A LITERATURE REVIEW ON IMPACT OF MERGERS AND ACQUISITIONS ANNOUNCEMENT

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ABSTRACT

An extensive review of various literatures has been carried out in order to get a better considerate in the topic of mergers and acquisitions (M&As) announcement effect on stock price and profit. Literature review has been prepared from journal, books, articles, student’s paper published, websites etc. The issues covered include share value addition, motives, financial position status, announcement effect, abnormal return. These studies have been reviewed extensively and presented in the study. The Literature review has been reviewed from both India and outside the Indian context.

Keywords: Merger and Acquisition, announcement effect, abnormal returns, shareholder wealth.

INTRODUCTION

As per current scenario corporate restructuring in India as well as outside the India is one of the most commonly worn strategic tools. In every days news broadcast we appear across repeatedly with the news headlines of merger, demerger, acquisition etc. Merger and Acquisitions (M&As) have become very fashionable throughout the world in the current times. This has become well-liked due to liberalization, globalization, technological advancement and strongly competitive business environment. In Indian economic reform from the time when 1991 year has started up a entirety challenges and threats both in the domestic and international arena. Indian firms used merger and acquisition as a strategic tool to increased competition in the world market. M&As are the theme of counting interest to diverse persons. The present study deals with the review of existing literature available. Various studies have been conducted by researchers on the different aspects of Merger and Acquisition of firms in Indian corporate sectors. The review of literature brings to the light that earlier no attempt has been made to study the announcement effect on shareholder’s wealth and profitability of bidder firms’ based on the criteria chosen for this study.

REVIEW OF LITERATURE

Studies in International Context

Danbolt (2000) analysed the abnormal return for target firm’s shareholders’ in 510 takeover in domestic country and 116 takeover in cross-border bids in UK stock based firm’s from 1986 to 1991 periods with the help of MM, CAPM and the index model. The results exhibit that the cross-border affect was not significantly reliant on where the cross-border bidder was based, and was not special to cross-border acquisitions by companies based exterior of the EU. The level of abnormal returns was found to depend significantly on the bid characteristics, with target company gained more in competitive. Park et al. (2002) in their research investigated how market participants reacted to merger and acquisitions involved telecommunication companies for the year 1997-2000 period at BusinessWire.Com with a sample of 42 companies was selected to study. The researcher concluded that the return from window of (-5, 5), the market response was negative and significantly dissimilar from zero at the 5 percent point of significance. The result showed that market reactions to domestic M&A announcements were statistically insignificant. Charlety et al. (2002) explored the horizontal...
partial acquisitions in an oligopolistic industry producing homogenous goods in the absence of synergies. The author found that partial ownership acquisitions, both not controlling and controlling have a negative effect on share price and the profit of the companies involved in the transaction. The partial acquisition also has positive effect on their competitors profit and a negative effect on the consumer surplus. After the acquisition, majority of the shareholders favour the firm in which they hold the relatively higher shares price to the determent of shareholders of the other firm. Ming and Hoshino (2002) examined the effect of M&As on the prosperity of shareholders in Taiwanese corporation. The data were obtained from forty-six firms that announced M&As during the year 1987 to 1998 and analysed by using event study approach. The researchers concluded that the target firms gained differently positive abnormal return approximately the time of the press report of the merger proposal. Coontz (2004) examined the affect of M&As on shareholder wealth in the period before announcement days and after consummation days. For study, sample of 15 companies was selected out of 54 mergers. The study showed that in the 60 days before an announcement of acquisition, there was trend of the acquiring firm to under-perform the return of S&P500 index. There was a sharp down turn at 2 days prior to the announcement. The trend over 60 days after consummation date of the takeover or merger was down-ward sloping. Maditinos et al. (2005) investigated the merger impact of two banks happen in the year 1999s and the effect was the Alpha Bank. The study investigated the merger in the short and long-term effects to exploring the comparative position of the Alpha bank inside industry. The conclusion of the study showed a beta-risk cost to the Alpha bank which was a understanding of the beta-risks coefficients both Alpha and bidder banks. The bidder bank return was positive and significant after merger. Francoeur (2006) evaluated the stock market reaction of Canadian bidder firms included in cross border M&As from 1990 to 2000 with a sample of 551 M&As events. The study revealed that Canadian firms carrying out cross-border M&A’s do not make significant abnormal returns after the announcement in the five-year period. The findings agreed with internalization theory and concluded that acquiring firms involved in cross-border takeover create long –term value for the shareholders. Tuch and Sullivan (2007) the reason of the paper was to present a inclusive review of the pragmatic evidence on the impact of takeover on the performance of bidder companies. The study found that bidders involved in hostile takeover gained more in long-run and lose during the window period.

