International Research Journal of Management Science & Technology

ISSN 2250 – 1959(0nline)
2348 – 9367 (Print)

An Internationally Indexed Peer Reviewed & Refereed Journal

Explore Innovate Educate

Shri Param Hans Education & Research Foundation Trust

www.IRJMST.com
www.SPHERT.org

Published by iSaRa Solutions

Performance of Firms post Mergers and Acquisitions: A Critical Review

Arpita Mehrotra

Dr. Arunaditya Sahay

Introduction

In this era of globalization with fast-paced competition and economic slowdown, varied activities of restructurings like mergers, acquisitions and joint ventures, play a significant role. Mergers and Acquisitions (M&A) has been a widely opted corporate strategy for many firms across the globe. The similar urging wave has been witnessed in emerging nations like India after the Industrial reforms of 1991. However, with increased outbound and domestic investments, these activities have been on a splurge in India.

The questionif these restructurings benefit the economy is the most unanswered conundrum for politicians, analysts, strategists, firms and the stakeholders. M&A could bring benefits to the shareholders of the acquirers and target firms; and might as well improve the financials of the firms. With the amendments in Monopolistic and Restrictive Trade Practices Act (MRTPA) after 1991, M&A in emerging nations like India certainly focuses in to reduce monopoly in the economy. Thereby, leading to greater economies of scale and cheaper products buthave also demonstrated negative consequences like lay-offs, financial losses or the closure of certain plants.

Gaining competitive advantage is the primary goal for any business across the globe. This leads to better industrial positioning compared to the competitors and other market participants. Competitive advantage exists when a company is able to attract more customers defending the competitive forces to its advantage and persuading the consumers and all market participants for its good products and optimal pricing. In order to gain advantage like this, companies devise strategy to compete in the market. The strategic choice made by the companies defines its position in the fierce competitive era and globalization.In the plethora of strategic moves to advance in this cut-throat competition, the most widely opted mode of expansion and growth is Mergers and Acquisitions (M&A)(Chatterjee, 1986).

In order to enhance the progress in any booming discipline, the re-examination of present literature and related issues is the prime requirement(Cooper, 2010).It is observed that the literature related to the factors affecting reported financial performance post Mergers and Acquisitions is scant. Therefore, the purpose of this reviewis to identify the factors that affect the financial performance of the firms post deal. The purpose is established through a systematic review of literature (Petticrew & Roberts, 2006) which is intended at reviewing and synthesizing the existing body of relevant literature on the impact of M&A on the financial performance of the firms engaging in deals.

Thus, the research questions answered through this review paper are stated as under:

RQ 1:*What are the varied methods observed in past literature to gauge the impact of M&A on the "financial performance" of the firms post deal?*

RQ 2: *What are the factors affecting the reported financial performance post Mergers and Acquisitions?*

The review paper has identified 70 relevant publications addressing the issues related to the impact of Mergers and Acquisitions. In the process of reviewing the past research papers, two issues are identified in the process of consummating M&A deal:

- **Impact of M&A on the financial performance of the firms**
- **Factors affecting the financial performance after the deal**

The critical review contributes to M&A literature in the following ways:

1. To the present body of knowledge, identifying the large part of literature in M&A field.
2. The review paper helps in identifying the prominent literature related to Mergers and Acquisitions and further, highlights the research methods and perspectives to understand the impact of deals on the financial performance.
3. Further, the paper also highlights the various factors that play a key role in influencing the reported financial performance post M&A.
4. This review paper identifies the emerging research gaps guided through discussion and conclusion.

Methodology

Mergers and Acquisitions

The concept of M&A is not a novel idea in the field of business strategy. It has been prominent in the form of different waves since 19th century. In this world of competition, this has become an indispensable mode of growth and survival. The value of these deals grew by six times between 1900s and 2000s. Almost 70% of all mergers and acquisitions are in USA, while rests are witnessed in other parts of the world(Cartwright & Schoenberg, 2006).

Merger is a combination of two or more organizations which willingly negotiate to collaborate on assets, liabilities and cultural integration. Mergers take among "equal" firms across varied organizations and industries. On the other hand, acquisition is a non-negotiated deal when one organization buys or take-over another firm. These are generally materialized when management of the target firm does not participate in negotiation process of the deal (Gupta & Gerchak, 2002). However, the term "Mergers and Acquisitions" are used interchangeably in research and practice as one company generally over-powers the other in due course of operation (Halperin & Bell, 1992).

Performance assessment of M&A

The results regarding the performance of mergers and acquisitions are generally witnessed through varied sources and perspectives. Accounting and financial ratios generally help evaluate and understand the failure and success of the deals(Hoskisson, et al., 1994) further supplemented with fulfillment of strategic objectives(Haspeslagh & Jemison, 1991).Research suggests varied functional perspectives for evaluation of M&A deals(Larsson & Finkelstein, 1999)**:**

- Strategic understanding: this defines the fulfilment of strategic objectives and mission of combining firms.
- Economics & Finance: implement the application and understanding of accounting ratios and stock performance for deal evaluation.
- Organizational Development and Human Resources & Culture integration: Evaluates and understand human development, career planning and cultural integration processes of the combining firms.

These define the varied intents and parameters for result evaluation of M&A deals.

Scope of the review

The studies in the past have used varied measures to understand and analyze the impact of M&A transactions on the performance of the companies. **This literature aims to synthesize the past literature on M&A to understand its influence on the financial performance of the firms and analyze various factors influencing the reported performance.**

The review is done for M&A articles published with databases such as-Elsevier, Emerald, EBSCO and ProQuest.The keywords were set as follows: Mergers, Acquisitions, Financial Impact, Strategic Factors, Tender offers, Conglomerate, related and unrelated deals. The first phase of the database search was limited to abstracts, keywords and title, illustrated in tableI-.

Table I: Search Strategy

Database	Search Strategy	Date of Search (Approximate)	Number of Papers
EbscoHost	Title, Keywords, Abstract	24.05.2017	91
Elsevier	Keywords, Abstract	14.09.2017	73
Emerald	Keywords, Abstract	23.09.2017	112
ProQuest	Keywords, Abstract	11.11.2017	65
Total			341

For the search, the inclusion and exclusion criteria were set to select the final papers for review process, described in table II-

Table II: Inclusion and Exclusion criteria

Inclusion	Exclusion
Focus on M&A deals	Focus on other aspects of M&A other than financial impact
Journal Articles	Non-English articles
Section of few prominent Books	No abstract availability
Contribution directly related to Financial impact of M&A	Conference proceedings, opinion pieces and view points
Contribution underlying the emphasis of strategic factors affecting the financial performance after M&A	
Full Text available	

Impact of M&A on Financial Figures

Varied parameters indicating short and long term performance of targets and acquirers are considered for analyzing the performance of companies engaging in M&A deals(Smita, 2011). These include stock-price performance, market share, and cost and productivity margins. Many researchers have deployed "Event Study Methodology" to study stock price reactions of the acquirers and targets further to gauge the short term performance of the firms (Hitt, et al., 2001).

