Chapter 3

Literature review

3.0 Introduction

A number of past studies are done for getting a good knowledge about merger and acquisition and cross border merger and acquisition. Literature review has included knowledge about theory part and performance of merging firms after merger. Literature review comprises Indian studies as well as studies outside India.

Studies are divided in two groups. First, determining theory of M&A and CBM&A and second, evaluating performance of M&A and CBM&A.

3.1. Determination of Theory of M&A and CBM&A

Studies in this group indicate theoretical aspects of M&A and CBM&A namely as motives behind M&A, impact of merger on merging firms, change in working patterns of merging firms, different strategies of such firms and FDI.

1. The study “Motives for Cross-border Merger and Acquisition: Some Evidence from Danish Firms” is examined by Daojuan Wang, Hamid Moini\(^1\) (2012). In this study two questions based on Danish firms’ are examined. First, what are motives for cross-border mergers and acquisitions (CBM&A)? And another is how the external and internal factors influence the firms’ decisions? In this study different methods are used like survey questionnaire and multiple-case study. Top executives of 140 Danish companies were asked to participate in the study from the period of 2001-2011 by

only 29 firms agreed and filled the questionnaire. After study it proved that CBM&A motives are based on different theories like synergy theory, Resource Dependence theory and resource based view theory. CBM&As are designed to fulfil the firms long terms and short term business strategies. So from findings we can say that CBM&As may be for expanding geographically, expanding or improving the product mix, achieving more rapid growth, gaining economies of scale, and acquiring technical knowledge & expertise are the top motives for Danish firms.

2. Dr. Vijay Kumar Sharma & Rakesh Kumar Sharma, (2013)\(^2\) analysed “Cross border merger and acquisition with special reference to India.” In this study foreign acquisitions by Indian firms during 2000 to 2006 are taken. And found that the percentage of foreign acquisition by Indian firms was highest in IT/Software and BPO sector and foreign acquisition by Indian firms in pharmaceuticals & healthcare sector 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.

3. Nam-Hoon Kang and Sara Johansson (2001)\(^3\), analysed “Cross-border mergers and acquisitions: Their role in Industrial Globalisation”. The paper reviews recent trends in cross-border M&A in terms of value, number and geographical patterns during the period 1991-98. This paper aims to increase understanding of the changing patterns of

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industrial globalization, the driving force behind recent CBM&A and their impact on industry and implications for government policies.

4. Bhavesh Chadamiya and Mital Menapara⁴(2012), studied “Success through strategies in cross border Merger & Acquisition” The paper focus on some M&A strategies which the Indian as well as overseas companies can leverage in their cross-border merger and acquisition processes like cultural aspect, communication aspect, people aspect, honeymoon syndrome aspect, internal and co-operation aspect. And conclude that a successful integration process relies on effective, consistent and regular communication, valuing of cultural differences, honesty with employees.

5. Kyungmook Lee and Johannes M Pennings, (1996)⁵ examined “Mergers and Acquisitions: Strategic Organizational fit and outcomes” The research examines what happens to firms those are created by merger and acquisition (M&A). For that data cover entire population of Dutch accounting firms from 1880 to 1990. The results revealed that compatibility does not have association with the dissolution rate but has strong relationship with the probability that a firm will engage in additional M&As. The results also indicate that previous M&A experience enhances both the dissolution rate and rate to engage in additional M&As.

6. Beena Saraswathy, (2010)⁶ studied “Cross-Border Mergers and Acquisitions in India: Extent, Nature and Structure” tries to understand the nature and extent of such deals in India in the backdrop of global scenario. The study suggests that like the overall

FDI, there has been high national difference in attracting brown field investment. Not only the world FDI is moving in tandem with the incidence of cross-border mergers and acquisitions, but also the service sector mergers and acquisitions are the major force driving world FDI during the study period. The pre mid 1990s merger scenario was dominated by domestic deals, while there is an increasing presence of cross-border deals within India since the mid 1990s. Finally, they witness another stage of overseas deals during the post 2000 period, which shows that the overall macroeconomic scenario over the years is shaping the motives of merger.

