled “A Discriminant Analysis Function for Conglomerate Targets” used multiple discriminant analysis (MDA) to study conglomerate target firms merged in 1968. Data from the COMPUSTAT tapes for 25 non-merged firms and 23 merged firms were used to construct the discriminant function. A holdout group of 23 firms was used to test the discriminant function derived from the analysis groups. 24 variables were selected to provide a quantitative measure of (1) growth, (2) size, (3) profitability, (4) leverage, (5) dividend policy, (6) liquidity, and (7) stock market characteristics. Of the original 24 variables, seven high market activity, price earnings ratio, past three years’ dividends, growth in equity, sales, loss carryover, and the ratio of the last three years’ dividends to common equity were found to be significant.
Weston and Mansinghka (1971)\textsuperscript{19} carried out an analysis on “Tests of the Efficiency Performance of Conglomerate Firms” and studied the pre-and post-merger performance of conglomerate firms, and found that their earning rates significantly underperformed in those control sample group, but after 10 years, there were no significant differences observed in performance between the two groups. The development in earnings performance of the conglomerate firms was explained as evidence for successful achievement of defensive diversification.

Pinches and Mingo (1973)\textsuperscript{20}, in a study entitled “A Multivariate Analysis of Industrial Bond Ratings” applied factor analysis to classify 51 log-transformed financial ratios of 221 firms for four cross sections six years apart. The study identified seven factors viz., return on investment, capital intensiveness, inventory intensiveness, financial leverage, receivables intensiveness, short-term liquidity, and cash position. These factors explain 78\% to 92\% (depending on the year) of the total variance of the 51 financial ratios. Moreover, the correlations for the factor loadings and the differential R-factor analysis indicate that the ratio patterns are reasonably stable over time.

Ikeda and Do (1983)\textsuperscript{21}, in a study “The Performance of Merging Firms in Japanese Manufacturing Industry during 1964 – 1975” examined the financial performance of 49 merging corporate firms in the Japanese manufacturing industries over the period from 1964 to 1975. The study performance was tested on parameters, such as, profitability, efficiency, firm growth, and research and development. The study reported financial performance results for two time periods: three years and five years, which indicate that the profitability was higher in the five year period, showing increase for 25 corporate firms than that of for 19 firms in the three year period.

Meador et al. (1996)\textsuperscript{22}, in a work “Development of Prediction Models for Horizontal and Vertical Mergers” examined the accounting, financial, and market variables which predict M&As target firms for this active time of business combinations. A sample of firms which experienced combination period was
matched with non-merged firms similar in industry and asset size. Logistic binary regression analysis was used to determine the factors which predicted M&As target firms for the total sample, and then for the horizontal and vertical subsamples of the merged firms. The model for horizontal acquisition showed strongest predictive ability, with the variables viz., long-term debt / total assets, long-term debt / market value, market value / book value, asset growth, and sales growth showing significance, and lead to support the contention that the wave of horizontal M&As during the 1980s was possibly the result of undervaluation of assets due to previous high inflation and the conservatism dictated by accounting principles, coupled with the laissez-faire attitude of the government during the period.

Sankar and Rao (1998)\(^{23}\) made an empirical study entitled “Takeovers as a Strategy of Turnaround” and analysed the implications of M&As from the financial point of view with the help of certain parameters like liquidity, leverage, profitability and more. They observed that if a sick firm is taken over by a good management and makes serious attempts, it is possible to turn it around successfully.

Pawaskar (2001)\(^{24}\), in a study entitled “Effect of Mergers on Corporate Performance in India” compared the pre-and post-merger OP of the corporations involved in merger between 1992 and 1995 to identify the financial characteristics. The study identified the profile of the profits. Regression analysis showed that there was no increase in post-merger profits. The study of a sample of firms restructured through M&As showed that the merging firms were at the lower end in terms of growth, tax, and liquidity of the industry. The merged firms performed better than the industry performance in terms of profitability.

Heron and Lie (2002)\(^{25}\) carried out an analysis entitled “Operating Performance and the Method of Payment in Takeovers” wherein they investigated the relation between the method of payment, earnings management, and OP. The study depended on a sample of 959 M&As (mergers and tender
offers) announced and completed between January 1985 and December 1997, where current and long-term accumulations have been separately used to detect any earnings management. The operating income over sales ratio has been used to examine the OP. The OP of the sample firms was compared with two standards to separate the factors beyond the M&As transaction that may affect the performance. First, the study compared the pre-merger performance of the merged firms with similar industry counterparts. Second, it compared the post-merger performance with industry-adjusted performance. The study suggested that acquiring firms exhibit superior to OP relative to their industry counterparts prior to M&As and continue to exhibit performance levels in excess of their respective industries; however, no evidence was found on earnings management effects; no difference was found in the OP across different methods of payment. In difference to the previous studies that reported increased OP for firms using cash as the method of payment when compared to the firms paying stocks, the study found no evidence for such relation.

Ming and Hoshino (2002)\textsuperscript{26}, in an article “Productivity and Operating Performance of Japanese Merging Firms: Keiretsu-related and Independent Mergers” examined the effects of M&As on the firms’ OP using a sample of 86 Japanese corporate mergers between 1970 and 1994. The success of M&As was tested based on their effects on efficiency, profitability, and growth. The study used 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 reveal insignificant negative change in productivity, significant downward trend in profitability, significant negative effect on the sales growth rate, and downsize in the workforce after M&As. In general, the study concluded that M&As have a negative impact on firms’ performance in Japan.

Ramaswamy and Waegelein (2003)\textsuperscript{27}, in an analysis “Firm Financial Performance Following Mergers” tested the long-term post-merger financial performance of merged firms in Hong Kong to determine relationships...
between post-merger performance and firm size, the compensation plan, method of payment, and industry type. The study sample consisted of 162 merging firms from 1975 to 1990, and the analysis covered five years pre-and post-merger (using operating cash flow returns on market value of assets as the measure of performance). The study concluded that there is a positive significant improvement in the post-merger performance; there is a significant association between post-merger performance and differences in the relative sizes of the combining firms; firms acquiring comparatively larger firms have a more difficult time digesting those firms and in effectively integrating them into the firm’s operation; firms with long-term compensation plans have more positive post-merger financial performance; firms in dissimilar industries “conglomerate mergers” experienced better post-merger financial performance than that of the firms in similar industries. M&As from 1983 to 1990 experienced poor post-merger performance in comparison to those before 1983. Therefore, the study is an extensive one that not only determined the effect of M&As on long-term performance but pinpointed factors behind such performance.