Jensen et al.(1983) evaluated stock market data for period before 1980 for thirteen studies and witnessed positive returns for the firms between 16 to 30 percent. Similarly, positive results were witnessed by Andrade et al. (2001) between 23 and 25 percent returns for the merger deals between 1973 and 1998. Positive abnormal stock returns are witnessed upon the announcement of the deals, even when the deals fail to be successful in future (Bellinger & Hillman , 2000). Such positive returns in stock market generally reflects the strong positive expectations of the shareholders from the deals anticipating the success in future (Bradley, et al., 1983).

It is often observed across varied studies that the M&A do not yield expected positive benefits over the long duration of time. The acquirers from the deals during 1998 to 2001, witnessed a loss of USD 240 billion (Moeller, et al., 2004). On the contrary, the shareholders of the target firms earned significantly positive returns around the announcement of the deals as witnessed by Dodd(1980)after analyzing ten days window before and after the announcement. He found that the shareholders of the target firms earned around 33.96% over the duration when the proposal of merger was announced.

As for long-term evaluation of the deals, Duso et al.(2010)found that there is a weak correlation between stock-performance, profitability and cash flows of the combining firms.

Generally, the majority of the deals fail to show financial improvement after the deal (Allred et al., 2005).Major ratios like Net Profit Margin, Cash Earnings ratio and valuationhave shown a decrease after the deal in the long-run with the study period of three to five years. Hitt et al. (2001)further suggested that the acquirers are either sold, go for restructuring/turnaround or existed as a "stand-alone" business entity.

King et al. (2004)analyzed 93 studies on M&A and reviewed that the shareholders of targets and acquirers earned significantly around the announcement of the deal. The majority of the deals failed to show strong financial performance in longer duration after the deal was consummated which was contrary to the short term performance around the announcement of the event. These inorganic strategies like M&A, JVs, and alliances implemented with the intention to expand and build bigger organizations; literature reveals the failure of the firms to achieve the desired financial gains (Rosalind & Kirstie , 2004).

There are varied factors from strategic and human perspective which contribute to the decline in performance after the deal. Therefore, to determine and understand the factors which affect the financial performance of the Mergers and Acquisitions, this paper is further sub-divided into four methods of assessment for evaluating financial performance of the deals such as ***accounting ratios based, stock and market announcement related measures, hybrid measures comprising of accounting as well as stock-short term market related measures; and lastly, synergies and subjective measures based literature.***

Past literature suggests that the results demonstrated through the reported financial performance indicated by above assessment methods are affected by varied factors such as ***domestic and cross-border deals; merger deals vs tender offers; cash, stock or hybrid payment methods; PESTLE (macro-economic) conditions affecting the results of the combining firms; conglomerate, related and unrelated deals; time period between the announcement and deal completion; size of the combining firms; the human perspective and culture integration.***

Description of Literature

Description of the past literature on the basis of above specified evaluation methods of financial performance are detailed below with explanations for factors affecting reported financial performance:

Accounting ratios based operating and financial studies

Yeh & Hoshino (2002)studied 86 corporate mergers of Japan for period between 1970 and 1994 on the lines of growth, efficiency and profitability of the firms. These factors were measured on the basis of return of assets, return on equity, productivity, sales and growth in employment. All the factors experienced negative change after the deal. M&A deals led to negative consequences on the firms in Japan.

Further, Heron & Lie (2002)studied earnings management of 959 deals between January 1985 and December 1997 using operating income over sales ratio. Current and long-term accruals were used to study the impact of M&A on financial performance. The chosen ratio for analysis considered the impact of mode of payment and method of accounting on the operating performance of the firms.

Accounting method of measurement of M&A on financial performance was further used by Gugler et al. (2003) who studied the impact on profitability and sales at three distinct levels of national, international and sectors. Researchers analyzed 45,000 completed deals across the world from 1981 to 1998; out of which fifty percent were from U.S.A. The financial results with the control group comprising of non-merging firms.Analysis demonstrated increased profitability in five years while decreased sales every year with increase in fifth year. Such similar results were found across US, UK, Canada, Europe and New Zealand. However, for Japan, results were a little different with negative profits and sales' figures to be more than the projected numbers.

Among other factors, effect of the type of industry, size of the firm, type of method used for payment in deals and the plan for compensation on the post-merger performance was studied by Ramaswany & Waegelein(2003)for 162 firms for deals between 1975 to 1990 with five years pre and post window analysis. Operating cash flow on the assets displayed an improvement with strong association with size of the combining firms. These improvements were supported for acquirers with long-term compensation plans.

Meta-analysis technique was used by King et al. (2004) to integrate the findings of past research about the impact of M&A on financial performance. Authors concluded that M&A did not improve the financial performance of the acquirers; rather had a negative effect on the long-term performance. A qualitative factor, managerial efficiency, was used byFeroz et al.(2005) to understand its impact on performance after M&A. Authors used Data Envelopment Analysis (DEA) to analyze the impact of managerial efficiency by comparing the performance with five years pre and post-merger period. The results displayed an improvement in the performance across 82% of sample firms.

The effects of Mergers and Acquisitions on the financial performance of the shipping companies from Philippines were studied byCabanda & Pascual (2007)for period between 1994 and 2003. Quick ratio, assets turnover and net revenues were taken to gauge the performance of the firms showing significant gains in the long run. While, other financial ratios as net income, RoA, net profit margin, RoE, capital expenditure with respect to sales and assets did not witness gains in the short term; thereby, supporting the view that M&A do not lead to improved performance in short and long term.

The impact of the relative size of the target and acquiring firms on the operating post-merger performance of Indian firms was analyzed by Mantravadi & Reddy(2007)for period between 1991 and 2003. Varied accounting ratios such as gross profit margin, net profit margin, D/E ratio, RoCE, net worth and operating profit margin for three years pre and five years post mergers were studied and it was found that the relative size of firms influenced the performance of these ratios. Australian mergers for period 1999 to 2004 were analyzed by Lau et al. (2008)by comparing pre and post-merger performance. Thirty Indian firms were studied by Kumar (2009) on the basis of chosen accounting ratios signifying no improved performance after the deal.