7. Sunny Li Sun, Mike W. Peng, Bing Ren & Daying Yan (2012)⁷, studied “A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs”, MNEs from emerging economies (EE MNEs) have recently undertaken aggressive cross-border mergers and acquisitions (M&A). Integrating the comparative advantage theory with Dunning’s OLI paradigm, this article develops a comparative ownership advantage framework characterized by five attributes: (1) national-industrial factor endowments, (2) dynamic learning, (3) value creation, (4) reconfiguration of value chain, and (5) institutional facilitation and constraints. For the study they test five propositions with a dataset of 1526 cross-border M&As by Chinese and Indian MNEs from 2000 to 2008. Preliminary results support the new comparative ownership advantage framework.

8. The study “Determinants of Cross Border Mergers and Acquisitions” is done by Isil Erel, Rose C. Liao & Michael S. Weisbach⁸, (2012). In this paper they analysed a sample of 56,978 cross-border mergers between 1990 and 2007. It was found that

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factors like geography, the quality of accounting disclosure, and bilateral trade increase the likelihood of mergers between two countries.

9. Geraldo M. Vasconcellos & Richard J. Kish, (2013)\(^9\), examined “Cross-Border Mergers and Acquisitions”. The paper focuses on cross-border mergers and acquisitions, and their financial and economic (both macro and micro) underpinnings, which affect their direction and magnitude. In general terms, empirical analysis supports the fact that both a host country and the foreign country’s stock and bond prices are major causal factors that influence cross-border mergers and acquisitions.

10. In the study “Innovation and Cross-Border Mergers and Acquisitions” by Peng Huang Mark Humphery-Jenner Ronan Powell\(^{10}\) (2013), the researcher they took a sample of 85,549 domestic and CBM&As covering 57 acquirer countries over the 1990 to 2010 period to examine the role of innovation as a motivation of CBM&A. The paper also presents country-level and country-pair-level evidence showing that acquirers in low innovation countries are more likely to do a cross-border deal, and are also more likely to acquire a target in a relatively higher innovation country. From the study deal-level evidence suggests that higher innovation acquirers in low innovation countries are more likely to undertake cross-border deals, and compared to domestic deal it earn higher returns. They also find that cross-border acquirers from low innovation countries target relatively higher innovation targets. The results indicate that the acquisition of innovation is an important and value-creating growth opportunities.

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11. The research on “Prospects of global mergers and acquisitions - an Indian overview”, is done by Smita Meena\(^1\) (2014). The study is based to understand the future prospects and impact of global merger and acquisition. For that the analysed the trend and progress of M & A in Indian industries. The results suggest that Indian markets show growing trend in mergers which may be due to business consolidation by large industrial houses, consolidation of business by multinationals operating in India, increasing competition against imports and acquisition activities. M&A’s have begun to gain positive effect in India; there is a lot of examples of M&A provided in this research which proves that Indian industries have already entered into the M&A process of value creation.

12. The study “Motives for Cross Border Mergers and Acquisitions: Perspective of UK firms”, is done by Mohammad Faisal Ahammad and Keith W. Glaister\(^2\) (2010). The study identifies the strategic motivation for cross border mergers and acquisitions (CBM&As). For the study a sample of UK firms acquiring North American and European firms are taken. The study done for 5 years period from 2000 to 2004 and they used questionnaire method for research. The highest ranked strategic motives for CBM&As are to enable presence in new markets, to enable faster entry to market, to facilitate international expansion, gain new capabilities and gain strategic assets. For research they test relationship between the relative importance of individual strategic motives and a number of characteristics of the sample. And conclude that there is little variation in the relative importance of the strategic motives across the characteristics of the sample.

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13. The study “Internationalization of Indian Enterprises: Patterns, Strategies, Ownership Advantages, and Implications” is done by Nagesh Kumar\(^\text{13}\) (2008). The sources of Indian companies’ ownership advantages and trends, patterns, and implications are examined in this study. After examining it has been argued that the source of their ownership or competitive advantage lies in their accumulation of skills for managing large multi location operations across diverse cultures in India.