Sana and Mohammed (2008) explored the short term market reaction linked with the announcement of 7 M&As in Pakistan banking sector from 2003 to 2008. The results of the analysis found that the mean CAR over the 61-day event period for every bank was significant. For bidder group, the mean CAR was positive (18.33%) and statistically significant. The CAR if bidder group was bigger 25.88% from the days 24 preceding to the information of merger declaration (-24 to -1), and decreased 4.6% from the days 30 after the announcement. Helga et al. (2008) this study examined the stock price movement of US targeted firms to the announcement of cross-border public offer during the study period from 1996-2005 periods. All targeted firms selected for the sample was from headquarter in the US. The evidence of the study concluded that the cultural disparities play a vital role in determining stock price presentation around M&A announcements. The study revealed that the cross-border offers made by Chinese bidders were not valuable for US. Antoniou et al. (2008) examined the impact of the cross-correlation of stock prices on the long-time post-merger share price performance of UK bidder firms from 1985 to 2001. It was exhibited that the broadly recognized variance of long-time under the performance. One to three years BHARs showed –7%, –23%, and –11% respectively. Konigs and Schiereck (2008) considered luxury M&A to examine the concerning degree of European stock market combination. They examined the window effects of 206 cases of M&As involved luxury firms during the period 1993-2005. The results showed that there were no key differences in the declaration gains between national and cross-border comfort dealings—indicated a high degree of EU
capital market combination. Matovs and Ostrovsky (2008) conducted a study on voting, cross ownership, and gains in deals. The sample include completed mergers US from 1981 to 2003. The results of the study showed that institutional shareholder of bidder firms do not drop money about announcement, because they hold important stakes in the targets. Wong et al. (2009) investigated the effects of acquisition deal information announcements on the price actions of the Asian target and bidding companies for Japan, Singapore, China, Hong Kong and Taiwan during the time from 2000 to 2007. The price reaction in the form of CAAR for acquiring companies for the pre-announcement period (-2.5%), the post-event period (-5.2%) and event period (-2.4%) was not statistically significant. Wang and Liao (2009) researched about the wealth effects of Western European corporate cross-border takeover completed between 2000 and 2007. The study concluded that abnormal returns were higher when the bidding firms’ leverage was higher and the acquirers had greater capacity to grow and increase their market power. The results also showed that cross-border acquisition were wealth generating corporate actions and incoherent with the semi strong efficient market hypothesis. Kryiazopoulos and Petropoulos (2010) attempted to find out the advantages and disadvantages of banks merger, and causes and incentives that motivated banks to merge from 1999 to 2009 in the Greek Banking market. The results showed that the domestic bank merger of about the same size increase considerably. The study also shows that the mergers activities also improved the performance of companies in the term of growth, value and shareholder funds. Ruiz and Requejo (2010) studied family versus non-family firm stock price reaction under various lawful environments when the M&A news announced. The study involved 124 merger and acquisition deals of European stock market based companies during the year from 2002 to 2004. The study exhibited that family running business firms has a significant positive effect on target firm’s shareholder. Family firms cumulative average abnormal return in the window (-2, +2) was not statistically significant. The study also found that a weaker institutional and legal atmosphere in the acquiring country has a significant positive impact on target shareholder wealth.