Egyptian mergers were studied by Ismail et al. (2010)for transactions between 1996 and 2003 across technology and construction sectors using accounting measures like profitability, efficiency, liquidity, solvency and cash flows. Total analysis of the deals showed no effect on the operating performance due to M&A. However, varied results were witnessed at sectoral levels with improvement in profitability across construction and decrease in efficiency, cash flows, liquidity and solvency. No improvements were witnessed in Technology Sector.

Stock and Market based measures

Wealth effects and social economic conditions also impact the performance of the companies after the merger and acquisition. Tse & Soufani(2001)studied 124 transactions from 1990 to 1996 by dividing the deals into high merger activity era (1994 to 1996) and low merger activity era (1990 to 1993). "Event Study Methodology" was used to calculate abnormal returns around the announcement of the deal, observing higher and positive returns for higher M&A activity era. Moreover, targets observed positive returns as compared to acquirers.

The Mergers across the steel industry of US and influence on market power were studied by Gallet (1996)by applying "New Empirical Industrial Organization" to estimate market power through the combination of supply and demand. For transactions between 1968 and 1971, market power was not affected by mergers contrary to the results of transactions between 1978 and 1983.

The better performance after "tender" offers and poor performance after "M&A" deals by observing the effect of size of combining firms and BV/MV ratio were analyzed for 3169 mergers and 348 tender offers by Rau & Vermaelen (1998)**.** It was witnessed that acquirers earned only significant 4% returns after mergers while significantly high 9% abnormal returns after tender offers. It is reasoned that under-performance of the acquirers was due to the decision making ability of the management who relied on low BV/MV ratio and more on past bid experience.

Choi & Russell (2004)analyzed the factors such as methods of payment, size of the deals and timing of the deal for the window of 22 years from 1980 to 2002 for 171 transactions. They concluded about the improvement in performance by observing "Cumulative Abnormal Returns (CAR)". It was observed that the number of deals increased in later 1990s while the acquirers witnessed only insignificant improvement in post-merger performance.

On the similar basis of reviewing past literature for observing various factors influencing post-merger performance of Abnormal Returns, Canadian mergers were studied by Andre et al.(2004)for 176 deals between 1980 to 2000. Effects of various factors on the performance- method of payment; domestic vs cross border deals; and BV/MV ratio of acquirers were studied for long term period. Cash-financed deals performed better than the stock-financed ones. While, "Glamour acquirers" and "cross border deals" perform badly as compared to "value acquirers" and "domestic deals" respectively. The negative or poor performance of the acquirers could be attributed to the conditions of the Industry.

Similarly, Yook (2004)compared “Economic Value Added (EVA)” in pre and post deal scenario on the basis of influence of methods of payment, type of M&A deal and related/unrelated type of business for largest 75 deals in USA from 1989 to 1994. These acquirers have displayed negative performance after the deal with decline in the value of “EVA”. Also, it was found that tender offers produced better and positive results as compared to M&A deals.

Megginson et al.(2004) did a descriptive analysis of various factors affecting long-term post-merger performance. The factors studied by authors were intensity of focus on the deal by corporates, hubris hypothesis, methods of payment, impact of period of mergers and attitude of acquirers with past acquisition experience compared with the new acquirers.204 deals were analyzed for period between 1977- 1996. Managerial involvement had no influence on long-term performance. Deals financed by cash performed better than the ones financed by stock.

The findings in relation to acquirers with past acquisition experience compared to new acquirers is different from the findings ofRau & Vermaelen(1998); wherein the former authors gave no evidence for “serial acquirers” performing better than “value acquirers”. The difference in results is difficult to comprehend as the time-period for analysis is overlapping for the authors.

Canadian firms were analyzed by Yuce & Ng(2005)using abnormal returns for deals between 1994 and 2000 with companies from varied industries. Contrary to American studies, the results were negative for Canadian firms like illustrated byAndre et al.(2004)**.** The shareholders of acquirers and targets earned positive returns after the deal. These positive returns were lower as compared to the firms’ results analyzed by Megginson et al.(2004)for Canada. Higher positive returns were noticed while acquirers bought private firms by stock with no difference in results when financed by cash. Risk involved in buying private companies is higher as compared to the public firms. The result was attributed to Industry rules and regulations of Canadian markets.

Kling (2006) analyzed 35 top German deals for 44 years starting from early 1870s to the commencement of First World War in 1914. Various factors from macro-economic perspective were taken into consideration to analyze the reported financial performance of the companies after the deal. “Vector regression model” was used to find that the deals were unsuccessful through the first wave of merger in 1896 compared with period of successful deals. Further, from 1848 to 1904, shareholders experienced positive gains across all industries except the Banking sector. Ignoring this fact, managers “imitated” M&A activity without analyzing the effect of the deal.

Hybrid Measures

Hybrid measures account for the review of past literature comprising of research which has used accounting as well as stock-market based measures.

Railroad industry was analyzed by Sun & Tang (2000)using market and efficiency power. Authors used the reactions from the stock-market to gauge the “market-power” and operating ratios of the firms to gauge “efficiency power”. Operating margin and net margin ratios were used to gauge “operating efficiency” of the firms. They concluded that the shareholders of the acquirers did not gain from the deals as compared to the Industry peers and shareholders of the target firms.

The consistency of stock-returns with the operating performance after the deal along-with the motives behind M&A and further financial performance in the long run was analyzed byChoi & Harmatuck (2006)for 44 deals in US construction industry between 1980 and 2002. Authors had used varied measures to gauge the performance such as operating cash flow for operating performance; abnormal stock returns to understand reactions of the market; employment-level and growth rate of sales as measures of the size of the firm. The operating performance had insignificantly improved after the event. The size of the firms had shown a positive change after the integration of the firms displaying slight improvement in operating performance.

Hybrid measures in three different ways are used by Malhotra & Zhu (2006)to understand the impact of M&A on the firms- firstly, to gauge market returns for short-term wealth gains by shareholders of acquirers; secondly, long-term wealth gains by acquirers' shareholders; thirdly, investigate the impact of M&A on long-term financial performance of the Indian acquirers for deals in USA for transactions between 1999 and 2005.While, analysis showed that the markets reacted positively to the announcement of the deal in US. In terms of ratios gauging financial performance, only "net growth to sales" had shown a significant increase whereas, all other barometers had shown a decrease. Moreover, authors suggested that for Indian acquirers had underperformed as compared to the Industry benchmarks.