14. The study “Cross-Border Mergers and Acquisitions in India” is examined by Sayantan Gupta\(^\text{14}\) (2008). In this paper they discuss about an Indian CBM&A, the different aspects and applicable laws for CBM&A. Then they discuss about how FDI related with CBM&A. The study finally concluded that there are various merger and acquisition forms and firms have to choose according to their needs.

15. Rajesh Chakrabarti, Narayanan Jayaraman and Swastika Mukherjee\(^\text{15}\) (2009), analysed Mars–Venus Marriages: Culture and Cross-Border M&A. In this study they investigate the effect of cultural distance on short and long term performance of cross-border M&A. For the study they select 405 unique acquisitions which occurred between 1991 to 2000 with 34 different acquirer countries and 37 different target nations. From the analysis they found that CBM&A perform better in the long-run if the acquirer and the target come from countries that are culturally more unrelated. It has also proved from study that cash and friendly acquisitions trend to perform better in the long-run. And get synergies effects when acquirers from stronger corporate governance regimes acquire targets from weaker regimes.


16. In a recent paper Madhuri Agrawal and Rudra Sensarma (2007)\(^6\) examined “Determinant of merger activity: evidence from India”. The study investigates the role of industry level variables in merger activity. For the study they take a sample of 109 mergers in Indian industry during the period 2002 to 2004. The results suggest that growth opportunity, low concentration and high cash flow are important factors that explain the occurrence and frequency of mergers in Indian industries. It has also proved by paper that there isn’t any evidence found to support the role of mergers as a corporate restructuring activity in response to industry shocks.

17. The study “High Performance through Mergers and Acquisitions: A General Analysis” is done by Vikas Garg and Satish Kr.,(2011)\(^7\). The study is based on the secondary data and literature. And from study it is concluded that through mergers and acquisitions, a company can develop a competitive advantage and ultimately increase shareholder value.

18. In the recent paper Katsuhiko Shimizu, Michael A. Hitt, Deepa Vaidyanath, Vincenzo Pisano, (2004)\(^8\) examined “Theoretical foundations of cross-border mergers and acquisitions: A review of current research and a recommendations for the future”. They show three perspectives on cross border merger and acquisition which are mode of entry in a foreign market, dynamic learning process from a foreign culture, and value-creating strategy. Current empirical research on this topic is also tabulated and grouped by theoretical stream to indicate major findings. Most

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importantly, the studies identify gaps in the literature and highlight five important research issues that provide directions for future research.

3.2 Performance of M&As And CBM&As after Merger

Studies in this group indicate the performance of the companies after merger and acquisitions. Researchers have compared the performance with the help of pre and post merger data. For that they have used accounting methods and statistical tools.

1. Fulbag Singh and Monika Mogla, (2010)\textsuperscript{19} analysed profitability of acquiring companies in the pre-merger and post-merger period. The study is based on the investigation of 153 listed merged companies during 1993 to 2003. For that 5 profitability ratios are computed for acquiring firms and it concluded that profitability decline in 55% companies and 29% companies can improve their profitability. From Du-Pont analysis it revealed that Assets Turnover Ratio decline significantly and Operating Profit Ratio improved significantly. So it is concluded that profitability declined due to poor asset utilization. It suggests that managers should give due attention to proper utilization of newly acquired assets.

2. Gordon V. Karels, Edward Lawrence & Jin Yu (2011)\textsuperscript{20}, studied “Cross-border mergers and acquisitions between industrialized and developing countries: US and Indian merger activity.” by using a sample of 41 US acquisitions of Indian firms and 46 Indian acquisitions of US firms, the study made both types of cross-border merger activities by examining the Indian and US company returns when US firms are acquirers of Indian firms and when Indian firms are acquirers of US firms. Data from


January 1995 to August 2007 are used for research and found that when US firms realize significant losses on the announcement of acquisitions of Indian targets while Indian targets realize significant gains on the announcement of mergers with US acquirers. Merger and acquisitions between Indian acquirers and US targets resulted in significant gains for the acquirers and insignificant gains for the targets.