Soongswang (2010) this study analyzed the reaction of takeovers taking place on the Stock Exchange of Thailand during the period from 1992-2002 compared with the past studies using data from the 1980s. The study examined all time-periods. The study concluded that Thai takeover effects were wealth making for the two sets of firms’ shareholders. After month 0, the Cumulative Average Abnormal Returns over the period (-12,+12) and (+1, +12) were positive at 14.40% and 7.70% and was 46.40% when estimated from the zero one model and MM. In post announcement month, the average buy and abnormal returns over the time period (-12, +12) were positive at 148.20% and 36.70%. Liargovas and Repousis (2011) analysed the impact of Greek M&As on the presentation of the banking sector in Greece from 1996 to 2009 by using accounting measures and event methodology. The analysis found that 10 days before the announcement, shareholders get positive significant CAAR and large amount of abnormal return. The overall results indicated that bank mergers and acquisitions have no impact and do not generate wealth. Know and Song (2011) examined the market reaction to merger process in Korea. The study found that during merger process, financial crisis has negative impact on the bidder firm’s share price. Further results showed that CAR around selection of the preferred negotiator was not affected by corporate governance variables, but only withdrawn group was affected by insider ownership and largest ownership. Baker et al. (May, 2012) studied the effect of the target’s firm’s past peak stock prices reaction on different situation of M&As transactions. The study found that current peak stock prices aid to give explanation the acquirer offer price, bidder acquisition announcement effects, deal victory, and more merger energy. The effect of the 52 week was far above the ground on the probability of a merger increases. Merger and acquisition energy had positive effect on shareholders and economy. Merger waves occurred due to high profits on the market and easier for acquirer to offer a peak price. Soongswang (2013) studied the merger effects on
the acquiring firms traded on the Stock Exchange of Thailand in the single tender offers and over a period of 12 months before and after the announcements by means of numerous metrics. The sample of the companies listed on SET during the period 1991-2003 was obtained. In the event window -12 to +12 the CAAR were positive and significant and the ATSRs also positive at 104.89%. Stunda (2014) the study examined the market response to merger and acquisition from the acquiring firms’ perspective. The results of the study showed mixed response. The study indicated negative impact on stock price while other indicated positive results. Oil and gas industry were found to have a significantly positive effect on stock price.

**Studies in Indian Context**

Mishra and Goel (2005) analysed the monetary implications of RIL-RPL combination on the wealth of shareholders. The study concluded that the period under review supported the negative return to the RIL and positive surplus return to the shareholders of the acquiring company RPL. The research also found that excess return to the RIL-RPL combined firm was negative. There was average cumulative loss to the combined firm in term of market capitalisation as well as book value. Malhotra and Zhu (2006) this study examined the merger announcement effects and the post long-time financial position of 96 international level acquisitions in India by the United States companies made during 1999 to 2005. The empirical results of the study found that the in India the domestic market had significant positive reply to the announcement. The study further exhibit that international merger and acquisitions produce positive and significant gains for the target firms in the short-run and negative and insignificant impact on the both firm’s worth in the long term. Mann & Kholi (2009) inspected the share market reaction to the announcement information leakage between HDFC Bank and Centurion Bank of Punjab (CBoP). It was found that the stock market has agreed a positive response to the stocks prices of both the CBoP and HDFC Bank on the basis of anticipated synergies. Regardless of this negatives, it is expected that if the merged entity is able to realize the probable synergies, it would be able to create better value for shareholders in future. Venkatesan and Govindarajan (2011) examined the effect of acquisition activities of public sector banks on creation of additional wealth to their shareholders. A sample of public sector banks involved in acquisition activities during the year 1996 to 2006. The study was relied on secondary data, which were daily close share prices of the acquiring banks before and after the announcement of the acquisition deal. They also concluded that the acquisition actions of the public sector banks in India have created an additional wealth to their shareholders. Rani et al. (2011) examined the short-run abnormal returns of Indian pharmaceutical industry from 2001 to 2007. The shareholders of the target companies achieve short term wealth on the announcement day in foreign acquisitions and the CAR was positive over the event window. And announcement was good indicator of long term success. Sikarwar (2012) explored the impact of merger announcement on shareholder’s wealth of State Bank of India (SBI). State Bank of Saurashtra merged with SBI on 13 August, 2008 and State Bank of Indore also amalgamated with SBI happened on August 27, 2010. The estimated period had been taken -220 days to -20 days to the date of announcement of merger. The study found that the State Bank of Saurashtra had not significant abnormal return at 5% level of significance on the date of announcement. The results of test of significance of abnormal returns for the merger of State Bank of Indore were different. It concluded that the market price movement was affected by the current information. Bihari (2012) conducted a research to analysed the after merger performance of collective banks and to examined whether synergies of banks would be able to create values or not. Sample of the study was taken from the Indian bank industry from 1999 to 2009. The research concluded that combined result of bidder banks group was 0.4% abnormal return with two days and it had been negative of next 31 days and became positive for 40 days window period. Merger announcement information in the Indian banking
industry had negative and positive effect on the shareholder’s prosperity for both i.e. for the target and bidder banks.