Effect of M&A deals for local exchange of firms in US was analyzed for transactions between 1988 and 2001 by Majumdar et al. (2007).The effect was investigated on financial performance and level of efficiency. Cash flows and growth of sales were used to gauge the financial performance of firms. The results demonstrated that efficiency and synergies were negative after the deal while growth in sales was not clear with much figures driven by the presence in market. Even the cash flows of the firms had also decreased after the deal.

Synergies & Subjective measures

Methods of payment for the deal while buying a company was studied byRappaport & Sirower (1999)in three different stages- firstly, difference was studied for the behavior of deals between those financed by stock vs cash; secondly, methods of payment for the deal as the factor influencing the performance was studied; and lastly, risk involved with each of these factors was analyzed to understand the performance of acquiring performance. For the deals financed by cash, the entire risk was embedded with the acquirers if the intended synergies were not realized. On the other hand, for stock-financed deals, the risk was proportionately shared by the shareholders of the acquirers and targets.

The theoretical model describing the effect of the "Merger proposal" on the profitability of the acquirers and the target firms was developed byHviid & Prendergast(1993**)**. They studied that the unsuccessful deals often enhanced the profits for the target firms while the results were for the acquiring firms.

Domestic mergers for the U.S. hospitals, members of U.S. American Hospital Association (AHA) for period between 1986 and 1992 were studied by Sinay & Campbell(2002**)**.The motive of the study was to understand if M&A could be a solution for the companies facing financial distress. 84 cases were studied which comprised of merged hospitals and "synthetically" merged hospitals matched with control group. Barometers under study were: efficiency; costs; full-time employees' usage; changes in supply of inputs and labour and lastly, the services rendered.

Further, "Data Envelopment Analysis" was used byGroff et al.(2007)to analyze the change in efficiency for the hospitals under merger in US. 166 hospital-merger deals were studied between 1999 and 1995 along-with the matched control group. The positive association between scores of efficiency and merger status indicated the efficiency gain due after the deals. However, second year showed significant improvement in the financial performance as compared to the first year after the deal.

Another empirical technique "Panel Data Analysis" was used byLiu & Zou(2008)to analyze "Technological Spillovers on Innovation" for Greenfield investment, cross-border M&A and trade across the high-tech industries in China. The factors under study for the chosen investments and deals were categorized as "inter and intra" space accordingly. The Foreign Greenfield Investment leads to "intra and inter Industry Spillovers" as these investments by MNCs in the host country have a significant impact on innovative performance of the firms located domestically. Domestic innovation further improves by importing technology in foreign and investing in domestic R&D. Only "Inter-industry" M&A exists in market.

Discussion &Conclusion

The review paper has focused on critically reviewing the research papers with focus to understand the factors affecting reported financial performance after the deal.

Inconsistent results have been experienced across the studies which have demonstrated financial effects of M&A using accounting measures and ratios. Few research have reported insignificant improvement in financial performance after the deal (Choi & Harmatuck, 2006), while others have indicated significant positive changes (Healy, et al., 1992; Heron & Lie, 2002; Ramaswany & Waegelein, 2003). Few researchers have witnessed negative perfromance of the firma after M&A (King, et al., 2004; Yeh & Hoshino,2002; Sun & Tang, 2000). Whereas, few researches have shown that M&A can render positive impact on certain factors of the firms while negative consequences on few other fcators of the firms combining after the deal. M&A could increase profitability of the combining firms while displaying negative impact on sales (Gugler et al., 2003). Similarly, increased profitability after the deal may lead to a negative impact on Return on Net Worth (Reddy & Mantravadi, 2007).

As for the abnormal returns in the markets after the M&A event, the results are different and varied for targets as well as the acquiring firms. Results have stretched from insignficant (Jensen et al., 1983; Choi & Russell, 2004; Megginson et al., 2004) to significant positive results(Yuce & Ng, 2005) across the studies. Higher gains were witnessed during the period of high merger activity across the globe while proportionately lower gains as the mergers decreased across the globe (Tse & Soufani, 2001). However, generalized results have shown that M&A activity leads to decarese in abnormal returns in the post merger and acquistion scenario.

The "Type of Industry" has influenced the financial perfromance in different ways. The Banking sector has experineced negative or decrease in perfromance after the mergers and acquisitions

(Berger & Humphrey, 1992; Rhoades, 1993; Kling, 2006). Similarly, Rail Road(Sun & Tang, 2000) and Steel industry(Gallet, 1996) had reported deteroiration in financial perfromance after the deal. However, positive improvements were witnessed across Construction Industry (Choi & Harmatuck, 2006;Choi & Russell, 2004; Ismail et al., 2010).

There has been an inconsistent variation regarding the performance of various factors influencing the financial performance post M&A. Factors contributing to the impact are ***domestic and cross-border deals; merger deals vs tender offers; cash, stock or hybrid payment methods; PESTLE (macro-economic) conditions affecting the results of the combining firms; conglomerate, related and unrelated deals; time period between the announcement and deal completion; size of the combining firms; the human perspective and culture integration.***

Researchers like Rau & Vermaelen, 1998; Andre et al., 2004; Megginson et al., 2004 have shown that the deals financed by "cash" have perfromed better than the deals financed by "stocks". While, few others have proved that there is no improvement in the perfromance under the infleunce of the mode of payments (Choi & Harmatuck, 2006; Yook, 2004).

Among other factors studied in this review paper, "cross-border" deals have been witnessed to perform poor as compared to the "domestic deals" (Andre , et al., 2004). With the kind of transaction, while comparing mergers with tender offers, the results of prior studies prove that there exists no argument between the "better" effects of "tender offers" on the financial performance of the firms as compared to merger proposals.

As for the size of the firm, like all other factors, the size of the firm and the financial performance after the deal are negatively related (Ramaswany & Waegelein, 2003). Reddy & Mantravadi (2007) ,on the other hand, witnessed positive relationship between the financial performance and "firm-size".

Mergers and acquisitions is an inorganic strategy opted by firms to expand and grow with better profits, hence macro-economic conditions vastly effect the performance after deals (Tse & Soufani, 2001). However, there exists contradictory results for this factor as well, showing no relation of the "timing and macro-scenario" with the financial performance after the deal (Choi & Russell, 2004; Megginson et al., 2004).