Beena (2004)²⁸, in a work “Towards Understanding the Merger Wave in the Indian Corporate Sector – A Comparative Perspective” analysed the pre-and post-merger performance of a sample of 115 acquiring firms in the manufacturing sector in India, during 1995 – 2000, using a set of financial ratios and paired two samples t-test. 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. In short, the number of merging firms—which is less than 10% of all firms in the industry—overall performance is far better than that of the others and their own pre-merger period performance, thereby leading to conclude that if the industry is able to transfer a part of its improved performance due to consolidation to the consumers in the form of a price reduction and a better quality of drugs, it would be a welcome sign; and on the other hand if it leads to increased market power and consequent price rise, then it would deserve special attention.
Ehsan et al. (2005), in their study “Performance Measurement in Corporate Governance: Do Mergers Improve Managerial Performance in the Post-Merger Period?” assessed the effect of M&As activity on the performance of USA firms. The study sample of 45 pairs of merged firms, over a period of five years pre-and post-merger, were tested. The study used data envelopment analysis (DEA) to determine the managerial efficiency impact of the merger by comparing the combined efficiency of the acquired and the acquiring firm prior to the merger with the efficiency of the merged firm during the post-merger period. The study findings indicated that the managerial efficiency of a majority (82%) of sample firms had improved in the post-merger period.

Pazarskis Collins et al. (2006), in a study entitled “Exploring the Improvement of Corporate Performance after Mergers – The Case of Greece” examined, empirically, the impact of M&As on the OP of M&As–involved firms in Greece. The study used financial and non-financial characteristics, and the post-merger performance of 50 Greek firms, listed at the Athens Stock Exchange that executed at least one merger or acquisition from 1998 to 2002. Selected accounting variables (financial characteristics) were used to measure OP and compare pre-and post-merger firm performance for three years before M&As and three years after M&As. The results were then evaluated on the basis of certain non-financial characteristics (type of merger, method of evaluation and payment), and financial characteristics (a set of seven selected financial ratios). The main finding of the study was that there was strong evidence that the profitability of a firm that performed an M&As decreased due to the M&As event.

Cabanda and Pascual (2007), in a study entitled “Merger in the Philippines: Evidence in the Corporate Performance of William, Gothong, and Aboitiz (WG&A) Shipping Companies” analysed the financial and OP of Philippine shipping firms resulting from the M&As event, based on the economic-finance perspective. The study covered three periods of analysis: (i) three years prior to merger, (ii) three years immediately after merger for the short-run analysis, and (iii) seven years after the merger for the long-run
analyses. The study covered the period from 1994 to 2003, and applied the conventional accounting and financial approaches for analysing the effects of M&As on firm performance. The study showed that pre-and post-merger values obtained show mixed results. Some measures of firm performance, such as, *acid test ratio, total asset turnover, and net revenues* suggest statistically significant gains in the long-run. Other performance indicators, such as, *net income, return on assets, return on sales, return on equity, net profit margin, capital expenditure, capital expenditure / sales, and capital expenditure / total assets* did not show significant gains after M&As in the short-run. The study finally concluded that mergers in the Philippine shipping industry do not lead to improved performance in both the short-run as well as in the long-run.

Gantumur and Stephan (2007)\(^{32}\), in a study “Merger, Acquisitions and Innovation Performance in the Telecommunications Equipment Industry” analysed the innovation determinants of M&As activity, and the consequences of M&As transactions on the technological potential and the innovation performance. The study examined the telecommunications equipment industry over the period 1988 – 2002 using 638 newly created data sets with firm-level data describing M&As and innovation activity, as well as financial characteristics. Based on a matching propensity score procedure, the study provided evidences that M&As realize significantly positive changes to the firm’s post-merger innovation performance. The study delivered insights into the desirability of M&As for the innovation performance of firms by analysing the M&As that took place in the international telecommunications equipment industry from the late 1980s until the early 2000s. The study concluded that, on an average, M&As realize significantly positive changes to the innovation performance of firms following M&As. The post-merger changes are driven by both the success in R&D activity and the weakness in internal technological capabilities at acquiring firms prior to a merger.

Vanitha and Selvam (2007)\(^{33}\) who carried out an analysis entitled “Financial Performance of Indian Manufacturing Companies during Pre-and
Post-merger” took a sample of 30% of firms from the total population (that is 17 firms out of 58). They used ratio analysis, mean, standard deviation, and two samples paired t-test as the tools of analysis and found that in India, merging firms were taken over by firms with reputed and good management; therefore, it was possible for the merged firms to turn around successfully in due course.

Kumar and Bansal (2008), in their study “The Impact of Merger and Acquisitions on Corporate Performance in India” attempted to analyse whether the claims made by the corporate sector while going for M&As to generate synergy are being achieved or not in the 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. The study used ratios and correlation matrix for analysis, and found that in many cases of M&As, the acquiring firms were able to generate synergy in the long run, which might have been in the form of higher cash flow, more business, diversification, cost cuttings and more.

Lau et al. (2008), in a work entitled “Accounting Measures of Operating Performance Outcomes for Australian Mergers” examined the OP of merged firms, compared to the performance of the pre-merger targets and acquirers, with a sample of 72 Australian mergers during 1999 – 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 M&As, which is defined in terms of an improvement in each merged firm’s industry adjusted OP between the pre-and post-merger period. The study provided some evidence that M&As improved post-merger OP.

Mantravadi and Reddy (2008), in a study entitled “Post-merger Performance of Acquiring Firms from Different Industries in India” attempted to study the impact of M&As on the OP of the acquiring corporate firms of different industries, by examining some pre-and post-merger financial ratios, with the sample of firms chosen as all M&As involving public limited and
traded firms in India during 1991 – 2003. The study suggested that there are minor variations in terms of impact on OP following M&As in different industries in India. In particular, M&As seem to have had a slightly positive impact on the profitability of firms in the banking and finance industry, while the pharmaceutical, textiles, and electrical equipment sectors saw a marginal negative impact on OP (in terms of profitability and returns on investment). For the chemicals and agri-products sectors, M&As had caused a significant decline, both in terms of profitability margins as well as returns on investment and assets.

