CHAPTER: 2

REVIEW OF LITERATURE

2.1 INTRODUCTION

In this chapter the previous literature on M&A are reviewed. M&A are divided into three sections. The first section explains the operating performance of the firms after the M&A. The second section explains the short term share value creation on different period of time. The third section explains the determinants that could impact the value creation of the firms.

2.2 PRIOR LITERATURE

M&A impact on the profitability of the firms is a much debated topic in corporate finance. Exhaustive studies are available for the change in operating performance of the firms after the M&A. Argument is on both sides that is, M&A had improved the operating performance of the acquirer and also certain studies showed that the M&A did not improve the operating profit of the acquirer.

Previous studies supported the hypothesis that the M&A could improve the operating performance of the firms.

Azhagaiah and Sathishkumar (2014) investigated the M&A impact on the operating performance of 39 Indian manufacturing firms which had executed the deal during 2006-2007. Pre and post 5 years was considered for the study. Operating performance was computed using ROE and certain other variables such as "operating leverage, cost of utilization gross earnings, turnover, financial risk (financial leverage), liquidity, growth. Result showed that the M&A could increase the operating profit of the firms. **Reddy, Nangia and Agarwal (2013)** studied the pre and post merger performance of the manufacturing and service sector in India. Cylinder model and ratio analysis were employed. Result revealed that the operating performance of the firms had improved after the M&A. **Ramakrishnan (2010)** used 85 pairs of firms engaged in merger between the periods 1996 to 2002 to study the post operating performance of the firms. Study period consisted of three years before and three years after the merger. Operating cash flow before tax divided by operating asset was computed. Regression analysis was employed. Result revealed that after mergers post merger operating performance of the firms had improved**. Kalra (2013)** discussed financial performance of Indian firms engaged in M&A during the period 2008 to 2009. Pre and post period consisted of 6 years that is 3 years before and 3 years after the M&A. Key ratios and paired sample t test were employed. Results revealed that only for a few firms the overall performance had improved. Current ratio, quick ratio, gross profit ratio, net profit ratio did not improve for majority of the firms. ROA had improved for a significant number of firms. Operating performance had improved for 15 firms. Financial risk had not improved for majority of the firms.

Yen, Chou, and Andre (2013) had examined the operating performance of the firms after the M&A. The data comprised of 66 acquiring firms that had completed the M&A from 13 emerging countries during the period 1998 to 2006. Pre and post operating performance for 3 years before and 3 years after was computed. Operating cash flow and regression analysis was employed. Results revealed that the acquiring firms which executed M&A had better operating cash flow than other firms which had not executed the M&A in the industry. But before the deal also these firms performed better than those firms which had not executed M&A. The post operating performance had decreased compared to the pre operating performance of the firms which had used M&A strategy**.**

Leepsa and Mishra (2013) had investigated the corporate performance of firms for three years before and 3 years after the M&A using Economic Value Added. Sample comprised of Indian manufacturing companies listed in BSE and those engaged in M&A during the period 2001 to 2010. Paired sample t test and Wilcoxon signed rank test were used to find the before and after effect of M&A. Results revealed that without the industry adjusted performance acquirer performance had enhanced after the M&A whereas the target performance showed a downward trend, however, combined firm"s (acquirer and target) performance had diminished after the deal. **Trivedi (2013)** used a sample of 30 Indian companies listed in BSE and NSE. Ratio analysis and Wilcoxon signed rank test was employed. Results revealed that the expenses had increased after the M&A. However, PAT and RONW had also improved after the deal. Net worth and capital employed had also improved after the deal.

Certain previous studies argued that the operating performance of the firms was not improved after the M&A

Martynova et al (2006) conducted a study with Sample consisting of 155 firms which had executed M&A during the period 1997 to 2001. Results revealed that the post operating performance of the firms had lessened after the M&A deal. However, the researcher had compared the performance of the firms with the peer group and found that during the study period the performance of non merged and acquired firms had also slumped. Researchers concluded the study by implying that the diminish in the operating performance is not due to the M&A. **Sil (2015)** studied the pre and post performance of 17 Indian pharmaceutical companies which had engaged in M&A during the period 2000 to 2007. Results revealed that M&A could not enhance the financial performance of the firms.

Kumar (2009) analyzed the operating performance of 30 domestically merged private firms in India excluding financial sectors. Ratio analysis and paired sample t test was used for three years before and three years after the merger. ROCE was included to identify the operating profit of the firms. Debt to equity ratio was employed to understand the financial synergy creation. Operational efficiency was measured by "net sales to net fixed assets" to identify the operational synergy. Results revealed that the ROCE, the debt to equity ratio and operational efficiency had not improved after the merger. Researcher argued that the merger could not improve the operating performance of the firms.

Papadakis and Thanos (2010) had studied the impact of M&A in Greece firms. Sample comprised of 50 firms that had executed the M&A deal during the period 1997 to 2000. ROA, market model was employed. Managerial assessment about the deal was analyzed. The relationship between the operating performance, CAR and the managerial assessment was computed. Evidence showed that the 2 year post operating performance had decreased after the deal. However, managerial assessment with the help of questionnaire had showed that the managers agreed that the deal did not deliver the expected performance. ROA and managers subjective assessment was positively correlated. **Srivastava and Prakash (2014)** said that Pat as
„percentage of net worth, had decreased after the M&A but PAT as „percentage of capital employed‟ had improved.

Reasons for the increase and decrease in operating performance based on previous studies

Rani et al (2015) studied whether the operating performance of the bidders had improved after the M&A. Du Pont analysis showed that the improvement in financial performance was due to the production cost reduction. Cost reduction was because of the economies of scale in combined firms‟ (acquirer and target) production hence increasing the profit for each unit of sales**. Healey et al (1990**) had investigated the pre and post merger financial performance. Sample comprised of 50 merged public firms in the US during the period 1979 to 1983. Pre 5 years and post 1 year performance was analyzed using operating cash flow and the market adjusted stock returns for acquirer and the target. Study window was for 5 days before the announcement to the date the target was "delisted from trading on public exchange". Results revealed that the operating performance of the firms had improved after the M&A. Increase in operating cash flow was because of the efficient usage of assets rather than reduced capital expenditure or increased sales margin. Market adjusted return revealed that the target shareholders had higher return than acquirer‟s shareholders.

Previous studies had also tried to identify the determinants which could impact the operating performance of the firms

Basu and Chevier (2011) argued that the firm‟s had improved the operating performance when the distance between acquirer and target was less. **Azhagaiah and Sathishkumar (2014)** divided the pre and post merger result to understand the difference in various variables**.** Correlation result in the pre merger period showed that growth, gross earnings and financial leverage had an increase; the ROE also increased. When liquidity and cost of utilization increased, the ROE decreased. Turnover and operating leverage could not influence the ROE. In the post merger period result showed that when gross earnings, financial leverage and growth increased the ROE increased whereas operating leverage was inversely correlated. Liquidity, turn over and cost of utilization had no association with ROE.

Xiaobai Ma et al (2016) had investigated the operating performance of Chinese firms after the cross border M&A. Acquirer consisted of 169 firms which were publicly listed. ROA was the dependent variable. ROA of previous year before the M&A is deducted from the ROA of one year after the M&A. Prior M&A experience, nature of acquirers (local government or centrally government governed firms), firm size were the independent variable. Control variables were firm age, share of ownership sought, relatedness, Market volatility, cultural distance, Institutional distance and GDP. Multivariate linear regression was used for the analysis. Results revealed that the Chinese acquirer with previous cross border experience could improve the operating performance. State owned acquirers could maximize the operating performance than the private owned acquirers. Operating performance of the acquirers was positively associated with the firm size. Firms‟ age was positively related to the operating performance of the acquirers; however, other control variables had no significant impact.

Ramakrishnan (2010) analyzed whether the pre merger performance of the firms had a positive impact with the post merger performance. Surprisingly evidence showed that unrelated merger had created higher operating profit than the related mergers in the long term. Mergers with "transfer of management control" performed better than those mergers without the "transfer of the management control". Mergers performed better when target was not sick firm but in good health. Relative size of the target could not impact the post merger performance significantly. Method of payment was also not able to significantly impact the post operating performance of the merged firms. **Leepsa and Mishra (2013)** implied that the Small targets size had positive impact on the acquirer performance whereas large target size had negative impact on the acquirer performance. **Freund et al (2007)** studied the operating performance of the firms in the pre and post M&A period. Operating performance was computed for three years before and three years after the deal. Results revealed that firms which had chosen diversification had lower operating profit in the post merger period compared to the pre merger period. Operating performance of merged firms and non merged firms were having no significant difference. **Narayan and Thenmozhi (2014)** argued that pre and post operating performance of the firms were positively correlated and so the pre acquisition performance could forecast the post acquisition performance.

Previous studies were conducted to understand whether the market responds to the M&A deal and firms operating performance after the deal had a relationship

Freund et al (2007) had conducted a study in US. Study result showed that the operating performance of the firms after the M&A could be forecasted by the share value creation in the M&A announcement period. Positive share value improved the operating performance but negative share value decreased the operating performance of the firms. **Healey et al (1990)** also argued that there was a positive relationship between the cash flow and the share value creation of the firms after the M&A.

2.3 SHARE VALUE CREATION

Scanlon et al (1989) had conducted the study with firms listed in AMEX and NYSE during the period 1968 to 1985. Study result revealed that the acquiring firms had negative announcement return. **Andrade et al (2001**) had also analyzed cross border M&A in US during the period 1973 to1998. Researcher pointed out that the bidders could not enhance the share wealth of the shareholders after the M&A; however, result was statistically insignificant. Researcher also found that the M&A mostly happened in a particular industry at a particular point of time. However, in 1990‟s it was mainly because of deregulations**.**

Markides and Ittner (1994) had used 276 firms from US that had undergone cross border M&A during the period 1975 to 1988 and found that the cross border acquisitions had positive abnormal return but domestic acquisitions had negative abnormal return, **Datta and Puia (1995)** analyzed the cumulative excess return of acquiring firms in US during the period 1978 to 1990, however, the bidders had a negative share value, **Sudarsanam et al (1996)** conducted the study in UK during the period 1980 to 1990. Result showed that acquirers could not maximize the shareholders wealth after the M&A. **Kiymaz and Baker (2008)** had analyzed the value creation of the publicly listed US firms after M&A during the period 1992 to2000. Researcher discovered that bidders in the short term could not improve the share return after the M&A.

Uddin and Boateng (2009) had analyzed the cross border M&A performance of UK firms during the period 1993 to 2002 using market model for a 21 day window.

Results showed that the CAR was negative for the bidder but during the announcement day the bidder had generated a positive share value, however, previous researchers also agreed that the market had undervalued the shares of bidders in the shorter period after the M&A deals. **Ramakrishanan (2010)** used 34 pairs of firms from India that had engaged in M&A during the period 1996 to 2002 and the study revealed that the share value was not created for bidders for a 21 day window after the deal. Hence the researcher concluded that the combined and the acquired firm could enhance the share value after the deal. Corporate houses and academics uses M&A interchangeably but **Kumar and Panneerselvam (2009)** had conducted a study in India to find whether the M&A had any variations in the performance. Sample comprised of firms that had executed acquisition or merger during the period 1998 to
2006. Results revealed that M&A differently impacted the share value of the acquirer. Acquirer‟s chosen "acquisition" as strategic expansion mode had negative abnormal return but the acquirer chosen "merger" to expand had positive abnormal return for a window of 41 days but in the shorter window of „-3, +3‟and „-10+10‟ days the announcement return was positive.

Satapathy and Kaushik (2015) had investigated the short run performance of 35 domestically acquired Indian bidders for a 41 days window. Study was concluded by showing that the acquiring company had negative abnormal return after the M&A.

2.3.1 INFORMATION LEAKEAGE

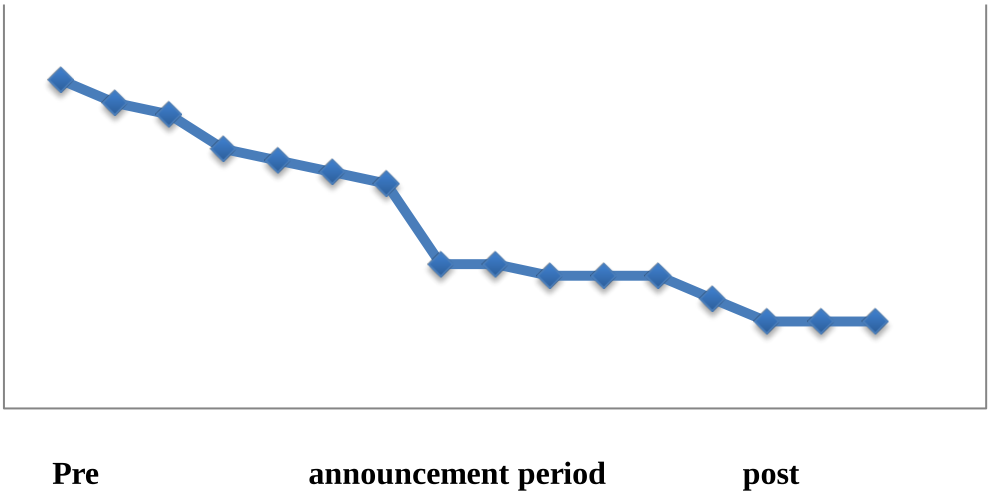
Sudarsanam et al (1996) had studied the share value creation of firms after the M&A for a window of 81 days. Sample comprised of 429 M&A made in the period 1980 to 1990 in UK. Researcher had considered 40 days in the pre announcement window to find the Pre share value created. Result revealed that for target till "-21" the CAR was not varying but after that the CAR had increased until the day of announcement of the deal. Hence the researcher argued that this trend could be seen only when the market had expected or anticipated the bid or the information about the deal was leaked, however, during post announcement period the target had gained positive share value. For bidders‟ pre announcement period the share value was positive, on the announcement day the share value was negative during post announcement period also bidder had only negative share value.

Favato et al (2015) had analyzed the M&A impact on US firms. Sample was made up of 90 firms that had executed the M&A during the period 2012-2014. Pre announcement day CAR return had increased. Surrounding the announcement period share value had become positive. But in the announcement day an insignificant reduction in share value could be observed that was negative share value. In the post announcement period the share value had become negative. Researcher further implied that the information about the deal got leaked because during the announcement period there was always an increase in the pre announcement day. So from this result it could be concluded that whenever the bidder share value was positive during the pre announcement period and changed negative slightly during announcement day or surrounding the announcement day and then became negative during the post announcement period then there could be a chance for the leakage of information (**Favato et al, 2015; Sudarsanam et al, 1996)** because the market was expecting a bid **(Sudarsanam, et al, 1996)**.

TABLE 2.1 INFORMATION LEAKAGES

Pre	Surrounding Announcement day	Post
Positive share value	Decline in share value	Negative share value

FIG: 2.1 INFORMATION LEAKAGES



A Graphical representation of information leakage of bidders: models computed with the previous reviews

From 1968 to 2008 most of the studies which had carried out in different part of the world had argued that the M&A could not enhance the share value of the bidder firms. But there were few researchers who did not agree the negative impact of M&A. **Chakrabarti (2008)** investigated the stock value creation by looking into 386 Indian acquirers that had executed the deal during the period 2000 to 2007. Results revealed that for a window of (-5, +10) 16 days the acquirer had positive share value. Researcher also calculated long run share return and found that the result was positive. Comparatively the long run post acquisition performance could not create more wealth than the pre acquisition performance.

Sheen (2014) had also confirmed in his study that bidders could create positive abnormal return for a window of 21 days. **Rani et al (2013)** studied the share value creation of 623 bidders in India for a short run window of 21 days during the period 2003 to 2008. Results revealed that in the short run, shareholders could create a positive share value. Only very few researchers had argued that firms could create positive abnormal return after the M&A. However, certain researchers argued that the target had created higher abnormal return but if the target firms were the winners, in certain cases the bidders would not have gained the share value thus the bidders had become the losers so the value was not created but transferred. Researchers argued that there were certain bid characteristics which could impact the value creation of the M&A.

The ongoing debate M&A is whether the value is transferred from one firm to another or the value is created. Researchers also implied that in most of the M&A deals, the target had gained higher share value than the acquirer but the worst part is that in certain deals acquirers share value also had become negative.

Capron and Pistre (2002) examined the impact of resource transfer on the share value creation of the firms. Sample comprised of 101 horizontal acquisitions from US and Europe. Post acquisition survey was also conducted. CAR was computed using the event methodology. Independent variables consisted of; target which transfer resources to the acquirer, bidders which transfer resources to the target and joint firms (acquirer and target) transfer of the resources. Mainly resources were divided into three types, that is innovation, marketing and managerial. CAAR was the dependent variable. Results revealed that most of the M&A the asset had transferred from the acquirer to the target. But compared to the three types of resources when the target transferred the innovation resources the share value was not created for the acquirer. However, when acquirer transferred both the managerial and innovative resources together then it could create share value for the acquirer. When acquirer transferred marketing resources to the target it had impacted the share value of the acquirer negatively but when target transferred the resources to the acquirer then acquirer had a positive share value. Joint exchange of the resources between the acquirer and the target could induce a positive share value for the acquirer.

Kiymaz and Baker (2008) observed in his study that the average abnormal return of target became positive whereas the average abnormal return of the acquirer was negative before the announcement period. Acquirers share value creation varied from negative to positive depending upon the industry. Synergy was the reason for the firms to choose M&A. **Blease et al (2008)** investigated the impact of M&A deal on announcement day return, however, researcher concluded that target had created share value but bidder‟s share value had plunged. Target had positive share value but bidder had negative share value in the long term. **Kumar and Panneerselvam (2009)** implied that when bidder acquired the target, the CAR was negative in the pre announcement period but in the announcement period the share return was positive. Researcher also investigated the impact of acquisition in the shorter event windows. Result revealed that the acquirer and the target induced positive excess cumulative return in the short windows. But announcement return was comparatively high for the acquirer than the target. In the 121 days window that was -60, +60 the abnormal return had decreased and became negative for the acquirer. In the shorter windows acquirer and target had positive return.

Danbolt and Maciver (2012) reported that during post acquisition period targets share value had increased higher than bidders share value. **Rahim and Pok (2013)** said that the target could create higher share value than acquirer in the short run period. But both the acquirer and the target had positive share value after the M&A deal. **Kiymaz and Baker (2008)** had analyzed the value creation of the publicly listed US firms after M&A during the period 1992 to2000. Result revealed that bidders in the short run could not improve the share return after the M&A. Researchers argued that the target positive share return was high in M&A deals. Researcher concluded the study by implying that in M&A share value transfer was happening and not share value creation. **Sudarsanam et al (1996)** claimed that the bidders could not create share value but target could create share value. Researcher implied that in M&A bidders wealth was transferred to target. Researcher further argued that the reason for wealth transfer was because of the high premium paid to the target by the bidders**. Andrade et al (2001)** agreed with previous study findings that target had created higher share value than the bidder but researcher implied that since the acquirer had a negative share value which was statistically not significant, researcher could not say that the acquirer was making any losses. However, the big gains were somehow enjoyed by the target.

Previous studies implied that target could gain higher value than the acquirers in M&A transactions. But to understand whether value was created or value was not created again the determinants impact on the firm performance should be identified.

2.3.2 PREMIUM

Basu and Chevier (2011) said that that the premium amount could vary according to the form of payment**. Rahim and Pok (2013**) implied that bidder share value and the premium was positively associated that is if premium became high then the bidder could create more value for the shares. **Sudarsanam et al (1996)** pointed out that target could not earn high premium when the bidder was holding shares in an acquired firm before the deal. **Harrison et al (2014**) said share market responded positively to the M&A deal when bidder paid a large premium. **Thraya (2015) s**tudied the impact of shareholders concentration on premium payment of M&A. Sample comprised of 147 deals by public listed firms whose shares were concentrated on few shareholders. Regression analysis was employed. Result revealed that when the voting right was concentrated on few shareholders then the premium paid would be more than the value of target. But then when controlling shareholders had very less ownership shares; then the bidder overpaid the premium only when the ownership of the firms and control of the firms were separated. When controlling shareholders had higher voting right then target had paid over the amount as premium by the bidder and this was only for personal benefits. Dual class shares had no influence on premium. Bidder overpaid the premium when they had acquired the target from the related industries. Acquirer toehold and debt was negatively related with the premium.

Sonenshine and Reynolds (2014) study showed that target was from developed countries then the premium offered was less compared to the target from emerging economies but certain determinants could increase the premium amount offered by the acquirer to the target located in the developed countries. In outbound deals acquirers preferred to pay high premium if they could have had high ownership percentage especially when the target was domiciled in developing countries. Size of the deal could impact the premium negatively. If the acquirer could access large market share then they would pay high premium. Target currency rate appreciation was positively associated with the premium. Researcher had also compared whether the low intangible asset intensity and high intangible asset intensity could impact the premium differently in the developing countries. High intangible asset intensity and low intangible asset intensity firms both paid the premium without much difference in the amount. But target exchange rate could boost the premium amount paid by the high intangible asset acquirer; however, low intangible asset acquirer could not boost the amount. Average tariff rate was positively associated with the premium when acquirer had low intangible asset intensity but inversely related when acquirer had high intangible asset intensity. Surprisingly industry relatedness was not able to impact the premium amount. **Sudarsanam et al (1996**) said that the Bidtoe and premium was negatively correlated. Bidder toe and target return was inversely related. **Gregory and Wang (2013)** insisted that the premium in cash could negatively impact the acquirer return.

2.3.3 HOSTILE OR FRIENDLY ACQUISITION

Rahim and Pok (2013) study revealed that the hostile acquisition maximized the share wealth of the target but for acquirer when the acquisition was hostile then the share value had decreased. Acquirer could produce better share value in friendly deals than the hostile deals. **Goergen and Renneboog (2004)** argued that target shareholders could maximize the share return in the hostile bids compared to the friendly and multiple bidders. But bidders share value was negative in hostile bid. Result showed that this was because in hostile bids shareholders would restrict the deal so the bidders would pay higher premium to overcome the restrictions by the target shareholders hence the bidder shareholders would not gain in the hostile bids. **Sudarsanam et al (1996)** said that hostile bid could create positive share value.

2.3.4 PAYMENT MODE

How to finance a M&A is a very important decision for the success of the deal. M&A could be financed in many ways; acquirers either use cash alone or stock but in some cases acquirers use a combination of cash and stocks. **Favato et al (2015)** The previous literatures show that cash financing would enhance the share value for bidders, however, in some cases the stock could deliver higher share value for the bidders than the cash financing. Acquiring firms could increase the share value by financing through cash than stock in the cross border M&A **(Uddin and Boateng, 2009; Freund et al, 2007).** (**Uddin and Boateng,2009)** said that in cross border M&A mostly target would not prefer stock as payment mode but **Rahim and Pok (2013)** provided some support for the findings that acquirers could create high CAAR by equity financing than cash in the short run. But target"s CAAR was higher in the short run window by financing in cash than equity in domestic acquisitions. However, **Andrade et al (2001)** opposed the findings and argued that when stock was the medium of financing then acquirer would have had a negative announcement period abnormal return. Target and combined firms abnormal return was also reduced when using equity financing but then other forms of financing could create share value for the combined firms.