3. The study “Cross-border Mergers and Acquisitions: A Performance Evaluation of Indian Acquiring Companies” is examined by Ravi Singla, Amarjit Saini & Rituka Sharmain, (2012)\textsuperscript{21} from India. For that a sample of 15 firms in India is taken for research. 29-day event window method is applied and researchers investigate the impact of the announcement of such decision on the acquiring companies’ shareholders’ wealth. From the study it proved that there has been no significant change in the financial position of these companies in the post-merger period as compared with the pre-merger period. The study concluded that the shareholders of acquirer firms have witnessed a meager positive cumulative average abnormal return during the post-merger announcement period.

4. Saboo, Sunil and Gopi, (2009)\textsuperscript{22} examined “Comparison of Post-Merger Performance of Acquiring firms (India) involved in Domestic and Cross-Border Acquisitions”. For this research 54 firms are selected during 2001-2007. After that some pre-merger and post-merger financial ratios of these firms are calculated. The results suggest that there are variations in terms of impact on performance following mergers, depending on the type of firm acquired – domestic or cross-border. 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.

5. The study “The effects of mergers: an international comparison” is examined by Klaus Gugler, Dennis C. Mueller, B. Burcin Yurtoglu, Christine Zulehner, (2002)\(^\text{23}\). In this study they examined the effects of mergers around the world over the past 15 years. They examined the effect by comparing the performance of the merging firms with control groups of non merging firms. For comparison, they select profitability ratios and sales as tools. The results show positive effect on profit and negative effect on sales of merging firms. The results also show that there is no difference in the post merger patterns around the world. Even there isn’t any remarkable difference in merger of manufacturing sector or the service sectors, and between domestic and cross-border mergers.

6. Govind M. Dhinaiya, (2012)\(^\text{24}\), examined “Impact of mergers & acquisitions on the performance of companies”. For comparisons they select operating performance to measure various ratios. The analysis was done using the data of two years before & after mergers & acquisitions with help of paired sample t-test. The results suggest that there were minor variations in the performance after M&A in all parameters understudy. The results also showed that performance was different from different industry, which depends on the type of industry.

7. The study “Mergers & Acquisitions: An empirical study on the short-term post-merger performance of corporate firms in India” is examined by Dr. Ramachandran


Azhagaiah & T. Sathish Kumar, (2011)\textsuperscript{25}. The present study is done on a sample of 20 firms out of 52 manufacturing firms listed in Indian stock exchanges namely Bombay Stock Exchange during 2007. It was aimed to compare the liquidity performance of the sample acquirer firms using ratio analysis and t-test during the study period of three years before and after the period of mergers. Some measures of corporate performance from the viewpoint of liquidity, profitability, operating performance and financial risks. From the study it proves that merging firms in India have better financial performance after merger in short run period in India.

8. The paper “Impact of Mergers and Amalgamation on The performance of Indian Companies” is examined by Mahesh Kumar Tambi (2005)\textsuperscript{26}. In the paper they evaluate the impact of Mergers on the performance of the Indian companies. For that they use for parameters like ROCE, economies of scale, operating synergy and financial synergy. They also used paired t-test for a sample of 40 companies, which were merged during the financial year 2000-2001. The study proves that mergers have failed to contribute positively in the performance of the company under study.

9. Dr. Abid Usman, Muhammad Kashif Khan, Abdul Wajid and Muhammad Imran Malik\textsuperscript{27}(2012), analysed “Investigating the Operating Performance of Merged Companies in Textile Sector of Pakistan”. In this study they compare the post and pre merger operating & financial performance of merged companies in the textile sector of Pakistan to see if there is any change due to merge or not. For that they take a sample


\textsuperscript{26} Tambi, M. K. (2005). Impact of mergers and amalgamation on the performance of Indian companies. EconWPA.

during the period 2001 to 2005. For analysis they take three years pre- and three years’ post-merger financial statements for sampled companies are used. And also used paired sample t-test for analysis. After study the results disclose insignificant decrease in the operating performance of merged firms during the post-merger three years period. Moreover, the projected performance is calculated through ordinary least square method. The results show insignificant increase during the post merger three years period with respect to pre-merger three years performance. Finally the financial indicator that the merged companies did not achieve any significant improvement in comparison to their actual performance after mergers.

10. The paper “The Announcement Effect and Value Creation in Cross border M&A: Chinese Companies Acquire European Firms” is examined by Yanping Gui²⁸ (2009). This study examines the announcement effects of Chinese firms’ takeover European companies in the period of 2002-2008. They select Event study method. And shows that both for Chinese bidders and European targets enjoy significant positive announcement returns in short periods event windows, however, the abnormal return reversed shortly after the acquisition into negative for Chinese bidders but recovered slightly positive in the long run; for European targets, the abnormal return increases gradually but dropped a little in the longer period. For empirical results they do both parametric and non-parametric tests. From the performance of M&As from China to Europe, Chinese acquirers often overvalue and over-anticipate the target firms that have higher corporate governance regime, lacking of international takeover experience and competitive advantage hampers the value creation effect in cross-border M&As.


56
11. Rabi Narayan Kar and Amit Soni\(^{29}\) (2008) examined “Mergers and Acquisitions in India: A Strategic Impact Analysis for The Corporate Enterprises in The Post Liberalisation Period”. The present study has been designed to analyse the impact of mergers and acquisitions in the post liberalization period during 1991 to 2001. In order to empirically analyse the impact, the study has taken both macro and micro approach. First, comprehensive trend analysis has been successfully carried out to find trends of mergers and acquisitions for different sectors of the Indian industry and its impact. This has been achieved after building a data base of Indian mergers and acquisitions for that period. The impact of mergers and acquisitions on performance has been analysed by taking a sample of companies broadly representing the different industries. This is achieved by examining pre-merger & acquisition and post-merger & acquisition financial variables for the period of study. M&As have been found to be beneficial in the sense that Indian companies grew in size, and attain better market share which is substantiated by empirical analysis. There has been mixed results for other variables. The nature and pattern of M&As strategies adopted by the Indian companies reveal mostly horizontal and vertical types. This gives strength to the argument that Indian companies are focusing on their core areas and expanding mostly in related areas of strength which is helpful in realization of synergistic benefits.

12. The study “Post-Merger Performance of Acquiring Firms from Different Industries in India” is done by Pramod Mantravadi and A Vidyadhar Reddy, (2008)\(^{30}\). In this research, impact of mergers on the operating performance of acquiring corporate in different industries is examined. For that they examine 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. The results suggest that there are minor variations in terms of impact on operating performance following mergers, in different industries in India. In particular, 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.

13. In recent paper Sonia Sharma\(^{31}\), (2013) analysed “Measuring Post Merger Performance – A Study of Metal Industry” The main objective of this paper is to measure the impact of merger on the financial performance of merging companies. They take a sample of pre- merger and post- merger financial ratios of 9 BSE listed companies of metal industry involved in mergers during the year 2009-10. To evaluate the difference in performance between post-merger and pre merger periods they choose paired t-test as statistical method. The results indicated a minor but not significant improvement in case of liquidity and leverage but the profitability results showed significant decline in Return on Net Worth and Return on Assets which are contrary to hypothesis. The results suggest that synergy can be generated in long run with the careful usage of the resources accurate valuation of the target and estimate the future in case of M&A, synergy can be generated in long run with the careful usage of the resources. The success of M&A deals depends on post integration process, timely action and to keep check on the costs of integration process.

14. The study “Cross-Border Mergers and Acquisitions Financial and Institutional Forces” done by Nicolas Coeurdacier, Roberto A. De Santis and Antonin Aviat (2009)32. In this paper, they identify some of the main forces driving cross-border M&A using a unique database on bilateral cross-border M&As at the sectoral level (in manufacturing and services) over the period 1985-2004 and focus on the role of institutional and financial developments with a special attention to the role played by the European Integration process. They identify the impact of joining the European Union and joining the Euro on cross-border M&As.

15. The study “The choice of method of payment in cross-border and domestic mergers and acquisitions” is examined by Peng Huang, Micah S. Officer & Ronan Powell (2014)33. In this study they take a sample of 85048 domestic merger and acquisition and take 46 countries for the period from 1990 to 2010 for CBM&A. For investigate the method of payment in merger and acquisition they measuring the relative risk of the bidder country relative to the target country using several indices for corporate governance and find that cash payment is the more preferred choice in cross-border deals than in domestic deals. In the study it is also indicate that greater uses of equity is more consistent with cross border bidders and the paper also provide new findings on the determinants and time series variation in method of payment choice.

16. The study “Domestic versus cross border acquisitions: which impact on the target firms’ performance?” is done by Olivier Bertrand and Habib Zitouna ((2005)34. This paper explores the effects of horizontal acquisitions on the performance of French target firms in the 1990's. For that they use French manufacturing firm-level data and investigate how

their profit and the productive efficiency vary. For that they take a large sample of 371 operations and wonder that domestic and CBM&A have similar consequences. The study also indicates that M&A do not increase the profit of French target firms, even on the long run and clearly raise the productivity of target firms. These results suggest that firms probably redistribute efficiency gains at the upstream and/or downstream production stage. There is no evidence of an increase in market power. Even the paper also suggests that implications of domestic and cross-border M&A significantly differ from CBM&A. Efficiency gains are stronger for cross-border M&A. This conclusion is however true only for extra-European Union operations. The achievement in the European economic integration certainly explains the absence of difference between European and domestic acquisitions. And at last the results cast some doubt on the frequent discrimination attitude towards foreign takeovers and the fears of their impact on firms' performance and the host country's welfare.

17. The study “Mergers & Acquisitions: An insight into Value Creation and Post Merger Synergies”, is done by Shubhra Johri (2014)35. In the study they check the impact of mergers and acquisitions on the share holder's wealth. For that they focuses on 5 major mergers which done during the period 2011-2012. And analysis has done in two parts. First they have done event study and then they found out if there is any synergy effect on merging firms after merger. And concluded that all companies under study show that there is a significant abnormal returns associated with merger. It also indicates that merger’s announcement did show an impact on stock market reaction.

18. The study “The Long-Run performance of Cross-Border Mergers and Acquisitions: Evidence to support the Internalization Theory” is done by Claude Francoeur

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This study evaluates the stock market performance of Canadian acquiring firms involved in CBM&A. For the study they take 551 CBM&A during the period 1990 to 2000 initiated by Canadian firms. The results show that there isn’t any possibility to get continuously gains or losses during the post-acquisition period for Canadian acquirers. Even findings suggest that the internalization theory helps acquiring firms engaged in cross-border M&As can indeed realize efficiency gains and create long-term value for their shareholders, but only under certain conditions.

19. The study “Economic integration and the profitability of cross border mergers and acquisitions” is done by Kjetil Bjorvatn (2004)\textsuperscript{37}. The present paper demonstrates that this is not necessarily the case: Economic integration may trigger cross-border acquisitions by reducing the business stealing effect and by reducing the reservation price of the target firm. The paper thus provides explanations to the observed increase in cross-border mergers in a world of more integrated economies.

20. Singh, Pawan Suri, Puja Sah, Rakesh (2012)\textsuperscript{38}, evaluate “Economic value added in Indian cross border mergers”, the study looks at the Economic value added, Earning per share and Return on capital employed of acquiring Indian firms. For analysis they took a sample of 20 cross border mergers which occurred between 2003 to 2008 period. EPS and ROCE were calculated for two years before and two years after. And found evidence of a decrease in Economic value added, Return on Capital Employed and Earnings per Share in the following the cross border merger and acquisition.