Mergers and Acquisitions Outcome

Majority of M&A deals have proved to be unsuccessful on financial terms. The summary of various M&A transactions is well provided by Bellinger & Hillman(2000). The failure of deals is due to varied factors such as: implementation of M&A strategy without in-depth understanding of the process, like the way experienced in India as imited from the western world did not prove to be much successful in terms of achieving synergies (Haunschild, 1993); weak integration process (Haspeslagh & Jemison, 1991; Nahavandi & Malekzadeh, 1988); managerial hubris (Haunschild, 1993); over-estimation of targets; lack of involvement and strategic guidance from the owners of the acquirers; lack of onus of the deal after the negotiations of the deal and reduction in resources (Haspeslagh & Jemison, 1991).

Among other factors, unequal size of mergers also leads to failure of the deals (Allred, et al., 2005). These kinds of deals lead to the imbalance of power, especially when the target is much smaller in size. In such cases, it is observed that the larger acquirers often fail to efficiently address the integration issues of the targets in an appropriate manner and thus this ignorance ultimately becomes a reason for failure of the deals.

Gadiesh et al.(2002) underlines the prominent reasons for the failure of the deals, such as- poor strategic logic for M&A deals, over-valuation and thus, over-priced acquisitions, weak planning for integration and execution of the deal, lack of ownership for the successful execution as planned initially and the mismatch of different cultures under one canopy.

The findings are supported with the results of Giles(2000) who also observed that the major reason for the failure of M&A deals is the neglect of human resources. Firms which have failed to recognize the significance of human resources and cultural integration above the financial issues in M&A deals, have failed to reap benefits of these transactions. Such sensitive issues are often ignored in the area of mergers and acquisitions. Similar issues were were pointed by Hunt(2003)who also found that one-third of firms who entered into M&A transactions failed as they failed to recognize the critical role of HR in integration of companies after the M&A event. It is observed that the failure in direct involvement of HR in the strategic issues of M&A at pre and post acquisition phase leads to the failure of M&A transactions (Daniel & Metcalf, 2001; Jeris et al., 2002). For a research carried across sixty companies involved in M&A activities, only thirty-five percent of the HR executives were directly involved in addressing the strategic issues which formed a very less proportion in terms of successful planning (Giles, 2000; Liberatore, 2000).

Dixon & Nelson (2005) found that the team of Human Resources were not included as a part of post merger integration plan, rather the teams from all other departments sucha as Finance, IT and many other were a part of the M&A plan. While, financial, operational and legal were taken care of, however, the most crucial aspect which is observed to affect the perfromance was neglected.

With the review of papers and trend observed in the performance of M&A in short and long term duration, various factors have played a crucial role in influencing the performance of firms after the deal, however, the role of HR has enhanced as partners and advisors for such business-related events with due course of time in order to bring successful results for M&A(Cartwright & Cooper, 2000).

Thus, the review paper emphasize on the significance of the decisions related to Mergers and Acquisitions as they have profound effect on the financial performance of the firms involved in the deals. The strategy leads to varsity of results with success or failure of the corporations. However, the study also gives a direction that it is extremely crucial for Managers to consider various factors that would give logic and proper rationale to their decisions. A well-thought investment decision is based on proper analysis of data and implied tools that in-turn is reflected on the corporate performance after the deals are consummated. Hence, the review helps in understanding these decision-impacting factors and thereby, ensures the corporate success after mergers and acquisitions.

Bibliography

- Allred, B., Boal, K. B. & Holstein, . W., 2005. Corporations as stepfamilies: A new metaphor for explaining the fate of merged and acquired companies. *Academy of Management Executive,* 19(3).

- Andrade, Gregor, Mitchell, M. & Stafford, E., 2001. New Evidence and Perspectives on Mergers. *Journal of Economic Perspectives,* 15(2), pp. 103-120.

- Andre , P., M., . K. & J. , L., 2004. The Long-Run Performance of Mergers and Acquisitions: Evidence from the Canadian Stock Market. *Financial Management,* 33(4), pp. 27-43.

- Bellinger, . L. & Hillman , A., 2000. Does tolerance lead to better partnering? The relationship between diversity management and M&A success. *Business & Society,* 39(3), pp. 323-337.

- Bellinger, L. & Hillman, A., 2000. Does tolerance lead to better partnering? The relationship between diversity management and M&A success. *Business & Society,* 39(3), pp. 323-337.

- Berger, A. & Humphrey, D., 1992. Mergers in Banking and the Use of Cost Efficiency as a Defense. *Antitrust Bulletin 37*, pp. 541-600.

- Bradley, M., Desai, A. & HanKim, E., 1983. The rationale behind interfirm tender offers: Information or synergy?. *Journal of Financial Economics,* April, 11(1-4), pp. 183-206.

- Bramson, R. N., 2000. HR'S Role in Mergers and Acquisitions. *Training & Development*, October, 54(10).

- Cabanda, . E. & Pascual, P. M., 2007. Merger in the Philippines: Evidence in the Corporate Performance of William, Gothong, and Aboitiz (WG&A) Shipping Companies. *Journal of Business Case Studies,* 3(4), pp. 87-100.

- Cartwright, S. & Cooper, C., 2000. *Human resources know-how in mergers and acquisitions.* London: Chartered Institute of Personnel and Development.

- Cartwright, . S. & Schoenberg, R., 2006. Thirty years of mergers and acquisitions research: recent advances and future opportunities. *British Journal of Management,* 17(S1), pp. S1-S2.

- Chatterjee, S., 1986. Types of synergy and economic value: the impact of acquisitions on merging and rival firms. *Strategic Management Journal,* 7(2), pp. 119-139.

- Choi, J. & Harmatuck, D., 2006. Post- Operating Performance of Construction Mergers and Acquisitions of the United States of America. *Canadian Journal of Civil Engineering,* 33(3), pp. 266-278.

- Choi, J. & Russell, J., 2004. Economic Gains around Mergers and Acquisitions in the Construction Industry of the United States of America. *Canadian Journal of Civil Engineering,* 31(3), pp. 513-525.

• Cooper, H., 2010. *Research Synthesis and Meta-analysis: A Step-by-step Approach.* 4th ed. Thousand Oaks, CA: Sage Publications.

• Daniel, T. & Metcalf, G., 2001. *The Management of People in Mergers and Acquisitions.* s.l.:Westport, CT: Quorum.

• Datta, . D. & Grant, . J., 1990. Relationships between type of acquisition, the autonomy given to the acquired firm, and acquisition success: an empirical analysis. *Journal of Management,* 16(1), pp. 29-44.

• Dixon, I. & Nelson, N., 2005. Case Study: Culture Management and Mergers and Acquisitions. *Society for Human Resource Management*, March.

• Dodd, P., 1980. Merger Proposals, Management Discretion and Stockholder Wealth. *Journal of Financial Economics,* 8(2), pp. 105-137.

• Duso, T., Gugler , K. & Yurtoglu, B., 2010. Is the event study methodology useful for merger analysis? A comparison of stock market and accounting data. *International Review of Law and Economics,* Volume 30, pp. 186-192.

• Feroz, E. H., S. , K. & R., . R., 2005. Performance Measurement in Corporate Governance: Do Mergers Improve Managerial Performance in the Post Merger Period?. *Review of Accounting and Finance,* Volume 4, pp. 86-101.

• Gadiesh, O., Daniell, M. & Ormiston, C., 2002. A CEO's guide to the new challenges of M&A leadership. *Strategy & Leadership,* 30(3), pp. 13-18.

• Gallet, C. A., 1996. Mergers and Market Power in the U.S. Steel Industry. *Applied Economics Letters,* Volume 3, pp. 221-223.

• Gaughan, P., 2005. *Mergers: What can go wrong and how to prevent it..* Hoboken, NJ: John Wiley.

• Giles, A., 2000. Globalization and Industrial Relations Theory. *The Journal of Industrial Relations,* 42(2), pp. 173-194.

• Groff, E., D. , L. & J. , S., 2007. Measuring Efficiency Gains from Hospital Mergers. *Research in Healthcare Financial Management,* pp. 1-10.

• Gugler, K., D. , M., B. , Y. & C., . Z., 2003. The Effects of Merger: an International Comparison. *International Journal of Industrial Organization,* Volume 21, pp. 625-653.

• Gupta, D. & Gerchak, Y., 2002. Quantifying operational synergies in a merger/ acquisition. *Management Science,* 48(4), pp. 517-533.

• Halperin, M. & Bell, S. .., 1992. *Reserach guide to corporate acquistions,mergers and other restructuring.* New York: Greenwood Press.

- Haspeslagh, P. C. & Jemison, D., 2004. Implications of Mergers and Acquisitions. *Human Resource Management Journal,* pp. 21-28.

- Haspeslagh, P. C. & Jemison, D. B., 1991. *Managing acquisitions: Creating value through corporate renewal.* New York: The Free Press.

- Haunschild, P., 1993. Interorganizational imitation: The impact of interlocks on corporate acquisition activity. *Administrative Science Quarterly*, Volume 38, p. 564.

- Healy, Paul , M., Krishna , P. G. & Richard , S. R., 1992. Does Corporate Performance Improve after Mergers?. *Journal of Financial Economics,* Volume 31, pp. 135-175.

- Healy, P. M., Palepu, K. G. & Ruback , R. S., 1992. Does Corporate Performance Improve After Mergers?. *Journal of Financial Economics,* 31(2), pp. 135-175.

- Heron, R. & Lie, E., 2002. Operating Performance and the Method of Payment in Takeovers. *Journal of Financial and Quantitative Analysis,* March.pp. 137-156.

- Hitt, M., Harrison, J. & Ireland, R., 2001. *Mergers and Acquisitions: A Guide to Creating Value for Stakeholders.* Oxford: Oxford University Press.

- Hitt, M., Harrison, J. & Ireland, R., 2001. *Mergers and Acquisitions: A Guide to Creating Value for Stakeholders.* Oxford: Oxford University Press.

- Hoskisson, . R., Johnson, . R. & Moesel, D., 1994. Corporate divestiture intensity of restructuring firms: effects of governance, strategy, and performance. *Academy of Management Journal,* 37(5), pp. 1207-1251.

- Hunt, J., 2003. How people get overlooked in takeover strategies. *Strategic Management Journal,* Volume 86.

- Hviid, . M. & Prendergast, C., 1993. Merger Failure and Merger Profitability. *Journal of Industrial Economics,* 41(4), pp. 371-386.

- Ismail , T. H., A. A. , A. & R. M. , A., 2010. Exploring Improvements of Post-Merger Corporate Performance- the Case of Egypt. *The Icfai University Journal of Business Strategy.*

- Jensen, Michael , C. & Richard , R. S., 1983. The Market for Corporate Control: The Scientific Evidence. *Journal of Financial Economics,* April.pp. 5-50.

- Jeris, L. S., Johnson, J. R. & Anthony, C. C., 2002. HRD Involvement in Merger and Acquisition Decisions and Strategy Development: Four Organizational Portraits. *International Journal of Training and Development,* 6(1).

- King, . D., D., . D., C. , D. & J. , C., 2004. Meta-Analysis of Post-Acquisition Performance: Identifications of Unidentified Moderators. *Strategic Management Journal,* February.pp. 187-201.

• Kling, G., 2006. The Long-Term Impact of Mergers and the Emergence of a Merger Wave in Pre-World-War I Germany. *Explorations in Economic History,* 43(4), pp. 667-688.

• Kumar, R., 2009. Post-Merger Corporate Performance: an Indian Perspective. *Management Research News,* 32(2), pp. 145-157.

• Larsson, R. & Finkelstein, S., 1999. Integrating strategic, organizational and human resource perspectives on mergers and acquisitions: A case survey of synergy realization. *Organization Science,* 10(1), pp. 1-27.

• Lau, . B., A. , P. & S. , W., 2008. Accounting Measures of Operating Performance Outcomes for Australian Mergers. *Journal of Applied Accounting,* 9(3), pp. 168-180.

• Liberatore, M. D., 2000. HR's relative importance in mergers and acquisitions.. *Human Resource Executive,* p. 48.

• Liu, . X. & Zou, H., 2008. The Impact of Greenfield FDI and Mergers and Acquisitions on Innovation in Chinese High-Tech Industries. *Journal of World Business,* Volume 43, p. 352–364.

• Majumdar, S., R. , M. & U., . Y., 2007. Quest for Efficiency: Assessing the Impact of Mergers on Performance in the U.S. Telecommunications Industry. March.

• Malhotra, S. & Zhu, P., 2006. Shareholder Benefits and Firm Performance: an Empirical Analysis of International Acquisitions by Firms from a Developing Economy. *Working Paper.*

• Mantravadi, P. & Reddy, A., 2007. Relative Size in Mergers and Operating Performance:Indian Experience. *Economic and Political Weekly*, 29 September.

• Megginson , W., Morgan, A. & L., . N., 2004. The Determinate of Positive Long-Term Performance in Strategic Merger: Corporate Focus and Cash. *Journal of Banking and Finance,* March.pp. 523-552.

• Moeller, S., Schilingemann, F. & Stulz, R., 2004. Firm Size and the Gains from Acquisitions. *Journal of Financial Economics,* 73(1), pp. 201-228.

• Nahavandi, A. & Malekzadeh, A., 1988. Acculturation in mergers and acquisitions. *Academy of Management Review,* 13(1), pp. 79-90.

• Petticrew, M. & Roberts, H., 2006. *Systematic Reviews in the Social Sciences: A Practical Guide.* Oxford: Blackwell.

• Ramaswany, K. & Waegelein, J., 2003. Firm Financial Performance Following Mergers. *Review of Quantitative Finance and Accounting,* Volume 20, pp. 115-126.

• Rappaport, A. & Sirower, M., 1999. Stock or Cash? the Trade-Offs for Buyers and Sellers in Mergers and Acquisitions. *Harvard Business Review,* 77(6), pp. 147-158.

• Rau, P. & Vermaelen, T., 1998. Glamour Value and the Post Acquisition Performance of Acquiring Firms. *Journal of Financial Economics,* Volume 49, pp. 223-253.

• Reddy, A. V. & Mantravadi, P., 2007. Relative Size in Mergers and Operating Performance: Indian Experience. *Economic and Political Weekly*, 29 September .

• Rhoades, S., 1993. Efficiency Effects of Horizontal (in-Market) Bank Mergers. *Journal of Banking and Finance,* Volume 17, pp. 411-422.

• Rosalind, H. S. & Kirstie , S. B., 2004. The development of trust and distrust in a merger. *Journal of Managerial Psychology,* 19(7), pp. 708-721.

• Sinay, . T. & Campbell, C., 2002. Strategies for More Efficient Performance through Hospital Merger. *Health Care Management Review,* Volume 27, pp. 137-156.

• Smita, M., 2011. A STUDY OF IMPACT OF MERGERS AND ACQUISITIONS ON SELECTED SECTORS IN INDIA. *Journal of Doctoral Studies, Accounting,* 1(1-2), pp. 104-119.

• Sun, H. & Tang, A., 2000. The Sources of Railroad Merger and Gains: Evidence from Stock Price Reaction and Operating Performance. *Transportation Journal,* 39(4), pp. 14-27.

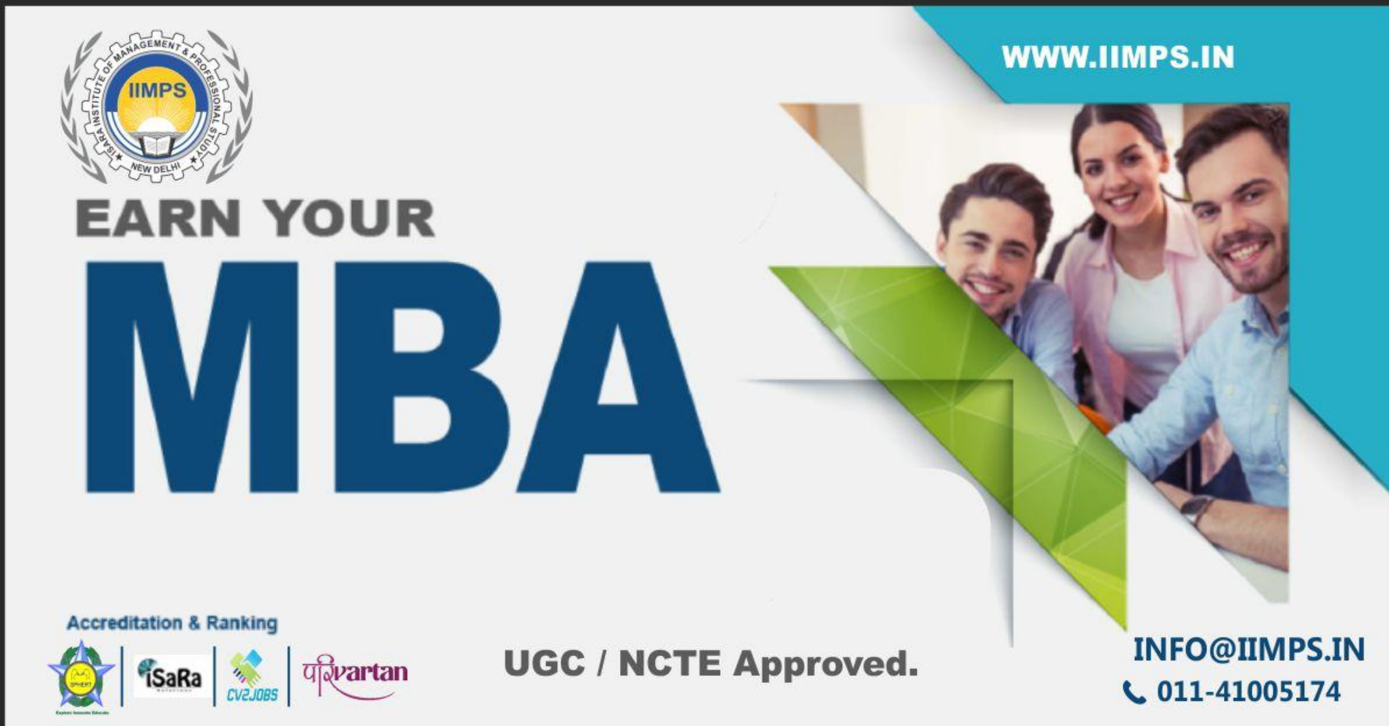
• Tse, . T. & Soufani, K., 2001. Wealth Effect of Takeovers in Merger Activity Eras: Empirical Evidence from the UK. *International Journal of Economics of Business,* Volume 8, pp. 365-377.

• Yeh, T. & Hoshino, Y., 2002. Productivity and Operating Performance of Japanese Merging Firms: Keiretsu-Related and Independent Mergers. *Japan and the World Economy,* Volume 14, pp. 347-366.

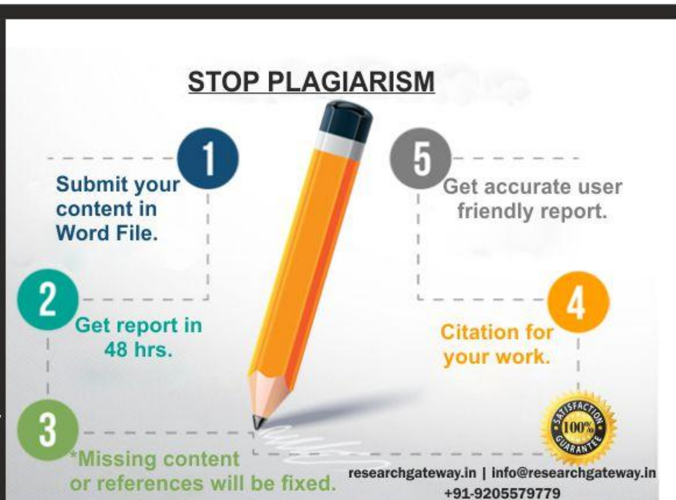
• Yook, K., 2004. The Measurement of Post-Acquisition Performance Using EVA. *Quarterly Journal of Business & Economics,* Volume Summer, pp. 67-84.

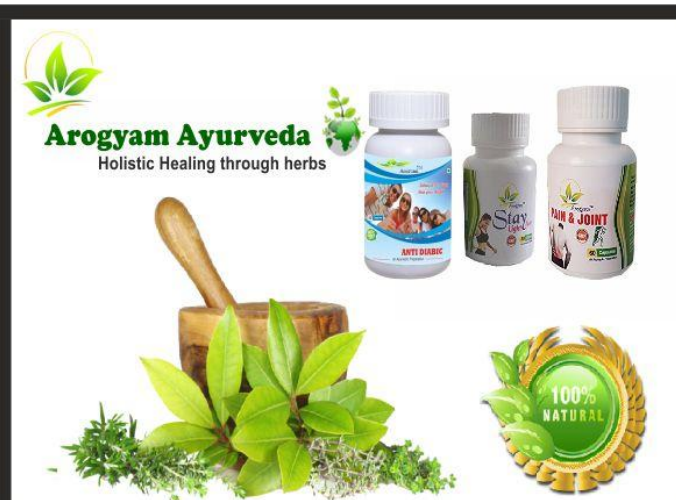
• Yuce , A. & Ng, A., 2005. Effects of Private and Public Canadian Mergers. *Journal of Administrative Sciences,* June.pp. 111-124.

ISARA INSTITUTE OF MANAGEMENT & PROFESSIONAL STUDIES



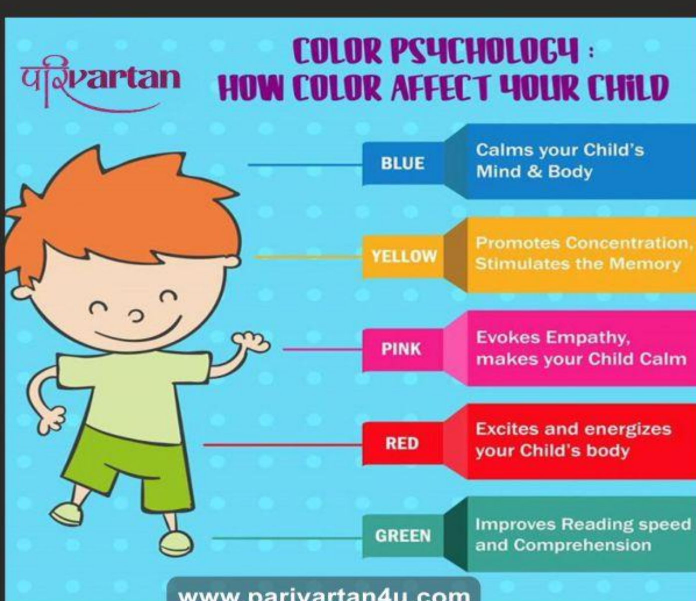
RESEARCH GATEWAY

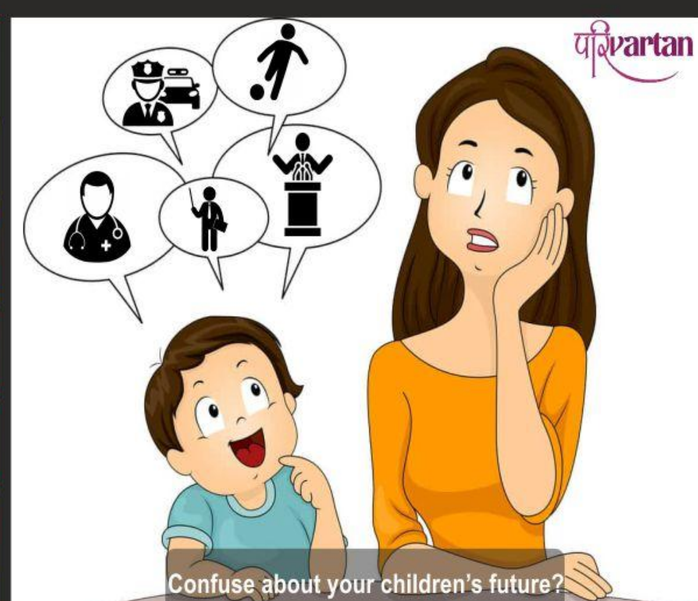




AROGYAM ONLINE

PARIVARTAN PSYCHOLOGY CENTER





Explore Innovate Educate

Shri Param Hans Education & Research Foundation Trust

www.SPHERT.org

भारतीय भाषा, शिक्षा, साहित्य एवं शोध

ISSN 2321 – 9726

WWW.BHARTIYASHODH.COM

INTERNATIONAL RESEARCH JOURNAL OF MANAGEMENT SCIENCE & TECHNOLOGY

ISSN – 2250 – 1959 (0) 2348 – 9367 (P)

WWW.IRJMST.COM

INTERNATIONAL RESEARCH JOURNAL OF COMMERCE, ARTS AND SCIENCE

ISSN 2319 – 9202

WWW.CASIRJ.COM

INTERNATIONAL RESEARCH JOURNAL OF MANAGEMENT SOCIOLOGY & HUMANITIES

ISSN 2277 – 9809 (0) 2348 - 9359 (P)

WWW.IRJMSH.COM

INTERNATIONAL RESEARCH JOURNAL OF SCIENCE ENGINEERING AND TECHNOLOGY

ISSN 2454-3195 (online)

WWW.RJSET.COM

INTEGRATED RESEARCH JOURNAL OF MANAGEMENT, SCIENCE AND INNOVATION

ISSN 2582-5445

WWW.IRJMSI.COM