Travalos (1987) had found that in stock payment announcement return of bidders was less compared to cash payment**.** **Rani et al (2013)** had conducted the study in India which revealed that the shareholder of acquiring firms had created higher share value by financing through cash than stock in the domestic acquisitions. **Sudarsanam et al (1996)** found that cash payment created higher share value compared to the share exchange offer. However, **Danbolt and Maciver (2012)** strongly agreed that Cash financing could increase the share value for bidders in both the cross border and domestic deals. **Goergen and Renneboog (2004)** argued that target could magnify the return when the bidder had paid in cash. But for the bidder stock financing could create higher share value. Researcher implied that when the size of bid was large then the payment would be mostly in the form of equity. But smaller deal was paid in stock. **Markides and Ittner (1994)** said that form of payment could not have a significant influence on the creation of share value for bidders in the Cross border M&A**.**

Hamza (2011) also agreed that method of payment had no impact on the share value creation of bidders. **Favato et al (2015)** had divided the announcement period in to pre announcement period, announcement day and post announcement period. Depending upon the period the influence on mode of payment also varied. During pre announcement period acquirer created higher share value by paying in a mix of cash and stock but during announcement period the cash payment induced higher return than the mixed payment (cash and stock) method, however, during the post announcement period the share value was decreased while financing with cash compared to the acquirers paying in the mixed form of payment (cash and stock)

But then why previous studies had different result when the form of payment was same. There should be some other factors which impacted the forms of payment or forcing the firms to choose a certain type of payment mode viz cash, stock or mixed. The present study tried to understand the factors which could influence the form of payment.

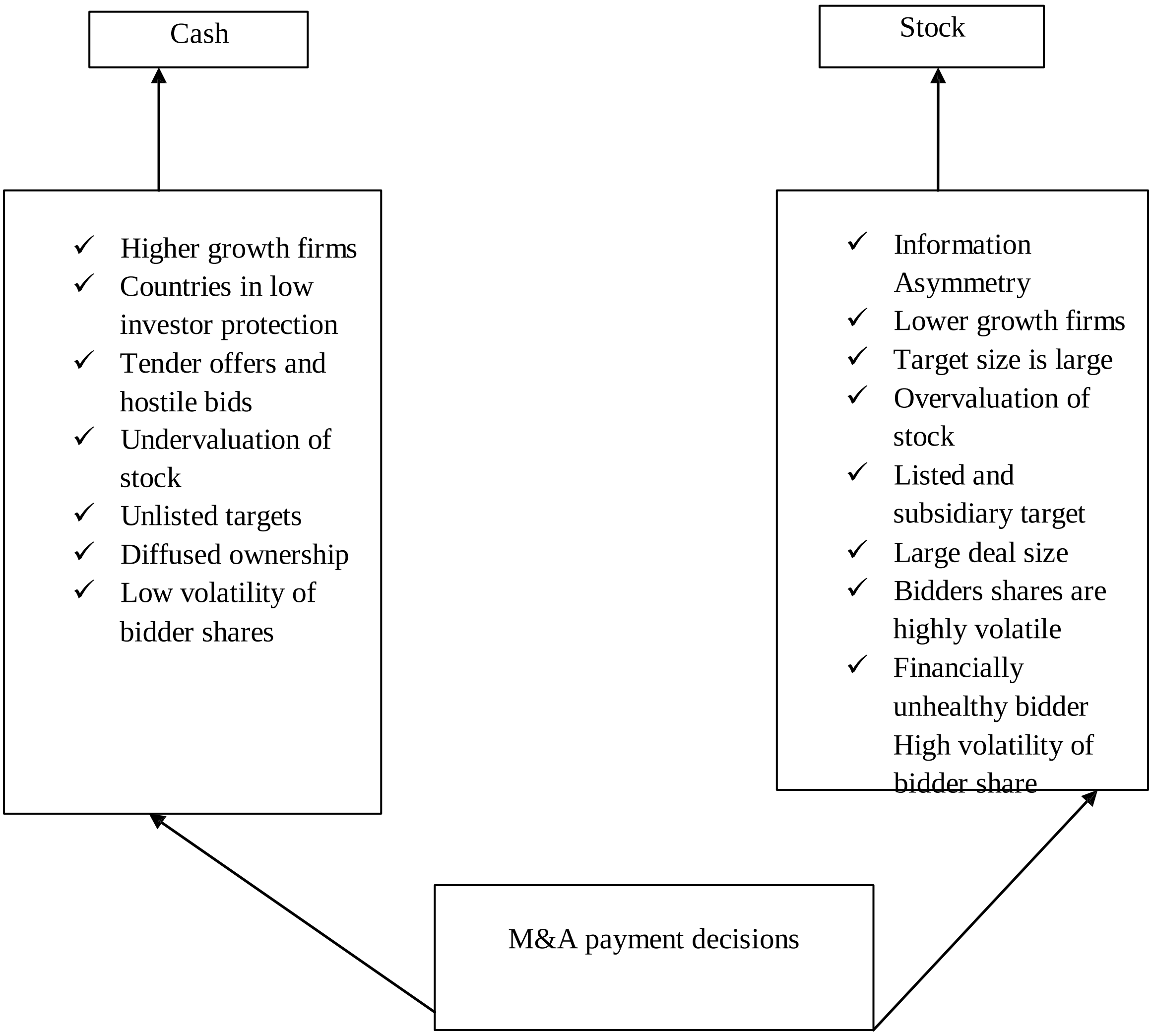
Travalos (1987) implied that when the payment was made by stock then the stock market might believe that because of the overvaluations of bidding firm"s shares the acquirer had chosen not to pay in the form of cash. **Basu and Chevier (2011)** argued that when the distance between the acquirer and the target was high then the acquirer would use stock to finance the M&A deals. Distance was the proxy for information asymmetry in domestic acquisitions. So in other words when information asymmetry was present then stock would be the preferred mode of payment by the acquirer. **Mackenzie et al (2000**) pointed out that higher growth firms used cash but lower growth firms used stock or mixed form of payment (cash and stock together).

Rossi and Volpin (2004) observed that when countries had low shareholder protection then mode of financing was cash. If target was very large in size then the chances to pay in cash was less. However, for tender offer and hostile bid financing would be in cash. **Wansley et al (1983)** argued that the difference in payment mode was mainly due to the tax affect variation for cash and stock payment in M&A deals. Researchers also said that acquirer would prefer to pay in cash because mostly the market responded negatively to the stock payment. Other major problem was "regulatory requirement" for example while financing through securities in America it was a long process which involved lots of time Researchers also said hostile bids with stock could never be completed because by the time the acquirer get approval from security and exchange commission the potential target would somehow stop the hostile bid. Researchers therefore insisted that in hostile bids most preferred payment mode is cash by the bidder. Another important factor was tax affect. Researchers argued that when it comes to cash the tax should be paid at the time of deal whereas for the stock the tax would be paid only at the time of selling the stock. So for cash offers in order to lessen the impact of tax the acquirer had to pay a high premium. In fact study showed that that when stock was overvalued the bidders would prefer to pay in stocks.

However, Faccio and Masulis (2004) had studied the determinants which impacted the method of payment in M&A. Samples comprised of acquisitions announced over four years between January 1997 and December 2000 by bidders from 13 European countries. The results revealed that European firms preferred to bid in cash than the other forms of payment while executing M&A. The types of target had also influenced the mode of payment of the bidder; that is mostly for listed target or subsidiary the bidder had paid in stock and for unlisted target bidder would pay in cash. Voting power of the bidders‟ largest shareholders also influenced the decision of the mode of payment. If it was concentrated ownership then stock payment would be preferred. On the other hand if the ownership was diffused then cash payment would be favored more. If ownership was not so concentrated or diffused then acquirers opted for mixed payment. If the percentage of collateral was high then bidders had chosen cash financed deals. When percentage of collateral was very low then stock financed deals would be chosen. If bidders were not financially healthy then they would surely choose the stock financed deals frequently. Result revealed that when the bidder‟s top director was also the director of a bank then the acquirer would always choose to pay in cash. For large deals the mode of payment was stock but smaller deal would be paid in cash, medium deal would be paid in a mixed form. Stock runner up was common for the bidder before the year of the M&A if they had chosen to pay in stock and also here the study supported the overvaluation theory and the stock payment choice of the bidders. Bidders‟ volatility was also highest for stock deals and lowest for cash deals. The market to book ratio was proxied for the bidder growth opportunities. Result revealed that when the bidder was a firm with growth opportunities then the target shareholders preferred to be paid by the stock of the bidders. Domestic deals mostly paid in stock but cross border M&A had mostly paid in cash. Cash reserves had an inverse relationship with the proportion of cash used as in M&A deal. If the target and acquirer had common owners then both would prefer a stock payment.

Shleifer and Vishny (2003) implied that if a bidder‟s stock was overvalued then they would surely pay in stock. Cash deals mostly happened when the target share was undervalued but acquirer shares were not overvalued, because then the bidder got control over the target share and also researchers argued that the deals would be hostile. But then the acquirer preferred to pay in stock only when the bidder shares were overvalued and the target shares were undervalued and the target manager was only interested in short run returns than long run returns. **Lei and Li (2016)** Researcher had linked the investor base and investor recognition by using Merton 1987 method. Registered number of shareholders would be more for bidders using stock to pay the deal. The institutional investors‟ proportion and number was comparatively more when acquirer acquired the private target with stocks than the acquirer acquired public target with cash. Shadow cost was more when acquirer acquired using cash than stock. However, the researcher argued that if reduction in shadow cost was predicted correctly then it would increase the return.

FIG 2.2 FACTORS IMPACTING THE MODE OF FINANCING IN M&A


Cash
Stock
✓ Higher growth firms
✓ Countries in low investor protection
✓ Tender offers and hostile bids
✓ Undervaluation of stock
✓ Unlisted targets
✓ Diffused ownership
✓ Low volatility of bidder shares
✓ Information Asymmetry
✓ Lower growth firms
✓ Target size is large
✓ Overvaluation of stock
✓ Listed and subsidiary target
✓ Large deal size
✓ Bidders shares are highly volatile
✓ Financially unhealthy bidder High volatility of bidder share
M&A payment decisions

Financing model created by combining the previous reviews

2.3.5 RELATED AND UNRELATED ACQUISITIIONS

Related and unrelated acquisitions are other important determinants of M&A. Previous conceptual and empirical evidence revealed that at certain point of time in certain industries the related acquisitions had created value but then sometimes the unrelated acquisitions were the value creators. Pioneers in the field had tried to identify the reasons for the firms to have different results.

There are two kinds of merger related and unrelated. **Uddin and Boateng (2009)** had analyzed whether related or unrelated M&A created share value in the cross border M&A. Sample is made up of 373 UK firms. Results revealed that share value enhancement was high in related M&A than the unrelated M&A. Researchers further quoted that this improved share value was because of "economies of scale and scope". **Datta and Puia (1995)** studied the impact of cross border M&A. Researchers found that the related mergers could deliver higher share value than the unrelated M&A because of the competitive advantage firms developed. In related integrations these competitive advantages were achieved because of operating synergy. **Sudarsanam et al (1996)** research showed that related M&A were not able to create operation synergy**.** Related M&A could trigger higher value than unrelated M&A (**Westerndorf et al 2009; Rahim and Pok (2013), Markides and Ittner, 1994). Singh and Montgomery (1987)** implied that related M&A could not trigger higher share value for acquirers than the unrelated M&A in the short run but then the result was not significant. Target firms created higher value in related M&A than unrelated acquisitions. **Kiymaz and Baker (2008)** implied that firms executed related M&A to take advantage of different synergies.

Wansley et al (1983) said that „minimizing the risks associated with the businesses, "complementary resources" and "scale of economies" were the source of synergy in vertical M&A. However, Researchers also argued that financial synergy were the main source of synergy in unrelated M&A. **Singh and Montgomery (1987)** proposed that the source of gain in related M&A was because of the "combination of complementary or supplementary resources. Researcher also implied that in related acquisitions share value could be maximized through "economies of scale, market power and economies of scope" whereas in unrelated acquisitions gains were due to reduction in financial expenses and "cost of administration" or "improving the efficiencies of administration". Researchers also found that the bargaining power of the target was high in related acquisitions than in unrelated acquisitions.

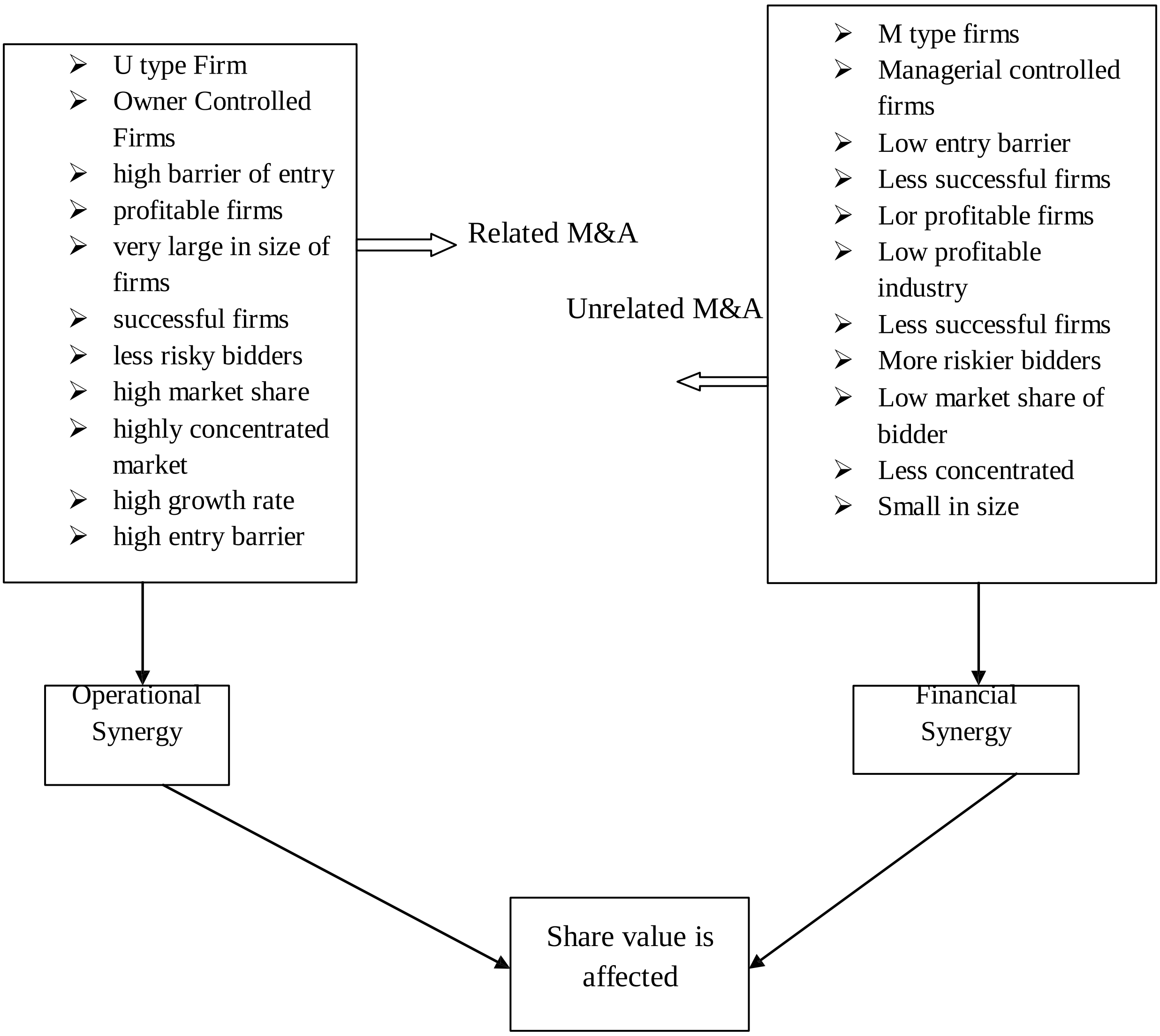
Du et al (2013) advocated that U type firms should go for related M&A and M type firms should go for unrelated M&A. However, studies show that enterprise growth was higher in related M&A than in unrelated M&A. **Favato et al (2015)** result showed that related acquisitions had enjoyed the higher share value during the pre announcement and announcement period. However, during the post announcement period the unrelated M&A had triggered higher share value. **Leepsa and Mishra (2013)** found that in the long run unrelated M&A performed better than the related acquisitions. **Campa and Hernando (2004)** evidence showed that conglomerate mergers could create higher share value than the related mergers. **Scanlon et al (1989)** had argued that the M&A between the small sized related firms had created higher CAR than any other combinations of two firms because researchers found that the related firms performed better than the unrelated firms and the small firms outperformed the large firms. Researchers suggested that the small related firms were easy to manage. However, **Lubatkin (1987)** theorized that the type of M&A could not influence creation of share holders‟ wealth in the firms. The previous literatures had mixed result about the value creation of M&A but then why this difference in results? Mostly because there would be some factors that would impact the value creation of firms within the "type of industry".

Amihud and Lev (1981) divided the firms in to two that is manager controlled firms and owner controlled firms. Researchers implied that the managerial controlled firms had mostly chosen unrelated acquisitions and the main motive was risk reduction. However, the manager was not only trying to reduce the firms risk but also the "employment risk" associated with his employment. Here the real reason for the M&A was "managerial motive" on the other hand an owner controlled firm had mostly avoided the conglomerate M&A. So the "type of ownership" had indirectly impacted the motive and motive could directly impact the type of M&A chosen by the firms**.** However, **Matsusaka (1993)** performed the study in New York during the period 1968, 1971 and 1974. Result revealed that most of the firms after the conglomerate and non conglomerate M&A did not replace the managers. So researchers argued that since firms preferred to retain the managers the M&A had taken place because of managerial synergy motive not because of managerial discipline motive. Shareholders reacted more positively when the M&A were because of the managerial synergy motive. Study sample also showed that overall unrelated M&A could create higher share value than the related M&A. Further the study pointed out that diversification had created a positive share value during 1960 and1970 but during 1970 diversification had failed to create share value for bidders; alarmingly in 1980‟s for the diversified M&A the share value became negative. There were two types of ownership that is insider controlled firms and family owned firms.

For diversification share value creation did not vary depending on the firm owned by family or controlled by “insider/ outsider ratio”. But for horizontal mergers the family ownership had influenced and also the “insider/outsider ration of bidder board” could impact the share wealth creation. Horizontal acquisition share maximization was high when families run the bidder firm, however, researchers said the reason was that family owned business had less agency problems.

Hopkins (1987) found that entry barriers in the industry could also influence the firm"s choice of „type of M&A". If entry barriers was high then firm would only prefer the related M&A. Firms were motivated to enter in a restricted industry through related M&A because the competition would not be intense. But then the firms to be successful in restricted industries those firms should have had invested heavily on R&D and advertisements, in other words firms marketing should be really strong. But conglomerate M&A happened whenever there was an opportunity to merge with or acquire other firms, also the industry should not have had high entry barriers. **Kale (2004)** analyzed the firms from India that had engaged in M&A during the period 1992 to 2002. Researcher proposed that the liberalization of a country could also impact the type of M&A chosen by the firms. Studies show that in India before liberalization conglomerate M&A were popular but then after liberalization most of the firms wanted to merge with related firms. In the early years after the liberalization variation in value creation was not so high between the related and unrelated firms. But after some years higher value creation in unrelated M&A compared to the related M&A were observed. After some years the higher value creation of unrelated M&A had ceased but related M&A started creating share value compared to the unrelated M&A. Researchers also advocated that value gains through unrelated M&A were limited. **Sheen (2014)** related M&A could minimize the cost. However, after the related M&A the firms reduced the products which were similar and which directly resulted in elimination of certain brand of the firms. So the firms" market share had reduced in related M&A on the other side number of brands had increased after the unrelated diversification.

FIG 2.3 FACTORS IMPACTING THE DECISION OF FIRMS TO EXECUTE RELATED OR UNRELATED M&A


U type Firm
Owner Controlled Firms
high barrier of entry
profitable firms
very large in size of firms
successful firms
less risky bidders
high market share
highly concentrated market
high growth rate
high entry barrier
Related M&A
Unrelated M&A
M type firms
Managerial controlled firms
Low entry barrier
Less successful firms
Lor profitable firms
Low profitable industry
Less successful firms
More riskier bidders
Low market share of bidder
Less concentrated
Small in size
Operational Synergy
Financial Synergy
Share value is affected

Why do firms choose non conglomerate M&A? Because the managers had to do business with those firms who were very much different from their core business. Few researchers had tried to find the answers. **Kim and McConnell (1977)** implied that „Co insurance affect‟ was the main reason for conglomerate M&A that is when two firms cash flow was inversely correlated so as to spread the risk, firms had gone for the conglomerate M&A, here the only motive was financial synergy by increasing the capacity of debt.

Rumelt (1982) observed that firms in conglomerate M&A could easily stop injecting cash in unprofitable business and divert those cash to promising projects not only that it was also easy to correct the errors of managers. Researchers also showed that in 1970 there was a decrease in the number of conglomerate M&A compared to 1960 because during 1960 firms only preferred conglomerate M&A. **Rumelt (1982) and Williamson (1979)** found that two unrelated business idiosyncratic risk varied. So firms could reduce the unsystematic risk by merging with firms whose unsystematic risk was imperfectly correlated. **Hann et al (2009)** argued that unrelated M&A could reduce the cost of capital by reducing the systematic risk. That is when two firms cash flow was inversely correlated then this could produce a coinsurance effect. Co-insurance effect could reduce the systematic risk. Systematic risk could reduce the cost of capital.

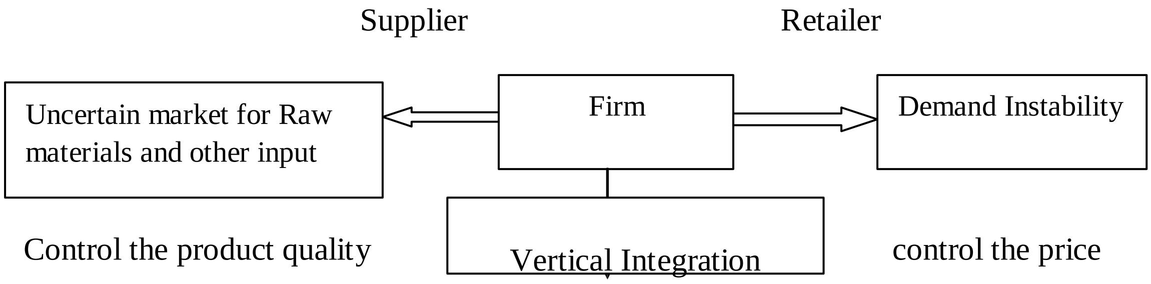
Park (2002) study showed the pre determinants to choose the "type of M&A" for a firm. Firms had gone for related M&A when the pre acquisition profits of the firms were high. If firm‟s pre acquisition profit was not satisfactory then the firm would choose conglomerate M&A. However, firms from profitable industry had chosen related M&A but if industry was not so profitable then firms would go for unrelated M&A. Also the firms that had chosen the related merger previously would go for related mergers for the next diversification but then firms that had previously grown by unrelated M&A would again choose the unrelated M&A. Large firms would prefer related M&A. If pre acquisition risk was less then firms would prefer related M&A otherwise firms would go for unrelated M&A. However, the researcher concluded by saying that the related M&A had improved the profit only because those firms were not loss making firms but very profitable firms from industries which performed well. **Christensen and Montgomery (1981)** implied that diversification strategy could be influenced by certain firm characteristics. Unrelated firms in the study sample were "less successful"; however, only "successful firms" had gone for related M&A. Other finding showed that risk was positively correlated with the firm‟s probability to choose unrelated M&A. That is riskier the firms there was a high probability to choose the unrelated M&A. But then the less risky firms had high chances to choose related M&A. Unrelated firms did have very low market share mainly because they were firms from less profitable and also less concentrated market. Not only that but size of the firms were small compared to other firms in the industry. Related constrained firms enjoyed high market share with high growth rate and profitability. Related firms were also from highly concentrated markets. Finally, the researcher said that a successful performance could be gained if only there was an opportunity in the market and firm had the needed resources to utilize the opportunity to the maximum.

Joehnk and Nielsen (1974) had studied the impact of M&A on systematic risk of the firms. The sample comprised of 21 conglomerate and 23 non conglomerate M&A. The study period was from 1962 to 1969 and the firms should be listed in NYSE. Researchers argued that in the short run, systematic risks could be reduced if firms had chosen conglomerate M&A. Pre merger systematic risk in the short run could influence the post merger systematic risk. Study also found that the size of the firms had failed to influence the systematic risk irrespective of the type of M&A (conglomerate or non conglomerate). In the long run the conglomerate merger could alter the systematic risk if the firm had engaged in "extensive merger activity". In the long run the risk variance between the conglomerate and non conglomerate M&A had decreased. This was because the conglomerate M&A impact on firms and its asset beta itself had decreased as in the due course of time.

Hopkins (1987) divided the firms according to the strategies adopted in M&A that were market related strategy, technology related strategy and conglomerate strategy. Market related strategy firms enjoyed better position in market. Further "industry concentration", "market share" and "industry profitability" were comparatively high for firms choosing market related strategy than the technology and conglomerate strategy. In conglomerate merger firms industry concentration was very low and firms had low position in the market.

However, from the above literature it could be understood that not all the time a firm had chosen the conglomerate M&A. But then many times because of the available opportunities only the firm did choose the unrelated M&A. However, from the previous literature the present study concluded that the related M&A could induce higher share value. In related M&A there are two categories vertical integration and the horizontal integration and further this vertical integration is divided in to two back ward and forward integration.

FIG 2.4 HOW FORWARD AND BACKWARD INTEGRATION WORKS?


Supplier
Retailer
Uncertain market for Raw materials and other input
Firm
Demand Instability
Control the product quality
Vertical Integration
control the price

Combined the reviews to develop the model

2.3.6 VERTICAL INTEGRATION

Vertical integration studied by Carlton (1979) found that the main reason for the vertical backward integration was uncertainty in market. That is a firm would not know the demand of his goods because demand might vary but demand existed for the firm"s goods. Firms could not produce more goods because firms had to pay for the raw material and other inputs used in the production and also this could increase the total cost of production if the goods were unsold but the firms wanted to make their goods available to customers. An alternative was to warehouse the extra goods but then the firm had to bear “holding cost” which also would increase the cost of production. If the market was uncertain then surely cost of production would increase because the uncertain demand might make the firms to produce extra goods. So at this circumstance the firms decided to produce a part of its input instead of getting from outside sources. Firms produced that input which was having high demand in the market. Mostly firms avoided producing the inputs which had low demand in the market so even if the price of the input had increased, the firms cost of production would not be affected. Since there was a reduction in the cost of production, the price of the final good also reduced in vertical integrations. However, researcher argued that the vertical integration could be beneficial to the firms only if the vertical integrated firm had a competitive advantage like an improved production technology, otherwise the firms would not get benefit by vertically integrating. Also the improved technologies would be easily adopted by the vertical integrated firms than non vertical integrated firms. The reason for vertically integrated firms to easily adopt a new technology was that they produced the input specifically for their final goods where as if firms were not integrated mostly non integrated firms would produce the output for many other firms so they could not alter the technology with the specific asset characteristics. Mostly firms preferred a backward integration only if the input was having a very high demand; because if other firms had used the same input then there might be a chance for demand fluctuation to occur for the particular input among the firms. Because of the demand fluctuations at times when the input was greatly in demand it would result in an increased price for the input. But vertical integration was needed only in a competitive market. So the study was concluded by the researcher advocating that the "demand and supply uncertainty" in a competitive market was the main reason for backward integration.

Carlton model vertical integration might take place because of input factor availability and demand fluctuations, transaction cost, asset specificity and holding cost

However, Lieberman (1991) had studied empirically the reasons for firms to vertically integrate. Sample comprised of 34 backward integrated chemical firms. Researcher found that the firms would not integrate when the market was concentrated with few suppliers. But if the particular input was very important for the firms then they would integrate irrespective of concentrated market. Firms also integrated backward to avoid the "sunk investments". Also the researcher argued that back integration was positively correlated with the "fraction of the total cost" spent for the particular input. Result also supported a positive relationship between the uncertainty in the input market and the demand instability in the "downstream" market**.** Result also revealed that the integration was not related with the total input percentage the firm used in the overall input of the market, even if usage was greater (unlike Carlton model proved) could not find evidence to prove that the firm would integrate backward. Fluctuations in the downstream market would not impact the decision of a firm to integrate backward. However, transaction cost did impact the firms" choice of integration. Incomplete contract due to the difficulty in forecasting the contingencies also could be a reason for backward integration. Researcher concluded the study by advocating that firms wanted the input to be available whenever need had arisen but the fluctuations in the input market would make it difficult to get the needed inputs so firm did integrate backward , however, this fluctuations should not be caused by downstream market.

Bresanahan and Levin (2012) also supported the transaction cost theory in his conceptual paper. **Grossman and Hart (1986)** had argued that the contractual incompleteness could result in vertical integration and this is because the contract was very complex and firm often could not specify the resources needed for the production. Researcher divided the control in to two, residual and specific. Residual control was vertical integration. Specific control was often contract. When it was difficult to renegotiate the firms would prefer vertical integration.

Lin et al (2012) implied that the firms would choose backward, forward or no integration depending upon certain factors. Forward integration could monitor the price of the product but backward integration could monitor the quality of the product, however, when both the deals were available the manufacturer would choose any one even though manufactures face "prisoners‟ dilemma". The "consumer sensitivity to quality", perish ability of the products and quality of the product were the factors impacting the firms to choose the type of vertical integration. When the product perishability was high, the firm had chosen forward integration. When firms‟ wanted to control the quality then the firm would go for backward integration. Anyway forward integration could offset the benefits of backward integration.

Harrigan (1984) Vertical Integration was divided into no integration, quasi integration, Taper integration and Full Integration. Researcher implied that the most important decision in vertical integration is, which activity was to be acquired by the firms and in what proportion. Researcher also said that when firms did not prefer integration then it was better for the firms to choose "contracts" instead of integration. Also quasi integration benefit was that firms could respond easily with the growing change in demand than no integration. The most popular integration was full integration in which the firm acquired the whole of another company. In the full integration even though the risk was high the managers could manage the firms without much difficulty when compared to other forms of integration. Taper integration was slightly different from other integration. In this even though they integrated, a portion of some production function would be done by outsiders. Researcher argued that mainly four factors impacted the decision of a company to vertically integrate, that were the changes within the industry, volatility and intensity of competition, „suppliers, customers and distributors bargaining power‟, and "strategic needs of corporate".

Williamson (1971) implied that "contract incompleteness" was the main reason for vertical integration[1]. That is it would be difficult to enter into a contract because of the demand fluctuation; according to the frequent change in the final product, the raw material and other production function should be modified. Even if the firm wanted to enter in a contract in this circumstance it would be difficult to enter in a long term contract so they would choose vertical integration. In this circumstance irrespective of contractual completeness if firms did enter into a contract it would be very "costly" and either one of the firms should bear the losses or both the firms together must bear the losses. According to the researcher a vertical integration would be preferred: when the cost of production could not be predicted due to certain risks or uncertainty associated with the productions which were added mostly by the supplier at the time of entering into the contract. Here the firm should choose vertical integration otherwise the production cost would increase. Only very few suppliers were in the market so it would lead to monopoly which could also result in high price but then the factor proportions were inferior due to this monopoly enjoyed by suppliers, so the firm would integrate vertically. By integrating vertically the firm could create a barrier for other firms to enter because the input would be difficult to access for other firms and thus the competition could be avoided. Sometimes the firm would not be able to forecast the need of input in advance because of fluctuations in the market the input need might vary.

Chatterjee (1991) studied the impact of vertical M&A on firms‟ value. Sample comprised of data from 1962 – 1979. CAR was employed. Results revealed that market structure of the target and bidder could influence the gain from the vertical M&A. If the acquiring firms had high market power and also target came from an industry which was highly competitive then it could influence the gain for bidders positively. Bidder could create higher share value if they were from concentrated markets. On the other hand the target could create higher value only when they were from fragmented markets. Horizontal acquisition is the other form of related acquisitions. Many researchers studied what motives a firm to choose horizontal M&A and what are the underlining results behind the horizontal M&A. **Tremblay and Tremblay (1988)** found that horizontal M&A mostly happened between a well performing firm and a loss making firm. Researcher had carried out a

[1] Oliver E Williamson has won Noble prize for his theory of Contractual Incompleteness

study in US and sample comprised of firms from beer industry which was an inferior good. When it comes to a luxurious good it is difficult to know how far the result is applicable. Researcher pointed out that "market power and scale of economies" was not the main motive for the firm‟s to go for M&A but the "transfer of wealth" could also be the reason for the firm to choose M&A. Researcher had also studied the how macroeconomic variables could impact firms to execute M&A. Evidences showed that the acquirer had acquired during the recession period especially when the rate of interest was low but still the firm‟s profit had increased.

Sung and Gort (2006) showed that in horizontal mergers „total factor productivity „was not increased after the M&A. Return to scale was also not improved or decreased after the merger deal. Labor cost was increased and monitoring cost showed an upward trend (increase). Shareholder value was not gained in the short run. Researcher concluded the study by showing that the horizontal merger failed to create economies of scale and reduction in cost" after the mergers. Most of the horizontal mergers were taking place for utilizing the cost reduction synergy or economies of scale. It is often cited that horizontal integration would create monopoly but not many researchers had done a study to understand the impact of horizontal M&A on monopoly and oligopoly market.

Pavlou (2014) had done a conceptual paper to study the impact of horizontal mergers in oligopoly and monopoly market. Results of the study objected the argument that the horizontal merger had given power to a few players for creating monopoly and thus exploiting the consumers by increasing the price to reap profit. Researcher implied that the horizontal M&A if, succeeded in creating monopoly then the firm would be able to produce the products in low cost and this reduction in cost of production resulted in cutting the price of the products and thus the benefits of cost reduction would be transferred to the consumers. Learning by doing is one of the main factors for the profit creation in a merger hence when compared to the first year the profit and cost reduction would be high in the second year. Surprisingly, the researcher argued that the oligopolistic could not cut the price lower than the monopolistic because monopolistic firms cost of production would be much lower than the oligopolistic firms. In other words monopolistic firms would offer a product in a lower price when compared to the oligopolistic firms.

The biggest problem with horizontal M&A is that, if unchecked it could create anticompetitive mergers. The losers behind the anticompetitive merger are customers. Many researchers had done studies to understand whether mergers created anticompetitive effects. **Fairhurst and Williams (2016)** argued that not all horizontal mergers was value reducing. Researcher divided the mergers into expansion merger and collusion mergers. Researcher found that in both the type of mergers, for bidder Merger with high concentration and high expansion during the announcement period could create only a negative share value but for target share value had increased. Rival return was very important to understand the motive of bidder behind the mergers. If rival return was positive then merger could be anticompetitive. On the other hand if the rival return was positive or negative the merger could be for synergy creation. Results revealed that the high concentration mergers could be anticompetitive. Anticompetitive mergers had increased when the regulators were not intervening. However, the regulators intervention reduced the anticompetitive mergers. Results further revealed that customer reacted negatively to high concentration mergers but positively to high expansion mergers. Researcher also argued that geographically concentrating mergers could experience higher negative reaction from the customers. So the researcher said that the upstream market was affected highly by horizontal geographical concentrating mergers. Result revealed that the rivals could get positive return when the mergers were anti competitive but negative when the mergers enhanced the synergy. Researchers said that the geographically concentrating horizontal mergers were collusion mergers which could be anticompetitive. Horizontal mergers supported collusion hypothesis when the bidders and target were from same geographical area. On the other side horizontal mergers supported expansion (synergy creation) hypothesis when the bidder and target were from different geographical area.

Eckbo (1981) implied that horizontal mergers which had taken place because of synergy creation or collusion would create value for the shareholders. In his study researcher argued that usually the regulators imposed regulatory enforcement on those horizontal mergers who earned high abnormal return during the announcement period. Because of this horizontal mergers gained less share value in the later period. So the researcher said that the anticompetitive laws made the horizontal merger more expensive and thus absorbing the value creation of the horizontal mergers even though the collusive hypothesis was not present. **Estanol (2002)** proved that the horizontal mergers could create profit for the firms when the market was uncertain and the involved firms had some private information to share. Moreover, Researcher further implied that uncertainty was observed publicly then merger would not be preferred by most of the firms irrespective of the gains they could achieve through mergers. Although in this circumstance if merger happened, it had failed to create any social welfare; but then if the uncertainty was observed privately then the merger could create social welfare. In an uncertain market the merger would increase the level of concentration in the market, on the other hand in deterministic market the concentration level would not have had increased after the merger.

Eckbo (1983) in his paper the researcher rejected the "market concentration" theory of horizontal merger. Researcher argued that during the study period the merger was only for efficiency increasing motive. That is in his study, share value creation had no relationship between the variations in the level of industry concentration. Study also showed that during the challenged mergers the rivals had enjoyed higher share value especially when the market was highly concentrated. **Huyghebaert and Luypaert (2013)** examined the impact of horizontal M&A on the firms. Sample comprised of European firms that executed the acquisitions deal for the period 1997 – 2008. Event study and regression model was incorporated. Results revealed that during the announcement period the target, acquirer and the combined firms had created positive share value. Target performed better than the acquirer. Further evidence showed that if the industry was highly concentrated then the consolidation would not be able to induce gains from the M&A deals. Surprisingly firm size was inversely related to the value of the firm. Horizontal acquisition could maximize the share return in "high growth and low growth industries". Industrial regulation could not impact the M&A return. Technology intensity of the industries also could not impact the share return.

2.3.7 PRIVATE OR PUBLIC TARGET

M&A studies had also analyzed the impact of reverse M&A. Many researchers also analyzed the value creation or the profit trend when public firms had merged with private firms and when private firms had merged with public firms. **Uddin and Boateng (2009)** found that UK acquirer"s acquired private target could create higher share value than the UK acquirers acquired public target. Researcher opined that this improved performance of UK acquirer acquired private target might be because the private targets were usually smaller in size than the public target. Small size firms were easy to manage because of the reduced agency cost.

Lei and Li (2016) had identified certain characteristics of bidders acquiring private targets. Usually the bidders acquiring the private target would be very small in size. High volatility in bidder"s return and the size of the transactions would be small; however, the value of transaction also would be relatively small when compared to the bidders acquiring public targets. **Aybar and Ficici (2009)** had studied the cross border performance of firms, however, results revealed that bidder"s acquired private target created higher share value than the bidder"s acquired public target. **Moeller et al (2005)** study revealed that the acquirers acquired private firms had created positive share value but then the acquirers acquired public firms had a negative share value.

Rani et al (2012) Researcher compared the impact on M&A when acquirer fully acquired the target and also when the target was made as a subsidiary, the result revealed that the share return had increased when the acquirer acquired the target as a subsidiary compared to the acquires acquired a target fully. Study also showed that acquiring unlisted target had created a positive response by the shareholders than acquiring a listed target. **Antoniou et al (2007)** said that the bidder had maximized the share value while acquiring the subsidiary as the target. However, the bidder acquired private target had also created positive share wealth. For cross border M&A the subsidiaries and private target had maximized the share value. In the long run the acquirers could not create positive share, irrespective of the type of target that is public, private or subsidiary. **Danbolt and Maciver (2012)** if the bidder had a large stake in the target prior to the acquisitions then the share value created for target would be low.

2.3.8 RESEARCH AND DEVELOPMENT

R&D is very important for the firms. Usually the firms who acquired the other firms had invested in R&D when they were interested in the long term growth of the firms. Financial researchers analyzed whether the firms had reduced or increased the spending on R&D after the M&A. **Srivastava and Prakash (2014)** found that after the M&A money spent on R&D improved. Pre and post mean correlation were tested and found that PAT as percentage of capital employed and R&D as percentage of operating expenses had positive correlation so researchers implied that the firms who invested a large amount in R&D could also increase the capital employed in the long run.

Markides and Ittner (1994) argued that R&D had not impacted the share value creation of acquirers in cross border M&A. **Lehto (2006)** implied that foreign firms only get acquired if foreign firms had invested highly on R&D and the staff was highly educated. Intra-regional firms would be less favorable over distant domestic firms if the distant domestic firms were investing high on the R&D and the staffs were well educated; but investments on R&D and staff education had no impact on neighboring firm‟s deals. R& D intensity of the target had positive relationship with the probability to get being acquired by domestic and foreign firms.

Hitt et al (1990) had reviewed previous studies to understand whether there was any relationship between the innovation, R&D of the firms and the M&A. Researchers argued that when the managers were innovative they invested in R&D but when managers had no interest in innovation then they would purchase or merge with firms from another companies. Researcher also said that M&A in unrelated business had reduced the investment in R&D and also top managers were not experienced in different businesses of conglomerate mergers. So instead of the strategic control the acquirer had implemented financial control of the firms. Hence managers‟ might be interested in the short term growth of the firms. Researcher also said that if the firm was very large then the control over managers would be rigid and so managers would not be interested in introducing innovative products and techniques.

2.3.9 DOMESTIC OR CROSS BORDER MERGERS AND ACQUISTIONS

One important decision to be made by the firms are whether to merger domestically or outward. **Markides and Ittner (1994)** in his paper result showed that domestic M&A had a negative share value. Researchers implied that cross border M&A had triggered a higher value for bidders than the domestic M&A**. Danbolt and Maciver (2012**) Researchers further said that UK Bidder who had merged or acquired from cross border firms performed better than UK bidders who merged or acquired domestic firms. Share value varied according to the bidders and target nationality in cross border deals. In cross border deals compared to the target country if the bidder‟s had a higher level of accounting quality, shareholder protection and anti-director right then both the target and bidder had maximized the share value. However, cross M&A could create higher share return than domestic M&A for bidders and target.

Goergen and Renneboog (2004) found that Domestic M&A had better share return than the cross border M&A. Researchers also found that UK bidders had higher share value than the continental European bidders. UK target had induced higher share value than the Continental Europe Targets in the announcement period. **Bassen et al (2010)** had studied the value creation in M&A when German acquirers purchased US targets. A sample comprised of 78 transactions that happened during 1990 and 2004, for comparison control sample was also developed. Market model was employed. Results revealed that share wealth had maximized for the German cross border acquirers who had acquired US target during the announcement period compared to the German acquirers acquired domestically. British and Dutch acquirers had lower share value compared to the German acquirers. Evidence revealed that those German acquirers could not create any impact by purchasing targets from Europe. So this study showed that the „country of target, was one of the important factors impacting the wealth creation of the bidders.

Rossi and Volpin (2004) had studied the change in share value depending upon the countries. Sample comprised of those firms from 49 countries which had executed M&A during the period 1990‟s to 2002. Result revealed that the common law countries had frequent mergers than civil law countries. “Accounting standards and shareholder protection were the proxy for investor protection”. Countries with high accounting standards and shareholder protection had more number of mergers than companies with low accounting standards. Countries with high ownership concentration, was also a factor which had increased the number of mergers. Hostile takeover would be high in countries with better investor protection but then hostile takeovers were less in cross border M&A. Countries with low investor protection and accounting standards attracted more number of cross border mergers. Civil law countries had more number of cross border mergers. Findings showed that in cross border mergers acquirers were from countries with better investor protection than the target. But then when the target was from a country which had high share holder protection then target could get high premium. In cross border

M&A firms choose target or acquirers from countries where investor‟s protection was different from their countries. However, the bidder from better share holder protection country would increase the shareholder protection of the target after the merger. Bilateral trade between the countries also led to cross border M&A.

MSB AW and R A Chatterjee (2004) discussed the difference in acquirer‟s value creation depending upon the country of target. Market model and market adjusted return model were used. Market adjusted return model was done with a sample of “79” acquisitions and market model with “77” acquisitions. Acquirers and target were from UK, US and continental Europe that had engaged in M&A during the period 1991 to 1996. Result was computed for 6 months, 12 months, 18 months and 24 months. Researcher had calculated the average abnormal return for UK bidders with the entire sample of targets from UK, Continental Europe and US. Result revealed that the deal had created negative share value for the acquirers in the post M&A period. Researcher had also computed the share value separately for UK bidders when they acquired target from different countries. Result showed that the continental Europe targets delivered the least share value for the UK bidders followed by US targets. However, UK Targets delivered comparatively higher share value but all the three targets CAR was negative. **Chen and Young (2010)** said that when government ownership was high, share value became significantly negative.

Narayan and Thenmozhi (2014) stated that acquirers from emerging market experienced a dip in share value when acquired target from developed market compared to their industry peer. **Aybar and Ficici (2009)** target country characteristics showed that when cultural and geographical distance reduced the share value also had decreased. Target from developed economies had maximized the wealth of shareholders than the target from developing countries. **Yen et al (2013)** argued that when investor protection was high in the bidder country than the target countries then the bidder had improved the performance by utilizing the private benefits available. If public legal enforcement of bidder was rigid then the firms‟ performance had reduced. However, the GDP of the countries could improve the post performance of the firms. Country of the target also could impact the performance of the firms.

2.3.10 OWNERSHIP PARTICIPATION

Narayan and Thenmozhi (2014) implied that operating performance of the acquirer was positively associated with the increase in ownership participation by the firm**. Yen et al (2013)** said that acquiring firms with concentrated ownership had better Operating performance than the acquiring firms without concentrated ownership. **Gregory and Wang (2013)** observed that when institutional ownership concentration was high acquirer had created share value. Acquirer experienced negative return when institutional ownership was low.

Yang (2015) explained the relationship between the ownership participation and the country factors in cross border M&A. Empirical evidence proved that the acquirer preferred to acquire more equity shares when targets were from the countries which had similar regulatory environment of acquirer‟s home country. However, cultural similarity had no impact on the ownership participation. Acquirer increased ownership participation in related industries. If the acquirers‟ board was highly concentrated then acquirers increased the ownership participation in target firms; surprisingly the number of independent board members had a negative relationship with the ownership participation. Further investigation revealed that the high ownership participation by the acquirer from emerging economies could impact the market value positively.

2.3.11 TRANSFER OF CONTROL

Ramakrishnan (2010) had evaluated the share value creation of bidder, target and combined firms and the impact of transfer of management control. Transfer of control had no influence on bidder, target and combined firms. However, when control was not transferred the acquired firm could create share value but again the bidder and combined firms (acquirer and target) share value had no effect. Average abnormal return of the bidder and target was compared. Average abnormal return of bidder and target had no difference after the transfer of corporate control. When corporate control had not transferred then target share value was comparatively more than the bidder share value. **Aybar and Ficici (2009)** result showed that share value had decreased when the control was rigid.

2.3.12 SIZE

The Size of the deal, size of the bidders and target could influence the return of the firms. **Uddin and Boateng (2009)** in his study researchers found that the UK acquirers could create higher share value by choosing small or medium sized deals than the large deals. Further researcher pointed out that transaction cost would be very high in very large deals; hence the share value would be negatively affected. **Pettway and Yamada (1986)** indicated that share value creation also did vary by the size proportion of bidder and target. If bidder and target had no much difference in proportion of size then bidder could maximize the shareholders wealth. If target was comparatively very large compared to the bidder, then the bidder‟s share value would be negative.

Aybar and Ficici (2009) study showed that when the target size was larger than the acquirer size, then the share value created also would be high. **Hamza (2011)** said relative size was not associated with the share value maximization of bidders. **Blease et al (2008)** implied that bidder size would decrease the share wealth of the bidder and combined firms (bidder and target) during the announcement period. **Harrison et al (2014)** implied that acquirer size pulled down the abnormal return surrounding the announcement period. **Antoniou et al (2007)** stated that the relative size was positively correlated with the share value. **Sudarsanam et al (1996)** implied that both the target and the bidder could create higher share value when the target was small in size. Researcher further stated that the bidder had gained when the target was small because then the “post integration” would be easy. On the other hand, target shareholders also gained because bidder over paid the premium for small targets.

Gorton et al (2009) pointed out that sometimes firms acquired other firms to increase the size so that they could become the potential target for acquirers. Further study revealed that the firm‟s size in industry could impact the merger decisions. Certain industries had few large firms and many numbers of small firms. In these industries, when private benefits were available for managers through acquisitions managers made value reducing deals. However, industries, where one firm was dominant to other firms had acquired only for value creation. Industries with middle sized firms made acquisitions which had sometimes created the value and sometimes reduced the value. Private benefits and firm size decreased the abnormal return. So large sized firms made „value reducing deals" but medium sized firms made „value reducing or increasing deals" and small firms made „value creating deals".

Ghosh (2004) said when compared the acquirer and target size, if the target size was larger, better the share value for merging firms. But **Westendorf et al (2009)** did not agree and argued that large target size would decrease the short run abnormal return. **Narayan and Thenmozhi (2014)** analyzed the relationship between the size of the target and the operating performance of the firms. Researcher found that the size of the target was positively related with the operating performance of the firms after the M&A deals. However, the result was statistically insignificant.

2.3.13 SUCCESS OF BID

Rahim and Pok (2013) study showed that target shareholder in the long run created more value when acquisition was a failure, where as in the short run, successful acquisition created higher share value. Also ROE of the target and the abnormal return of the target were positively correlated. **Goergen and Renneboog (2004)** study showed that in the shorter window the share return was not much different between the target that had failed to execute the bid and successfully executed the bid. In the longer window, however, the failed bid had created higher share return than the target executed the bid successfully. But for bidders the firms which had executed the bid successfully had higher return than those bidders failed to execute the bid in the short run.

Jensen and Ruback (1983) had reviewed 86 literatures to understand the outcome and the reasons of value creation in M&A. The study had divided into successful and the unsuccessful M&A. If the deal was successfully completed then the target could maximize the share value in both the merger and tender offers. However, the target who could not complete the merger deal successfully would lose the share value, when the market understood that the target had failed to complete the merger deal; but during announcement period both the successful and the unsuccessful target had the same pattern of share value maximization. However, the gain was because of the synergy and not because of the creation of market power. Bidders in successful tender offer had positive gain but bidders who had successfully completed the merger deal had "zero gain". However, unsuccessful bidder had negative return irrespective of the tender and merger offers. Researcher also implied that the combined firms‟ (bidder and target) market price would maximize when there was a change in the control of the firm. Researcher also implied that in most of the M&A the synergy was created by replacing the managers of the target. When target managers were against the merger deal then the premium offered by the acquirer would be high. Researcher concluded the study by proposing that the targets were the gainers but the bidders could not increase the wealth even though wealth had not diminished after the deal.

2.3.14 TIME PERIOD

Danbolt and Maciver (2012) In cross border M&A surprisingly the time period of the deal also could impact the share value creation of the UK bidders. **Moeller et al (2005)** CAR was computed for a 3 day event window. The sample was divided in to two groups 1980 to 1997 and 1998 to 2001 to identify the dollar return and share return variations in the two periods. Results showed that dollar return reduced in 1990‟s when compared to 1980‟s, surprisingly share return had no big variations between both the periods. **Asquith et al (1983)** proved that merger changes over time. Researchers divided the sample into two that is before and after 1969. Result showed that merger results varied according to the year of the deal.

2.3.15 UNDERVALUATION AND OVERVALUATION HYPOTHESIS

Fung et al (2009) analyzed whether stock market valuation had impacted the managerial decision to execute M&A. Researchers also investigated the impact of stock market valuation on payment mode, bid premium, managerial incentives, firm size. Sample consisted of US publicly traded firms listed in NASDAQ, AMEX and NYSE and also these firms should have executed M&A during the period 1992 to 2005. Tobin‟s Q, buy and hold abnormal return and market sentiment index were incorporated. Firms that performed M&A and firms that did not perform M&A are included to compare the performance of both. Results revealed that during the high market valuation period, stocks were mainly used to finance the deal, however, the bid premium would be high and these acquisitions failed to deliver the expected synergy. Despite the adverse impact on stock creation, operating performance also dropped off and return had decreased when deal was financed using the stock. Researchers had tried to identify the characteristics of non M&A and M&A firms. M&A firms‟ stock valuation was high and had high access to external sources of funds but dividend became very low. Certain characteristics of these firms were that the firms had more number of Board meetings, also in money Executive stock options and option compensations were high. Also incentives plans were short termed. When CEO was in board then surely the return would be negative. Unrelated merger also failed to create share value.

Gonzalez et al (1998) investigated the impact of undervaluation and over valuation of shares on bidders and target. Sample consisted of 242 targets from US and 76 bidders of various countries acquired US targets. Logit model was employed. Tobin‟s Q was less than one, then firms were undervalued and management could be inefficient. Results revealed that when US firms were undervalued then there observed a high possibility for the foreign bidders to acquire the US firms. But when foreign firms were overvalued then foreign firms had acquired from the target operated in US. M&A decision was not driven by changes in exchange rate. When US firm‟s management was inefficient then foreign firms acquired that inefficient target.

2.3.16 VOLATILITY

Agnihotiri (2013) implied high volatility forced the firms to engage in M&A deals. Compared to standalone firms and those affiliated to a business group the more chance to bid due to volatility in earnings was more for firm‟s belonging to a business group. However, beyond a point volatility had risen, and then the manager‟s preference to the M&A had diminished. **Kohli (2015)** studied how payment mode had impacted the acquiring firms‟ volatility in cross border M&A deals. Researchers divided the period into pre, post and pooled. Pooled was the period which consisted of both the pre and post period. Results revealed that the mode of financing could impact the risk in both the periods that was pre and post; but systematic risk had differed a lot according to the payment mode. Unsystematic risk did vary slightly depending upon the payment mode. Results revealed that in the pre consolidation period cash payment brought down the systematic risk but systematic risk had become very high when mode of payment was earn out. Whereas in the post consolidation period systematic risk was high in stock followed by cash and earn out. Pooled out period systematic risks had reduced more when payment was in earn out followed by cash and then stock. Unsystematic risk was similar for cash and earn out, however, for stock offers unsystematic risks had increased. Stock offers increased unsystematic risk during post acquisition period.

Pettway and Yamada (1986) implied that the M&A had failed to reduce the systematic and unsystematic risk of acquiring firms. **Hackbarth and Morellec (2008**) had analyzed the variations in beta because of M&A. The sample comprised of US publicly trading firms who had executed 1086 takeover deals during the period 1985 to 2002. Researchers had divided the sample into three groups that is first researcher had observed the difference in the beta taking the full sample then researcher had analyzed the difference in beta when the acquirer firm had higher beta than target and also when acquirer firm had lower beta then the target. Market model and regression analysis were employed. Results revealed that during announcement period of 3 day window the acquiring firms could not maximize the share value; however, the target abnormal return was positive. The researchers had further said that for a window of 21 days when acquirer‟s beta was greater than the target beta, the systemic risk of acquirer‟s had shown an upward movement before the deal, but then the systematic risk had started to drop. When the acquirer‟s beta was smaller than the target beta, the systematic risk had decreased before the deal and after the announcement of the deal, the acquirer‟s beta started to increase. Further, the researcher had divided the stock in to three groups high liquidity, medium liquidity and the low liquidity stocks to identify whether liquidity influences the beta of firms that executed M&A and results showed that the liquidity could not impact the beta of firms. Also researchers analyzed whether the "relative size of capital stock" of the acquirer and target could impact the firms beta. Results revealed that when the relative size of capital stock was slim then the beta jump would be high and vice versa. Also if the investors could not predict the synergy benefits in the deal, then the systematic risk would decrease. Results also revealed that when the risk difference was higher for the pre and post year, then the performance of the preceding years after the deal would be low. And also if systematic risk was high before the deal, then the performance of the firm after the deal would be low. During announcement period the variation in beta was somehow inversely correlated with the size of acquiring firms. However, relative risks could impact the variations in beta compared to the relative size and abnormal return for 3 day window. Deal value also could influence the beta variation.

Joehnk and Nielsen (1974) had studied the impact of M&A on systematic risk of the firms. Sample comprised of 21 conglomerate and 23 non conglomerate M&A. The study period was 1962 to 1969 and firms should be listed in NYSE. Results revealed that the systematic risk of the acquiring firms could be reduced through conglomerate mergers in the short run. Pre merger systematic risk could influence the post merger systematic risk. Conglomerate and non conglomerate acquiring firm‟s beta were not influenced by the size (small or large) of the acquiring firms. However, the long term reduction in systematic risk was possible by conglomerate mergers but then the firm should have had made extensive mergers activity. Researchers argued in the long term that even the systematic risk reduction of the non conglomerate and conglomerate would not make much difference, in other words the risk reduction impact by M&A diminished as time goes by.

2.3.17 OTHER DETERMINANTS

Agnihotiri (2013) advocated that what motivated a firm to merge or acquire had a relationship with the life cycle of firms. **Narayan and Thenmozhi (2014)** implied that when transaction value increased the post operating performance of the firms decreased. Sometimes firms acquired other firms because of the competitors. **Akdogu (2011)** in his conceptual paper had explained the reason why acquirers acquired certain target even though the deal would only give negative returns. Researchers implied that sometimes the acquirers purchased a firm even though the deal could deliver only negative value because the "cost of losing the deal would be higher". That is in an industry when the competitor decided to acquire unlike the traditional market, competitors‟ action would create an impact on the other firms in the industry, even though, firms didn‟t participate in the deal; that is 2 firms were competitors when one firm gained a competitive advantage over the business of other firms there might be many firms which would somehow get disturbed. So when the competitor had known that a certain firm was going to acquire the other firms probably the competitor also would try to acquire the particular firm and this could increase the bidding cost. However, since cost of losing would be greater than the cost of not executing the deal, both the firm would pursue the deal; hence even the winning firm would experience negative return. When the industry was highly concentrated the loss would also be high because the acquirers would not be able to find an alternate target to acquire and acquirers should compete to purchase the same target. But then if there were two targets which could deliver the same synergy than the acquirer who lost the first bid would try to purchase the second target. But then the premium offered would be higher for the second bid than the first bid. In aggressive equilibrium the return would be very negative for the acquirers because the acquirers would frequently execute M&A irrespective of the share value created or return.

2.3.18 MARKET SHARE AND MARKET CONCENTRATION

Ghosh (2004) Researcher said that after the mergers the market share would enhance greatly, however, the market concentration would have had a slim increase. Evidence also showed that the increase in market share would also result in increased share value and operating performance but the market power was decreased for certain firms. When firms had large market share then that would impact the operating performance positively. If firms were the leaders in the industry then the share value creation would be even better**.**

Trahan implied that unused debt could be used by the firm to maximize the share value after the deal because the debt capacity of the firm would have increased. Announcement period share return had become high only if the ROE of acquiring firm were high before the acquisitions. However, the acquiring firms who paid high dividend had low share value creation. Firms which had high internal investment experienced high share return. Researchers concluded the result by implying that if the acquisition fund was “dividend payment” then share value would not be created but if acquirer had funded the acquisition by minimizing “expenditure on internal capital” then positive share could be induced after the deal.

Harrison et al (2014) pointed out that leverage of the acquirer would not impact the share value but if acquirer had acquired the target with high leverage then surely the share value would go down. The result showed that when the leverage was added beyond a limit the share value would get reduced. Result of buy and hold abnormal return employed in the study showed that in the long run that is for 24 months when target leverage became high and also the leverage was added the return had become positive but beyond 24 months the return had become negative.

Gregory and Wang (2013) Result revealed that when acquirer had surplus cash flow then they created share value, whereas when acquirer cash flow was low then the acquirer‟s return became low. Gearing in cash acquisition could impact negatively the acquirer return. Relationship between long term return and free cash flow showed that „*low cash flow and high Tobin's q'* could create negative abnormal return whereas „*low Tobin's q high free cash flow'* could create positive abnormal return. High gearing ratio had negative relationship with return whereas performance became neutral when gearing ratio was low. Debt financing had pulled down the acquirer return. **Goktan (2012)** found that if acquirer could predict target value before acquisition that is information asymmetry was less, then both the acquirer and the target would enjoy a better share value. But then if information asymmetry was present then acquirer would not pay more premiums. Results also showed that if the merged firms were from industries with high market to book ratio then share value would be created. But if there was a very high difference between the merged firms and industry market to book value then the share value would not be created, also the merged firms market to book value remained greater than the industries market to book value then the share value would not be created. **Antoniou et al (2007)** said that the acquirers with low book to value ratio could maximize the share return compared to the acquirers with high book to value ratio.

Matsusaka (1993) tested the bootstrapping hypothesis. Result showed that if price earnings ratio of the target was higher compared to the bidder then „bidder had created higher return‟, but when target‟s price earnings ratios had become lower than the bidder‟s price earnings ratio then the bidder could not create the share value. **Harrison et al (2014)** implied that the sales growth did impact the announcement period return positively. Net operating asset brought down the abnormal return. Cash reserve of the acquirer impacted the share value negatively. **Sudarsanam et al (1996)** said difference in financial resources between the acquirer and target was associated with positive return to the target and the bidder. Target share value had not increased when the numbers of bidders were more. Bidders share return would decrease by acquiring inefficient target. Large number of shareholder did offset the bidders share value. Shares held by the bidder in the target before the deal could not improve the share value. When target resistant the bid the share return of the target had increased. Share value of the bidder was deviated much by the multiple bids.

Fluck and Lynch (1999) had analyzed on why do firms merge and divert. Conceptual paper showed that if there were two firms, when one firm had become financially strong and other firm had become financially unhealthy and here both the firms had two projects then both firms could deliver positive net present value. Unfortunately, the financially unhealthy firm could only get finance for the second project if they had completed the first project successfully and for completing the first project the financially unhealthy firm would be in need of short-term finance and for completing the second project financially unhealthy firm should have had long term finance. If the financially unhealthy firm could not get long term finance then the financially unhealthy firm would not get short term finance also. Managers could either get portion of cash flow or external sources. But if managers had gone for internal sources it would be risky for managers because the managers might use the dividend and also use the money firms had reserved for depreciation but then if value for the depreciation reserves and the dividend was below equilibrium managers would get fired. So mostly because of agency conflict managers could not get equity financing. Manager could have gone for debt but then the debt would be difficult to get since equity financing was not available as the debt holder could recover expected future cash flow. So the better option to finance the project was to merge. After merger the first project would be financed with the help of merged firm and the only synergy available here was financial synergy so the acquirer in order to achieve financial synergy would avoid the coordination cost. Hence in order to avoid coordination cost the firms would diversify. Also if cash flow was highly volatile for projects then it would be difficult for getting finance but by divesting the firm volatility could be controlled. So in order to reduce the coordination cost and to achieve financial synergy firm should merge and then divest. Researcher but said that since the conglomerate mergers mostly happened between a financially healthy and weak firm the profitability would be low when compared to the related merger. Conglomerate merger also happened because firm was in great need of finance.

Kim and Singal (1993) had investigated how the mergers impacted the airline industry by changing the degree of concentration and the price of the industry. Sample was made up of 14 mergers that happened during the period of 1985 to 1988. Evidence revealed that the mergers in the airline industry did create market power in the industry especially when degree of concentration was high. Researcher divided the sample into normal firms which were financially healthy and the failing firm which had become financially unhealthy. Result further showed that during announcement period the normal firms had increased the price but then failing firm cut the price but after completion period the failing firm increased the price. However, in the completion period the normal firm‟s intensity to increase price was diminished by the efficiency or synergy created. Other finding was that when the substitutes had become few in a route then for certain the price would be increased after the merger. However, if the merged firms had competitors in the merged routes that competed in a number of markets then the firms would avoid competing aggressively by the price cut.

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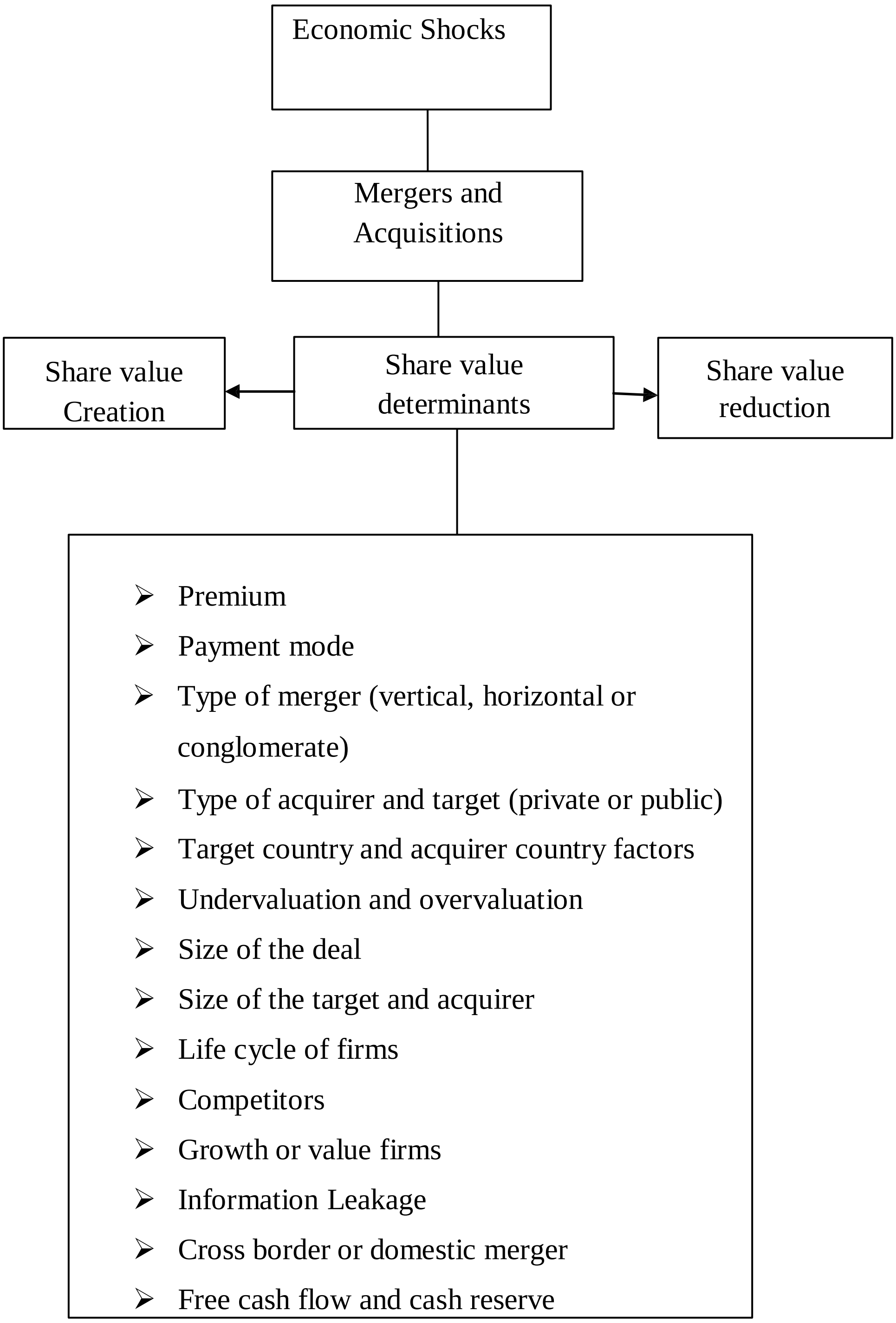
FIG 2.5 DETERMINANTS OF SHARE VALUE CREATION


Economic Shocks
Mergers and Acquisitions
Share value Creation
Share value determinants
Share value reduction

- Premium
- Payment mode
- Type of merger (vertical, horizontal or conglomerate)
- Type of acquirer and target (private or public)
- Target country and acquirer country factors
- Undervaluation and overvaluation
- Size of the deal
- Size of the target and acquirer
- Life cycle of firms
- Competitors
- Growth or value firms
- Information Leakage
- Cross border or domestic merger
- Free cash flow and cash reserve

Compiled based on previous research

2.4 CONCLUSION

Researchers had tried to understand the profitability and the value enhancement in M&A**.** Mostly the researchers used ratio analysis and paired sample t test to gauge the operating performance of the firms and market model event study methodology to measure the short run value creation. But then when researchers wanted an in-depth study to identify the factors that had pushed up or pulled down the share value creation and operating performance of the firms the impact of determinants were studied. M&A mostly happened because of shocks in the economy and also the impact of determinants had differed on different period of time. M&A value creation and the operating performance also varied according to the country in which the firms operated and also the time period.