Deo and Shah (2012) examined the impact of merger events on the stock price behaviour of acquirer and target shareholders in Indian banking industry. The study examined three symmetric event windows three days (-1, +1), 5 day (-2, +2) and 11 days (-5, +5). The sample included stock prices movement of both acquired and acquiring banks publically traded for 240 days earlier than and 31 days past the merger announcement dates. The results demonstrated that there was no significant impact on bidder portfolio of merger announcement. Both public and private sector banks made no negative or positive abnormal around the event window. There was no relation between merger announcements news and the wealth of bidder shareholders in both private and public sector banks.

Sehgal et al. (2012) examined the impact of merger and acquisition announcement date and methods of financing that affected the stock income in BRICKS markets. The authors considered the M&A data from 2005 to 2009 with the sample 214 targets companies studied; both the bidder and acquiring companies were publically listed on stock market of India, China, South Africa, Brazil, Russia and Korea. The authors concluded that the pre-event abnormal were significant positive for Russia, China, India, South Korea and Brazil, and for South Africa. On the post-event window basis, there was reversal in trends of abnormal returns, i.e. China, South Korea and India provided pessimistic returns, even as South Africa experienced strong optimistic returns. Rani et al. (2013) examined the short-period abnormal returns to Indian based M&As from the year 2003 to 2008 with the use of methodology of event study. The study work was relied on a sample M&As deal of 623 firms. The analysis found that acquisitions made by Indian firms generate significantly short-period wealth on the announcement day (0) to the target firm’s shareholders. Cumulative average abnormal return for Indian firms’ merger reactions was 2% (at a level of 1% significant) over event window of 11 days (-5 to +5). Rani et al. (2014) investigated the influence of method of payment and analyze the impact of the type of acquiring firm that is unlisted or listed acquired on acquirers return in cross-border acquisition and national acquisitions independently. The data were used during the period 2003-08. The result of study indicated that the acquisitions, financed with cash, produce positive abnormal returns for international acquisitions as well as national acquisitions. The returns were higher in the case of international acquisitions, however the difference was significant statistically during the event window of two day (-1, 0) only. The difference in mean CAR was statistically significant. The study also found that the acquirers (statically significant) negative abnormal returns after event window (+2, +20) in every acquisition. Raghuvanshi and Raghuvanshi (2014) investigated variables that had implications for shareholder gain on the announcement of acquisitions for both the bidder and target firms. It was found that for the run up event window (+18, -20), the abnormal returns for the acquiring firms were 39.6% and for the run up window (-1, -20), the abnormal returns were 26.34%. The results indicated that the bidder firms gains statistically significant higher than the acquiring firms around the announcement window period, as well as in the long run up event window. The shareholder gained after the announcement and during the run up period and before the announcement of merger of firms. Elelyn and Sophia (2014) analysed the value creation of bidders in India on acquisition announcement information and the understanding of the stock markets during an announcement. The study used a sample of 78 bidder firms in the manufacturing industry who acquired targets in the year 2012. The study found that acquisitions were neither value productive to Indian bidders and those bidders with prior acquisition experienced generate more value than single bidder. The results showed that acquirers using cash generate negative returns and(CAR for the three days -1+1 around the acquisition announcement was 1.36%, which was significantly positive at 15%) acquirers have had a neutral effect on the Indian stock market. The study also found that multiple bidders earned significantly higher abnormal returns than single bidders. Kashiramka and Rao (2014) evaluated the shareholders
wealth effect of M&As deal announcements on IT acquiring sector in India. The sample covered domestic deals announced between the years 1999 to 2000 in this sector. Single and multiple factor market models were used to study the problem. The results indicated that on average, merger announcements information led to negative and significant returns to the target shareholders. It was found that -29.15% loss was arise in the 121 days window. Mohapatra and Yadav (2014) analysed the profitability of merged companies in the post liberalization period in the Indian aviation industry during the period 2003 to 2007. The analysis revealed that the merger and acquisitions were anticipated in all cases even before the announcement. The market reaction was found to be more active before the announcement period than in the post announcement period. Overall market reported a positive CAR before the merger announcement. The analysis also indicated that the operating performance for all airlines across the industry was significantly destroyed in the post merger period. The study had revealed that the mergers failed to realize the synergy benefits.

CONCLUSION

Although there is enough literature on merger and acquisition announcement effect on stock prices and profitability of companies, most of the studies have been done for the developed countries especially UK and US. In, India very few researches have been done on this topic. Some studies conducted in India context have explored the impact of merger and acquisitions on financial position of firms. The current study make an attempt to explore the merger and acquisition announcement impact on shareholders wealth and firms’ profitability and aim to investigate the performance of pre-post mergers and acquisition that have take place in India.

References:


