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Review of Literature of Merger and Acquisition

Mital R. Menapara Research Scholar of Karpagam University

Dr. Vijay Pithadia Department of Applied Geology, Dibrugarh University, Dibrugarh- 786004, India

ABSTRACT *An extensive review of literature has been carried out in order to enhance the present level of understanding in the area of mergers and acquisitions, gain insight into the success of failure of mergers and formulate the problem for further research in this area. Broadly, literature review has been done on empirical studies in books, journals, published papers etc. In the literature survey out of India, the issues covered include theories of the firm conceptualized into the motives for merged, their empirical investigation, performance measure of merged firms using share price data and accounting data, empirical examination of financial characteristics of merged and merging firms and the determinants of aggregate merger activity. These studies have been reviewed and summarized in following manner, though very limited has been reviewed on studies conducted in India.*

KEYWORDS: Merger and Acquisition, Review of Literature, Corporate Performance.

1.1 INTRODUCTION

Merger and acquisition for long have been an important phenomenon in the US and UK economics. In India also, they have now become a matter of everyday occurrence. They are the subject of counting interest to different persons such as the business executives who are looking for potential merger partners, investment bankers who manage the mergers, lawyers who advice the parties, regulatory authorities concern with the operations of security market and growing corporate concentration in the economy and academic researchers who want to understand these phenomenon better.

1.2 REVIEW OF LITERATURE

Following were the major efforts at research in the subject, which have been referred for this study purpose.

1.2.1 Singh and Kumar's Study (1994), "The role played by BIFR in the revival of sock industrial units through the medium of mergers". With the help of three case studies, they concluded that rehabilitation of sick company by merging with the health company is the most effective way of their rehabilitation. All the three cases (namely Kothari General Food Corporation Ltd. With Brooke Bond India Ltd., Challapalli Sugars Ltd. With KCP Ltd. And Sewa Paper Lid. With Ballarpur Industries Ltd.) could be termed as successful mergers and BIFR seemed to have fulfilled its assured objective of revival of sick companies. Another conclusion drawm was that tax implications were singularly the most inviting feature for healthy company to merge with sick company.

1.2.2 Ravi Sanker and Rao K.V(1998), "Takeovers as a strategy of turnaround' They analysis the implications of takeovers from the financial point of view with the help of certain parameters like liquidity, leverage, profitability etc. They observed that a sick company is takeover by a good management and makes serious attempts; it is possible to turnaround successfully.

1.2.3 Anup Agraval Jeffrey F. Jaffe (1999), "The Post-merger Performance Puzzle", they examines the literature on long-run abnormal returns following mergers. The paper also examines explanations for any findings of underperformance following mergers. We conclude that the evidence does not support the conjecture that underperformance is specifically due to a slow adjustment to merger news. We convincingly reject the EPS myopia hypothesis, i.e. the hypothesis that the market initially overvalues acquirers if the acquisition increases EPS, ultimately leading to long-run under-performance.

1.2.4 Canagavally R.(2000); "An Analysis of Mergers and Acquisitions" they measures the performance in terms of size, growth, profitability and risk of the companies before and after merger. The dissertation also investigates the share prices of sample companies in response to the announcement of merger.

1.2.5 Beena P.L (2000), 'An analysis of merger in the private corporate sector in India' she attempts to analyze the significance of merger and their characteristics. The paper establishes that acceleration of the merger movement in the early 1990s was accompanied by the dominance of merger between firms belonging to the same business group of houses with similar product line.

1.2.6 Saple V. (2000), "Diversification, Mergers and their Effect on Firm Performance: A Study of the Indian Corporate Sector", he finds that the target firms were better than industry averages while the acquiring firm shad lower than industry average profitability. Overall, acquirers were high growth firms which had improved the performance over the years prior to the merger and had a higher liquidity.

1.2.7 Vardhana Pawaskar (2001), "Effect of Mergers on Corporate Performance in India", he studied the impact of mergers on corporate performance. It compared the pre- and post- merger operating performance of the corporations involved in merger between 1992 and 1995 to identify their financial characteristics. The study identified the profile of the profits. The regression analysis explained that there was no increase in the post- merger profits. The study of a sample of firms, restructured through mergers, showed that the merging firms were at the lower end in terms of growth, tax and liquidity of the industry. The merged firms performed better than industry in terms of profitability.

1.2.8 Huzifa Husain, (2001), 'Merger and Acquisition unlocking value' he explains that takeovers (hostile or non-hostile) may be beneficial to the shareholders if they unlock the hidden value of a company. They also help the existing management to the more receptive to shareholders. Economically, takeovers make sense if the 'private market value' of a company is higher than the market capitalization of the company. Further if takeovers are used as a ploy to prevent competition, it becomes harmful to the economy. Therefore, proper checks and balances have to be put in place to ensure that takeover facilitation improves overall efficiency of the company.

1.2.9 Chitranandi A.K, (2001), "Trumps for M & A – Information Technology Management in a merger and acquisition strategy" he try to found the success of merger and acquisitions depends on proper integration of employees, organization culture, IT, products, operations and service of both the companies. Proper IT integration in merger plays a critical role in determining how effectively merged organizations are able to integrate business processes and people, and deliver products and services to both internal and external customers of the organization. The study suggests that to address the challenges, Chief Information Officers should be involved from the earliest phase.

1.2.10 Mansur.A.Mulla (2003), "Forecasting the Viability and Operational Efficiency by use of Ratio Analysis - A Case Study", he assessed the financial performance of a textile unit by using ratio analysis. The study found that the financial health was never in the healthy zone during the entire study period and ratio analysis highlighted that managerial incompetence accounted for most of the problems. It also suggested toning up efficiency and effectiveness of all facets of management and put the company on a profitable footing.

1.2.11 Joydeep Biswas (2004), " Recent trend of merger in the Indian private corporate sector". They research about Corporate restructuring in the form M&A has become a natural and perhaps a desirable phenomenon in the current economic environment. In the tune with the worldwide trend, M&A have become an important conduit for FDI inflows in India in recent years. In this paper it is argued that the Greenfiled FDI and cross-border M&As are not alternatives in developing countries like India.

1.2.12 Vijay Shrimali and Karunesh Saxena's (2004), "Economic Advantages of Merger and Acquision." due to the imminent implementation of WTO Guidelines with effect from July 2005, it was become mandatory for business organization to strengthen their R&D base. Consequently, the size of the business organization matters most, merger and acquisition have, therefore, become order of the day, an attempt has been made in the paper to provide a theoretical framework of M&A, various examples of merger and acquisition in the world market and finally, the economic advantage of M&A have been outlined.

1.2.13 Vanitha. S (2007), "Mergers and Acquisition in Manufacturing Industry", she analyzed the financial performance of the merged companies, share price reaction to the announcement of merger and acquisition and the impact of financial variables on the share price of merged companies. The author found that the merged company reacted positively to the merger announcement and also, few financial variables only influenced the share price of the merged companies.

1.2.14 Vanitha. S and Selvam. M (2007) "Financial Performance of Indian Manufacturing Companies during Pre and Post Merger", they analyzed the pre and post merger performance of Indian manufacturing sector during 2000-2002 by using a sample of 17 companies out of 58 (thirty percent of the total population). For financial performance analysis, they used ratio analysis, mean, standard deviation and 't' test. They found that the overall financial performance of merged companies in respect of 13 variables were not significantly different from the expectations.

1.2.15 Pramod Mantravadi and Vidyadhar Reddy,(2007), "Relative size in Mergers and Operating Performance" they explains that This research study aims to study the impact of m & A on the operating performance of acquiring corporate in different periods in India, by examining some pre and post merger financial ratios with chosen sample firms and mergers between 1991-2003. The result suggests that there are minor variations in terms of impact on operating performance following merger in different intervals of time in India.

1.2.16 Ryo Kawahara and Fumiko Takeda, (2007), "M & A and Corporate Performance in Japan" This paper investigates how M & A affect corporate performance for three years after their implementation. The corporate performance of 162 M & A that took place in Japan from 2001-03 is analyzed by using Wilcoxon signed rank test. They find that overall effects of M & A on corporate performance are statistically insignificant, compared to the corporate performance of other companies within the same industry with similar pre-acquisition performance.

1.2.17 David C. Cheng, (2009); 'Financial determinants of Bank Takeovers' he found that several studies have examined the determinants of bank merger pricing. Those studies focus on the characteristics of the target and downplay the characteristics of acquirer. Their study found that the purchase price is a negative function of the target's capital to asset ratio. The only variable used in their model is the ratio of acquirer to target assets.

1.2.18 Kumar (2009), "Post-Merger Corporate Performance: an Indian Perspective", examined the post-merger operating performance of a sample of 30 acquiring companies involved in merger activities during the period 1999-2002 in India. The study attempts to identify synergies, if any, resulting from mergers. The study uses accounting data to examine merger related gains to the acquiring firms. It was found that the post-merger profitability, assets turnover and solvency of the acquiring companies, on average, show no improvement when compared with pre- merger values.

1.2.19 N. M. Leepsa & Chandra Sekhar Mishra (2009), "Post Merger Financial Performance: A Study with Reference to Select Manufacturing Companies in India", there intends to study the trend in merger and acquisition (M&A) particularly with reference to manufacturing companies. The present study is an attempt to find out the difference in post-merger performance compared with pre-merger in terms of profitability, liquidity and solvency. The statistical tools used are descriptive statistics, paired sample t-test.

1.2.20 Dr. Salma Ahmed & Yasser Mahfooz (2009), "Consolidation in the Sky - A Case Study on the Quest for Supremacy between Jetlite and Kingfisher Airlines", they made attempt to descriptively analyze the rationale for consolidation in the Indian airline industry. The paper also evaluates major changes in the business environment affecting the airline industry.

1.2.21 Ruhani Ali and Gupta G S (2010); "Motivation and Outcomes of Malaysian takeovers: An international perspective" they examine the potential motives and effects of corporate takeovers in Malaysia. The Mullar's methodology, which involves the use accounting measures like size, growth, profitability, risk and leverage, is employed for the study to analyze the performance characteristics of takeover firms in the pre and post takeovers periods.

1.3 Conclusion:-

Although there is a plethora of research literature on mergers and acquisitions, most of the studies have been done for the efficient markets of the developed world especially US and UK. In India, very limited research has been done on this burning topic. Books available are in plenty but they are mostly theory based. None of the few studies conducted in India have explored the performance of mergers and acquisitions empirically in terms of their effect on Performance of Company. The present study makes an attempt to fill these voids and aims to investigate the financial performance of Pre – Post mergers and acquisitions that have taken place during 1995-2006.

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