Kumar (2009)\(^3\), in a work entitled “Post-merger Corporate Performance: An Indian Perspective” examined the post-merger OP of a sample of 30 acquiring firms involved in M&As activities during 1999 – 2002 in India. The study attempted to identify synergies, if any, resulting from mergers. The study used accounting data to examine M&As–related gains to the acquiring firms. It was found that post-merger profitability, assets turnover, and solvency of the acquiring firms showed no improvement when compared with pre-merger values.

Sidharth and Sunil (2009)\(^3\), in a research study “Comparison of Post-merger Performance of Acquiring Firms (India) Involved in Domestic and Cross-border Acquisitions” attempted to study the impact of M&As on the OP of acquiring firms by examining some pre-and post-merger financial ratios and to study the differences in the pre-and post-merger ratios of the firms that went in for domestic M&As, and the firms that went for the international / cross-border M&As. Data on key financial ratios depicting the OP for up to two years after the acquisition year and two years before the acquisition year was collected from the database viz Capitaline. The study sample of 54 firms was used. The study used t-test (paired two samples for means), and the pre-and post-merger performance was tested. Only M&As where the equity stock of the acquiring firm was issued to firm-acquired (target) shareholders, as consideration for the acquisition / merger, have been considered for the study. Instances where there have been cash acquisitions are
excluded from the study to ensure comparability of results across the sample. The study proved that there are variations in terms of impact on performance following M&As, depending on the type of firm acquired-domestic or cross-border. In particular, M&As have had a positive effect on key financial ratios of acquiring domestic firms while a slightly negative impact on the acquiring cross-border firms.

Gurusamy and Radhakirishnan (2010)\(^9\), in a study “Merger and Acquisitions – An Empirical Study on Pre-and Post-acquisition Performance of Selected Indian Corporate Sector Enterprises” analysed the impact of M&As on the performance of selected corporate sector enterprises in four industries groups (chemicals drugs and fertilizers industry, basic metal industry, IT and telecom industry, and manufacturing of machinery and equipment industry) in India. The study has used secondary data to analyse the pre-and post-M&As performance of the 117 acquiring firms and for this purpose the data collected spans over 12 years ranging from 1994-95 to 2005-06. The study used statistical tools, namely, trend analysis, one way ANOVA, factor analysis, and cluster analysis. The study proved that the post-acquisition performance of the acquiring firms’ profitability, assets utilization, debt utilization, cost utilization, liquidity, and capital structure had not uniformly changed in all the sample industries. The horizontal, vertical, and conglomerate M&As had no uniform impact to change the post-acquisition performance of the sample industries. However, horizontal M&As have greater influence in improving the post-acquisition performance when compared with the other two types of M&As, namely, vertical and conglomerate.

Mishra and Chandra (2010)\(^{40}\), in a work entitled “Mergers, Acquisitions, and Firms Performance: Experience of Indian Pharmaceutical Industry” attempted to examine the impact of M&As on the financial performance of Indian pharmaceutical firms. The sample for the study consisted of a set of 52 listed drugs and pharmaceutical firms over the period from 2000-01 to 2007-08. The study used descriptive statistics and multiple regression analysis to measure
the OP of the acquiring pharmaceutical (chemical) firms in India. The study found that the profitability of a firm depended directly on its size, selling efforts, and exports and imports intensities but inversely on their market share and demand for the products. However, M&As did not have any significant impact on profitability of the firms in the long-run. In addition, in-house research and development (R&D) and foreign technology purchase also did not have any significant impact on the profitability of the firms.

Pazarskis Collins et al. (2010)\textsuperscript{11}, in a study titled “The Post-Merger Performance of Greek Acquiring Listed Firms: An Accounting Analysis” examined the impact of M&As on the OP of M&As–involved firms in Greece. From a sample of 560 M&As transactions in the period from 2003 to 2005, only 40 of them were examined as the concerned firms listed on the Athens stock exchange, which had executed at least one M&As as acquirers during the period. These 40 Greek firms’ post-merger performance was investigated using accounting data. For the purpose of the study, a set of ten accounting ratios was employed in order to measure the firms’ OP comparing pre-and post-merger OP for two years before and two years after the M&As announcements. The results revealed that two (current ratio and total debt ratio) out of 10 accounting ratios had changed significantly due to the M&As event two years later; the former increased and the later decreased, respectively. The remaining eight ratios, including two examined profitability ratios, did not change significantly. Also, concerning the analysis of the same M&As events in different time intervals, the study concluded that the exact time of merger actions was influenced with a different relative change of the post-merger performance of acquiring firms; M&As have had a particular impact (positive and negative) on the post-merger OP of merger-involved firms only at some specific accounting ratios.

Singh and Mogla (2010)\textsuperscript{42}, in an analysis “Profitability Analysis of Acquiring Companies” examined the profitability of acquiring firms in the pre-and post-merger periods. They took a sample of 153 listed merged corporate firms, the data were compiled from 1993 to 2003, categorizing the sample acquirer...
corporate firms on the basis of the financial health of the target in the pre-merger period. The first category comprised the acquirers which were merged with loss-incurring firms, while the second group comprised acquirers merged with financially healthy firms. ‘Loss-incurring’ is defined as the negative average net profit margin (\(NPM\)) in the three years prior to merger. By following the said criterion, two groups of acquirers were identified, that is, 38 sick acquisitions and 115 healthy acquisitions. The study performance was tested on parameters, such as, operating profit margin (\(OPM\)), net profit margin (\(NPM\)), return on net capital employed (\(ROCE\)), return on net worth (\(RONW\)), and net asset turnover ratio (\(NATR\)) to determine the profitability of acquiring firms.

The study used paired samples t-test to assess the difference in performance between pre-and post-merger periods. The study indicated that a majority (55%) of the corporate firms reported a decline in performance after merger. Only 29% of the corporate firms could improve their performance following the merger. The profitability results were not healthy in the post-merger period of the acquiring firms. The study indicated that a few corporate firms, though \(OPM\), \(NPM\), and \(ROCE\) declined \(RONW\) improved in the post-merger period. The \(ROCE\), which is called the master ratio, seemed to be the better measure of profitability than the \(RONW\). The DuPont analysis used reveals that \(OPM\) improved significantly while \(NATR\) declined significantly following the merger.

Wilson (2010)\(^43\), in a paper “Performance Impact of Merger and Acquisitions in Ghana-The Case of Guinness Ghana Breweries Group” explored the effect of the consolidation between Guinness Ghana Limited and Ghana Breweries Limited on the financial performance of the new firm, Guinness Ghana Breweries, using financial ratios of profitability, activity, liquidity and shareholder from 2000 to 2009 representing five years of pre-merger and five years of post-merger years respectively, to ascertain the changes in financial ratios as a basis for assessing performance. The study revealed that whereas the ratios generated did not show an increase in performance, the two samples paired t-test proved that there was no statistically significant decrease in performance.
of the group as a result of the M&As. However, the t-test conducted found that there was no significant difference in performance between pre-and post-merger period between the two firms. Therefore, it did not really a matter whether they operate as individual firms or as a group. In other words, even though the ratios analysed showed a downward trend of performance, the t-test revealed that the differences were not significant. Thus, M&As may not necessarily lead to enhanced performance and corporate consolidations do not produce the expected outcomes. In this recent age of globalization where the wave for such consolidations is creative, extra care must be taken while executing such deals since they may not necessarily produce the expected outcomes.

Azhagaiah and Sathishkumar (2011)\textsuperscript{44}, in a study “Corporate Restructuring and Firms’ Performance: An Empirical Analysis of Selected Firms Across Corporate Sectors in India” analysed the impact of M&As in the short- run period, viz., compared the firms’ performance three years prior to M&As, and three years immediately after M&As covering an overall period from 2004 to 2010. The sample units (firms) drawn were based on the list of firms that ventured into the M&As process with the help of the comprehensive list provided during the calendar year 2007. Fifty-two corporate firms underwent M&As activities, out of which 12 firms were only considered for analysis based on full-fledged data availability.

The study tested two hypotheses; whether, there have been significant improvements in the corporate performance of Indian manufacturing corporate firms following the merger event, using a parametric statistical t-test. The study used ratios, such as, current ratio, quick ratio, working capital turnover ratio, inventory turnover ratio, total asset turnover ratio, fixed assets turnover ratio, gross profit margin, net profit margin, operating leverage, net fixed assets relative to net worth, and total liabilities relative to net worth ratios to measure the corporate performance of acquiring firms after merger. The study showed mixed results of pre-and post-merger values computed, proving that Indian manufacturing corporate firms involved in M&As have achieved
an increase in the liquidity position, operating performance, profitability, and reduced financial and operating risk; the overall efficiency of acquirer firms is also increased. Statistical analysis supported a significant relationship between the pre-and post M&As level of the corporate firms’ performance.

**Azhagaiah and Sathishkumar (2011)**, in a study titled “Merger and Acquisitions: An Empirical Study on the Short-term Post-merger Performance of Corporate Firms in India” attempted to analyse the impact of M&As with a sample of 20 firms listed in one of the leading Indian stock exchanges, namely the Bombay Stock Exchange. The study aimed at comparing the liquidity performance of the sample acquiring firms using ratio analysis and two samples paired t-test during the study period of three years before and three years after the period of mergers. The study used financial ratios to measure the corporate performance of pre-and post-merger, such as, current ratio, quick ratio, working capital ratio, net profit ratio, operating profit ratio, return on investment ratio, net worth ratio, debtors turnover ratio, fixed assets turnover ratio, total assets turnover ratio, working capital turnover ratio, debt equity ratio, interest coverage ratio, and total borrowing & equity to EBITD. Overall, it was found and proved that merging corporate firms in India appear to have performed better financially after the merger, as compared to their performance in the pre-merger period.

**Azhagaiah and Sathishkumar (2011)**, in a study titled “A Study on the Short-run Profitability of Acquirer Firms in India” studied the impact of business restructuring on the profitability of the chemical industry in India with a sample of 10 firms listed in one of the leading Indian stock exchanges, namely, the Bombay Stock Exchange. Profitability was tested on parameters, such as, gross profit ratio (GPR), operating profit ratio (OPR), and net profit ratio (NPR). The study used paired samples t-test to compare the pre-and post-merger performance for the study period of three years before and three years after merger. The study revealed that there has been a significant increase in short-run post-merger OPR of four acquiring firms,
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GPR of five acquiring firms, and NPR of five acquiring firms although there has been an increase in OPR, GPR, and NPR for all the sample firms on the profitability. The study finally concluded that there is a significant positive impact of M&As on the short-run post-merger profitability of acquiring firms of the chemical industry in India.

Azhagaiah and Sathishkumar (2011) in a study entitled “Corporate Restructuring in India: An Empirical Analysis Across Corporate Sectors in India” analysed the impact of M&As of the firms’ performance in a few number of selected Indian corporate firms. The study considered a three year period before and a three year period after the process of M&As. The study used paired samples t-test. The firms’ performance was tested on parameters, such as, liquidity position by use of current ratio and quick ratio, working capital position from the working capital turnover ratio and inventory turnover ratio, operating efficiency position from the total assets turnover ratio and fixed assets turnover ratio, profitability position from the gross profit ratio and net profit ratio, and financial risk position from the long term debt to equity ratio and total debt to total assets ratio of acquiring firms in the pre-and post-merger period. The study concluded that the Indian corporate firms involved in M&As had achieved an increase in liquidity, working capital, operating efficiency, and profitability position in the horizontal M&As in line, and the overall efficiency of those firms had also increased.

Bertrand and Betschinger (2011), in a study entitled “Performance of Domestic and Cross-border Acquisitions: Empirical Evidence from Russian Acquirers” investigated the impact of domestic and international M&As initiated by Russian firms on their OP. In general, M&As can be associated with synergy gains, internalization advantages, and higher market power. However, M&As may also give rise to agency problems as well as new integration and organizational costs, leading to vague overall impact on the performance of acquirers. Based on a sample of more than 600 acquirers, the study used descriptive statistics and multiple regression analysis for measuring the OP of the acquiring firms.
The study showed that both domestic as well as international M&As tend to reduce the performance of acquirers when compared to non-acquiring firms. The results suggested that Russian acquirers suffer from the inability to leverage value due to limited M&As experience and capability, especially when making international acquisitions.

**Indhumathi et al. (2011)**\(^{49}\), in an analysis “The Effect of Mergers on Corporate Performance of Acquirer and Target Companies in India” attempted to compare the performance of the acquiring and target firms before and after the period of M&As by using ratio analysis and two samples paired t-test during the study period of three years before and three years after M&As. The study was limited to a sample of 13 firms that underwent M&As during 2002-2005. The study analysed the financial performance of sample firms from the viewpoint of profitability, liquidity, leverage, and activity. The study found that M&As were not successfully facilitated to improve the activity and profitability variables by all the firms. From the overall analysis, it was found that the acquiring firms increased shareholders’ wealth, that is, increased the returns for the investment after the M&As event.

**Jain and Raorane (2011)**\(^{50}\), in a paper “Mergers and Acquisitions- A Change Paradigm in Performance of Indian Company” attempted to evaluate the impact of M&As on the performance of the acquiring and target firms. The sample size of the study was limited to 13 firms. Empirical tests were carried out on the financial data with the help of liquidity ratios, namely, current ratio and quick ratio in order to ascertain whether M&As resulted in SW or not. The study used paired samples t-test for measuring the pre-merger and post-merger average performance of the acquiring and target firms. The study concluded that the acquiring firms always benefited more than that of the target firms in the M&As event.

**Azhagaiah and Sathishkumar (2012)**\(^{51}\), in a study “Merger & Acquisitions: An Empirical Study on the Short-run Post-merger Operating Performance of
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*Acquirer Firms Across Industries in India* attempted to study the OP of acquiring firms by use of OP measures (ratios) namely return on net-worth (*RONW*) and return on capital employed (*ROCE*), and used paired samples t–test considering data for a period of three years prior and three years after the *M&As* to compare the pre-and post-merger OP of the acquiring firms thereby identify if there is a significant shift (increase) in the OP of the acquiring firms. The study covered sample of 10 firms in each industry out of 118 firms listed in one of the leading Indian stock exchanges viz., Bombay Stock Exchange, which have undergone *M&As* in the same industry (related merger) during the period 2004 to 2007. The study proved that the OP in terms of *RONW* and *ROCE* is improved in case of Information Technology Industry, Real Estate & Infrastructure Management Industry, and Pharmaceuticals & Healthcare Industry after the *M&As* with the exception of Banking and Finance Industry in India.

*Azhagaiah* and *Sathishkumar (2012)*, in a study entitled “*The Effect of Merger and Acquisitions on the Shareholders’ Wealth: Evidence from the Food Industry in India*” investigated the impact of *M&As* of acquiring firms in the food industry in India, on shareholders’ wealth. A sample of 10 firms involved in *M&As* deals during 2007 is considered for analysis. The analysis is based on descriptive statistics, correlation matrix, multiple regression, chow breakpoint test, and chow test. The study findings indicated that the liquidity and financial risk (financial leverage) have significant positive beta coefficient with *MVA* at the 1% level in the post-merger period. The variables *cost of utilization, management efficiency, profitability, earnings, and growth* do not have significant positive / negative beta coefficient with *MVA* in the post-merger period. The critical value of F (regression) is greater than the table value, which is significant positively at 1% level, leading to a reject the hypothesis. The chow F–statistics is greater than the table value at the 1% level, and hence, it is concluded that there is a significant shift (improvement positively) in the output (shareholders’ wealth) due to the merger during the post-merger period (2008 – 2010), which supports a good, significant positive impact of *M&As* of the acquiring firms in the food industry in India in the post-merger period.
A STUDY ON THE IMPACT OF M&As ON OP AND SW IN INDIAN MANUFACTURING INDUSTRY

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Azhagaiah and Sathishkumar (2012)\textsuperscript{53}, in a study “A Study on the Short-run Profitability of Acquirer Firms in India” attempted to study the impact of M&As on the short-term post-merger profitability ($P$) across industries in India with a sample of 10 corporate firms each in four major industries which have undergone M&As in the same industry (related merger) during the period 2004 to 2007 with an objective of comparing the post-merger $P$ using appropriate $P$ measures (ratios) and compared the mean $P$ of acquiring firms for three years before merger and three years after merger by use of t–test. The study indicated that the $P$ (in terms of $P$ measures namely Operating Profit, Gross Profit, and Net Profit) is increased after merger for the Information Technology Industry, Real Estate & Infrastructure Management Industry, and Pharmaceutical & Healthcare Industry, and hence it was concluded that there is a significant improvement on the short-run post-merger $P$ of acquiring firms across industries in India except Banking and Finance Industry.

II.2.2. Studies of M&As in Respect of Stock Market

There is wide variety of literature available regarding the operational efficiency after M&As and the stock market performance using event methodology. Many researchers on M&As studied factors that affect the post-merger performance after a merger announcement. Extant studies found that the factors that are most influencing post-merger performance can be classified into three main streams: relative size, price to book ratio, and premium. This literature on post-merger SW following M&As in India and abroad thus far has been limited.

Most studies agreed that returns of target firms are, on average, positive and statistically significant, following M&As announcements despite differences in the types of mergers in eight sample countries, industry, and empirical methodology. The pattern seems to persist though time, for instance, early studies of USA M&As activity report target firm returns in the range of 20% to 30% (Jensen and Ruback, 1983).\textsuperscript{54} In banking industry, a target firm’s cumulative abnormal returns were between 15% and 24% in the USA (Maquieria \textit{et al.}, 1998).\textsuperscript{55}
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The large M&As in 18 European countries and reported cumulative abnormal returns ranging from 9% to 21% depending on the window length (Danbolt, 2004). The USA stock-for-stock M&As reported abnormal returns to target shareholders of around 40% (Goergen and Renneboog, 2004).

Asquith (1983), in a study “Merger Bids, Uncertainty, and Stockholder Returns” examined abnormal returns throughout the entire M&As process for both the successful and unsuccessful bids and reported that at the press date, unsuccessful target firms’ shareholders earn a significant and positive abnormal returns of 7%, then experienced significantly negative abnormal returns of -8.1%, and continued to have (insignificant) negative abnormal returns of -6.4% at the outcome date and -8.7% during the post-outcome period. The study proved that the result changes because new information is released, the market is uncertain as to whether a bid will be successful before the outcome date and the resolution of that uncertainty accompanies no subsequent bid.

Ravenscraft and Scherer (1989), in a study “The Profitability of Mergers” examined pre-merger (251 firms) and post-merger (2732 firms) performance for the period 1950-1977 in the USA. The study used cash flow over sales for analysis and found a negative abnormal return in the post-merger period.

Matsusaka (1993), in a study “Takeover Motives during the Conglomerate Merger Wave” examined the stock market response to M&As announcements during and immediately after the conglomerate merger wave of the late 1960s. The sample consisted of 131 firms, the study showed that the market responded positively to bidders who retained the management of target firms and negatively to bidders who replaced target management, which is consistent with the hypothesis that market-favoured M&As intended to exploit managerial synergies. The study indicated that buyers earned significantly positive announcement-period returns during the conglomerate merger wave when they made diversifying M&As. The hypothesis that conglomerates were driven by empire building or some other managerial objective can be rejected because such explanations imply value decreases to unrelated acquisitions.
Kent and Ofek (1994)\textsuperscript{61} carried out an analysis entitled “Mergers as a Means of Restructuring Distressed Firms: An Empirical Investigation” and studied the effectiveness of M&As in restructuring the distressed firms by examining the role of the determinants of the success of the restructuring in their post-merger performance. Although the study concluded that bidder shareholders lost, it did not suggest that M&As were a poor choice for restructuring a distressed target.

Sharma and Thistle (1996)\textsuperscript{62}, in a study “Is Acquisition of Market Power a Determinant of Horizontal Mergers?” examined the motives of horizontal M&As by using a sample of acquiring firms based on the same standard industrial classification (SIC) codes. A three factor arbitrage pricing model was utilized, with Tobin’s $q$ ratio as a measure of market power, to study the performance of the firms involved in the M&As. The study found that most of the firms increased in their $q$ ratios, however they are less than one which implies lack of significant market power gains to be able to influence the product markets. The study supported the analysis of systematic risk, which for most of the firms was found to be unchanged as a result of the acquisition. If there had been a sufficient market power generated as a result of the M&As, one could find the systematic risk of the acquiring firms to be smaller than that of the pre-merger period. As a result, there was no abnormal performance detected for the acquiring firms, which is evident by analysing the cumulative average abnormal return (CAARs) residuals of the acquiring firms. The CAARs from the acquiring firms from the pre-merger period were found to be insignificantly different from the CAARs from the post-merger period. The study concluded that the horizontal M&As must be motivated by the desire to attain synergy gains, and the study finally indicated that the acquisition of market power is not a significant motive for the M&As.

Loughran and Vijhx (1997)\textsuperscript{63}, in a work “Do Long-term Shareholders Benefit from Corporate Acquisitions?” Used a sample of 947 M&As from 1970 to 1989, and found that a relationship among the post-acquisition returns,
the mode of acquisition, and form of payment. The study used market model and multiple regression to analyse the impact of the M&As on the abnormal return of each acquiring firm. The study found that during a five-year period following the M&As, firms that complete stock mergers earn significantly negative excess returns of -25% whereas firms that complete cash tender offers earn significantly positive excess returns of 61.7%. Over all the combined pre-and post-acquisition period, target shareholders who hold on to the acquirer stock received as payment in stock mergers do not earn significantly positive excess returns. In the top quartile of target-to-acquirer size ratio, they earn negative excess returns.

Ming and Hoshino (2002)\(^64\), in their work “The Impact of Merger and Acquisitions on Shareholders’ Wealth: Evidence from Taiwanese Corporations” tested a sample of 46 M&As events in Taiwan between 1987 and 1998, to study the impact of M&As on SW. The study distinguished among M&As of different purposes, and found that M&As for technology-acquiring purposes are most favored by the market, while vertical M&As are detrimental to SW, hence, the merging firms gain modestly positive abnormal returns around the time of the merger proposals, but evidencing to larger and statistically significant returns over longer event periods. The study suggested that M&As are favoured by the market, thus increasing SW, which leads to reinforce the Taiwanese government’s efforts at industrial upgrading during the past decade. On the other hand, vertical M&As involve the vertical integration of a firm’s businesses, which may be a more difficult task, especially in integrating intangible human resources.

Sudarsanam and Mahate (2006)\(^65\), in a work entitled “Are Friendly Acquisitions too bad for Shareholders and Managers? Long-term Value Creation and Top Management Turnover in Hostile and Friendly Acquirers” investigated 519 successfully completed M&As deals, and found that at the announcement date, both the types of acquirers (that is, friendly vs. hostile) experienced wealth losses of -1.5% and -1.9% respectively. Just the bid announcement period showed similar losses, in the long-run outcome period, hostile acquirers were shown to
produce significantly higher share price performance than that of their friendly counterparts, despite the associated higher levels of co-operation in the latter, which led to the suggestion that in the UK market, bidders help their shareholders better by engaging in hostile transactions than those of a co-operative friendly nature, despite the ‘extra pain’ incurred.

Donker and Ng (2008)\(^6\) in a research work “Synergy Motivation and Target Ownership Structure: Effects on Takeover Performance” found statistically significant positive abnormal returns around M&As announcements for combined firms. The cumulative average abnormal returns (CAARs) for combined firms are 4.62% over the event-window [-20 +20], which proved that M&As create SW; management shareholdings have a significant negative impact on the returns to shareholders of combined firms. Institutional shareholdings and outside block holdings have a significantly positive influence on the abnormal returns to shareholders of combined firms; monitoring by large institutional shareholders and other outside shareholders increase the abnormal returns to shareholders of the combined firm; competition between bidders increases the abnormal returns to shareholders of combined firms; competition among the bidding firms might signal to high valuation bidders the availability of high, non-firm-specific synergistic gains; the positive relation between the market-to-book value of the target and the returns to shareholders of the combined firm indicate that the target firm has large growth opportunities, which will increase the value of the overall combined firm.

Gopalaswamy et al. (2008)\(^6\) in a research work “Stock Price Reaction to Merger Announcements: An Empirical Note on Indian Markets” studied the market behaviour around the M&As announcement date for 25 stocks listed in one of the leading Indian stock exchanges, namely, the Bombay Stock Exchange in India during 2000 – 2007. An event study was conducted using several event windows to examine when the price went-up and when the price fell down. The study found that, on an average, both the target and the acquiring firms showed an upward trend in the cumulative average abnormal returns (CAARs) few days prior to the M&As announcement, which may be due to anticipation
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of the merger or leakage of information. The increase in the CAARs around the M&As announcement period (upward trend) for the acquiring firms was greater when compared to that of the target firms; there was a sudden downfall in the CAARs for the target firms from the day of the announcement of M&As, which continued for a period of ten trading days. The CAARs on day two after the M&As announcement was negative and was also statistically significant; there was a decline in the returns after the actual M&As between the firms; the behaviour of the CAARs was found to be in accordance with expectation, thereby leading support to the hypothesis that the Indian Stock Market was semi-strong efficient.

He et al. (2008), in their work “Cross-border Merger and Acquisitions: Cultural Disparities and the Associated Wealth Effects” analysed the stock price behaviours of USA target firms surrounding from 1996 to 2005 cross-border M&As events related to corporate offers. The study took a sample of 137 foreign bids for the USA target firms with bidders from the five sub-samples. The study used descriptive statistics and multiple regressions to analyse the impact of M&As; used factor analysis with country fixed-effect specifications to identity the determinants that may significantly contribute to the abnormal stock performance associated with cross-border M&As. While the sample target firms are all headquartered in the USA, the foreign corporate bidders are grouped into various sub-samples based on their countries of origin and most probably different countries. The study proved that cultural disparities could play an important role in determining stock price performance around M&As public offer announcements. The event-study results proved a significant price reaction (in terms of cumulative average abnormal returns) for the sample USA target firms during the pre-announcement window, the post-announcement window, and the announcement date.

Rajeshkumar and Panneerselvam (2009), in a study entitled “Mergers, Acquisitions, and Wealth Creation: A Comparative Study in the Indian Context” analysed the comparative effect of M&As on the wealth of
shareholders of acquiring and target firms. The study was based on four subsets of a sample consisting of 252 acquiring and 58 target firms involved in M&As, and 165 acquiring and 18 target firms involved in M&As during 1998-2006. The study used cumulative average abnormal returns (CAARs) for analysing the SW of the acquiring firms after merger. The study indicated that the binding and target firm had a significant positive net present value in the post-merger period. The average announcement day excess returns was found to be the highest for target firms involved in mergers, followed by acquiring firms involved in M&As.

Selcuk and Yilmaz (2011)\textsuperscript{70}, in an article “The Impact of Merger and Acquisitions on Acquirer Performance: Evidence from Turkey” analysed the impact of M&As deals on the performance of acquiring Turkish firms. A population of 62 firms involved in M&As deals during 2003 – 2007 were included in the sample. The study was based on both stock market and accounting data. The study proved the hypothesis that acquiring firms are negatively affected by M&As activities; the abnormal returns are statistically negative and different from zero for 10-day and 7–day event windows. Also, cumulative average abnormal returns (CAARs) (-5, -1) and CAARs (-3, -1) values are significantly negative, indicating pre-event leakage; returns for stocks of Turkish firms involved in M&As exceed average industry returns.

II.2.3. Other Studies

M&As are used for improving competitiveness of firms and gaining competitive advantage over the other firms through gaining greater market share, broadening the portfolio to reduce business risk, entering new markets and geographies, capitalising on economies of scale, etc. India has emerged as one of the top countries with respect to M&As deals. The Indian firms have been actively involved in M&As domestically, as well as internationally. The share value of deals where India has been a target or an acquirer has risen sharply over the past decade-from $ 2.2 billion in 1998 to $ 62 billion in 2010. The M&As continue to be a dominant growth strategy for firms worldwide. This is in part due to pressure from key stakeholders vigilant in their pursuit
of increased shareholders’ value, hence, there is a need to identify key planning steps that will assist CEOs and company boards to achieve M&As success.

Gugler Collins et al. (2003)\textsuperscript{71}, in their study “The Effects of Mergers: An International Comparison” analysed the effects of M&As around the world over during the past 15 years. The study used a large panel of data on M&As to test several hypotheses about M&As. The effects of the M&As were studied by comparing the performance of the merging firms with control groups of non-merging firms. The comparisons were made on profitability and sales. The study showed that M&As, on an average, do result in significant increases in profits, but reduced the sales of the merging firms; the post-merger patterns look similar across countries. However, the study did not find dramatic differences between M&As in the manufacturing and the service sectors, as well as between domestic and cross-border M&As. Conglomerate M&As decreased sales more than that of the horizontal M&As; those M&As that decreased profits and efficiency accounted for a large proportion.

Reed and Babool (2003)\textsuperscript{72}, in a paper “Factors Affecting International Merger and Acquisitions” investigated the factors that explain outward and inward M&As activity for the countries included in the aggregate M&As activity which are the USA, Australia, Canada, France, Germany, Japan, and UK during 1987 – 1999. The study covered variables viz., exchange rate, interest rate, and stock market prices. Regression analysis was used to isolate and clarify the effects of the three factors for aggregate M&As activity and M&As activity within the food, beverage, and tobacco industry. The study showed that the selected variables were quite important in explaining variations in M&As activity by country. The exchange rate changes in particular had a very elastic impact on outward M&As activity, indicating that price effects were important in determining outward investment flows. The stock market index positively influenced inward and outward M&As activity. However, the interest rate had a negative impact on M&As in the inward and outward M&As models with M&As outflows decreasing by about the same percentage that interest rates increase.
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Gugler and Yurtoglu (2004), in their study “The Effects of Mergers on Company Employment in the USA and Europe” examined the impact of M&As of a large sample from the USA and Europe. The study did not find significantly adverse effects of M&As on labour demand in the USA, on an average. However, European M&As significantly reduced the demand for labour by around 10% on an average, which is consistent with M&As being used as a restructuring device in “sclerotic” European labour markets. The M&As need not be used as a vehicle to restore optimum employment in the USA, since firm managers can do so at any time at fairly low cost. The only category of M&As that also reduce labour demand in the USA is takeovers via tender offers, which is consistent with a “breach of trust” hypothesis of M&As effects on labour. The UK acquiring firms reduced their demand for labour after related M&As by more than Continental European acquirers. The sharpest decline in labour demand was witnessed after domestic and related M&As in the UK, however cross border deals are not significantly different from domestic deals.

McDonald et al. (2005), in a paper “Planning for a Successful Merger or Acquisition: Lessons from an Australian Study” used semi-structured interviews: to identify the link between corporate strategic planning and M&As strategy; to examine the due diligence process in screening an M&A; and to evaluate previous experience in successful M&As. The study found that there was a clear alignment between corporate and M&A strategic objectives but each organisation had a different emphasis on individual criterion. Due diligence was also critical to success; its particular value was removing managerial ego and justifying the business case.

Dube Collins et al. (2007), in a study “Merger Motives for USA Utility Acquirers: Evidence from Performance, Risk Metrics, and Executive Compensation” analysed the post-acquisition performance of USA public utilities that acquired other USA exchange listed firms during 1996 – 2002. The study found that the acquirers’ shareholders don’t gain any abnormal returns from the M&As over the two years following the M&As, and there are no unexpected gains in the underlying OP of the acquirers.
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The buy-and-hold abnormal returns and cumulative average abnormal returns \((\text{CAARs})\) results show post-acquisition underperformance for stock acquirers; stock mergers significantly underperformed their benchmarks during the two years following the \(\text{M&As}\) similar trends. The study found that firms involved in cash \(\text{M&As}\) showed a marginal increase in systematic risk; however, it did not observe any abnormal performance in terms of the underlying operating returns; the industry as a whole, has book-to-market ratios less than one, hence, indicating that while stock acquirers show a decrease in post-acquisition performance, their chief executive officers’ \((\text{CEOs})\) salary increases relative to the industry. Cash acquirers may be more careful and consequently don’t show subsequent underperformance.

Rottig (2007), in a paper “Successfully Managing International Merger and Acquisitions: A Descriptive Framework” constituted the most frequently used means through which multinational corporations \((\text{MNCs})\) undertake foreign direct investment \((\text{FDI})\); most of these transactions are not successful. The study identified key difficulties that cause the high failure of cross-border \(\text{M&As}\), and developed a typology of strategies to facilitate the management of these problems. The study found that the performance of international \(\text{M&As}\) is a function of successful cultural combination during the post-acquisition integration process.

Nam et al. (2008), in a study entitled “Prediction Model of Post-merger Performance” developed a comprehensive model describing the post-merger performance of a combined firm based on a fundamental return on equity equation. The study found that the post-merger performance is the function of relative size, price-to-book ratio, synergy, cost of equity, and book value change, and that these factors affect the \(P\) of a successful merger simultaneously.

Brătianu and Anagnoste (2011), in a study “The Role of Transformational Leadership in Merger and Acquisitions in Emergent Economies” analysed the role of transformational leadership in \(\text{M&As}\), in emergent economies. The study found that \(\text{M&As}\) represent strategies for developing new markets, or for increasing market dominance in old markets.
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Ismail et al. (2011)⁷⁹, in a paper “Review of Literature Linking Corporate Performance to Merger and Acquisitions” analysed prior literature of M&As and its effects on financial performance. Previous studies used various measures to examine the impact of M&As on corporate performance, where measures might be based on accounting measures, market measures, and mixed measures or qualitative measures. The study proved that there is a dispute regarding the factors that affect the reported performance, where eight factors might affect performance: method of payment (cash or stock), book-to-market ratio, type of merger or acquisition transaction (related or unrelated), cross-border vs. domestic M&As, mergers vs. tender offers, firm size, macro-economic conditions, and time period of transaction.

II.3. Overview of Literature and Research Gap

Nowadays, corporate restructuring is one of the important events in the business world. So, a large number of Indian corporate firms are trying to go in for corporate restructuring via merger, amalgamation, and absorption. Generally, the acquiring and target firms are expected and are getting benefits through M&As like, operational synergy, financial synergy, economies of scale, increased revenue or market share, taxation benefits, resource transfer, empire-building, marketing synergy, managerial synergy, expenses synergy, cost of capital synergy, revenues synergy etc. However, the question that often arises is whether all the firms those are merged / acquired end up with increase in OP and SW? Because, in some firms, OP and SW get a negative impact after M&As. The previous studies concluded that the OP of merging firms improved significantly positively following acquisitions (Ikeda and Do, 1983⁸⁰; Healy et al., 1992⁸¹; Harari, 1997⁸²; and Lau et al., 2008).⁸³ Post-merger profitability was compared with pre-merger profitability by Pawaskar, 2001⁸⁴; and Pazarskis Collins et al., 2006⁸⁵ who all, however found no significant improvement in profitability. Post-merger performance is the function of relative size, price-to-book ratio, synergy, cost of equity, and book value change, and these factors affect the profitability of a successful merger simultaneously (Nam et al., 2008⁸⁶; Gurusamy and Radhakirishnans, 2010⁸⁷; and Jain and Raorane, 2011).⁸⁸ Indian manufacturing corporate firms involved in M&As have achieved an increase
in the *liquidity position, operating performance, profitability, and financial and operating risk* which lead to increase in the overall efficiency of acquiring firms (Azhagaiah and Sathishkumar, 2011, and Indhumathi et al., 2011).

Most of the previous studies used cumulative average abnormal returns to identify the *SW* impact in the post-merger period; the post-merger period saw a negative abnormal return (Revenscraft and Scherer, 1989). Coontz, 2004 found that *M&As* did not improve the *SW* of the acquiring firms, rather, it actually decreased it. However, international *M&As* announcements by Indian firms create significant short-term *SW*, but in the long-run international *M&As* have a negative impact on the *SW* (Malhotra and Zhu, 2006). And *M&As* created significant positive abnormal returns for target shareholders (Malabika Deo and Shah, 2011).

The above literature provides an overview of *OP, SW*, and different valuation models associated with the measurement of impact of *M&As*. The previous studies, by and large, attempted to study the short run impact say three years prior and after the merger period. Moreover, most of the previous studies undertook almost similar methods to evaluate *OP* and *SW* in the pre-and post-merger periods. With these evidence and support an attempt has been made in the present study to measure the impact of *M&As* on the *OP* as well as on *SW* in the long-run five years prior to merger year and five years after the merger year. The present study also attempts to overcome the limitations of the previous studies by use of *chow test* and a differing inference will be found from the analysis of manufacturing sector. Hence, the present study aims at to fulfill the research gap in the existing literature in terms of two dimensions, one long-run impact, and the other applying chow test to study the shift-in-structure due to *M&As*.

The next chapter deals with the research methodology and limitations of the study.
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