Chapter – 3

REVIEW OF LITERATURE

Chapter Contents

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3.1 INTRODUCTION

In this chapter a review of related literature has been carried out in order to enhance the present level of understanding in the area of mergers and acquisitions. This literature review also helps in developing insight into the post event performance of the acquiring and target firms, success or failure of mergers and acquisitions and to formulate the research problem for further research in this area. Broadly, literature review has been carried out on the basis of books, research paper published in journals, online published papers, research theses *etc*. There are various aspects related to the study of Merger and Acquisition. But one can catagorise five major branches of body of research work in the Merger &Acquisition area: (i) Effect of M&A on Short term and Long term Performance of the firm, (ii) Success or Failure of M&A and the reasons behind them, (iii) Form of financing of M&As, (iv) cross border M&A and (v) corporate governance and people and M&A. The first two areas are specifically important when one wants to study merger and acquisition from finance view point and the last two areas are important when there are cross border mergers and acquisitions, which involves fusion of cross cultures. The middle one *i.e.* Form of financing of M&As, is important when one wants to study the accretion/dilution analysis to study financial leverage from pursuing side when debt financing is used.

In studying effect of merger and acquisition on the financial performance of the firm, is considered there are two types of studies mainly undertaken by the researchers. One group of empirical studies includes comparison of individual firm’s profit few years before and after the merger. This focuses on long term performance of the firm. The results from these studies are more complex due to difference in methodologies. Another is “Event Studies”, by comparing share prices before and after the merger, which basically focuses on short term performance of the firm. Even though there are numerous studies but there results are consistent. The target firm’s shareholders benefit and the bidder firm's shareholders generally break even. The combined gain is mostly positive.

The focus of review of literature is mainly on examining effect of merger and acquisition on long term and short term performance of the firms. The review comprises of research work undertaken in the area of M&A over the period of 45 years, *i.e.* from 1970 to 2015. The presentation flow of chapter will be

1. Studies on measuring the effect of M&A on Long term financial performance of the companies and
2. Studies measuring effect of M&A on Share Price of the Companies (Event Study Methodology)

Both categories of the studies are further divided into -

a. Foreign Studies
b. Indian Studies

3.2 STUDIES MEASURING THE EFFECT OF M&A ON FINANCIAL PERFORMANCE OF THE COMPANIES IN LONG RUN

Theoretically, it is assumed that merger improves the performance of the company in long run due to better efficiency of management of the acquiring company reflected in required management skills, economies of scale, more profitable use of assets, exploitation of market power and the use of complementary resources. According to **Pillof and Santomero (1996)**[1] , the traditional view on M & A activity suggests that it results in overall benefits to shareholders when the consolidation post-merger firm is more valuable than the simple sum of the two separate pre-merger firms. This is because M & A increase firms' ability to penetrate into the market, gain access to resources and enjoy economies of scale. In the field of merger and acquisition maximum numbers of studies have taken place to measure effect of M&A on long term performance of the companies by taking into consideration various parameters, still there is no unanimous opinion about the companies' performance in the long run.

3.2.1 FOREIGN STUDIES

Weston and Mansinghka (1971)[2] have studied the conglomerate mergers by taking two control samples, one of industrial companies only and one combining both industrial and non-industrial companies from the list of the Fortune 500. The period of the study is from 1960-1968. They have used arithmetic mean, F test and ratio analysis. They concluded that the conglomerate firms outperformed samples of other firms or broader groups of firms on all of the growth measure. It appears, therefore, that an important economic function of conglomerate firms has been raising the profitability of firms with depressed earnings to the average for industry generally. Therefore, the most appropriate test of the earnings performance of conglomerate firms is not superior earnings performance, but their ability to achieve at least average earnings performance.

Singh (1971)[3] studied performance of 2127 UK firms pre and post merger for the period of 1948 to1960. The study established relationship between market value and financial variables like rate of dividend, liquidity, leverage *etc.* Researcher concluded that majority of the target firms have lower growth, profitability and liquidity than industry average.

Shick and Jen (1974)[4] in their article measured the benefits received by shareholders of firms involved in horizontal mergers and identified the point at which they occur by taking sample of 24 acquiring firms selected from 3 industries - chemicals, machinery and electric utilities for the period of 1958 to 1966. The results indicate towards success of Merger and also illustrated that all significant positive merger benefits occur during the first year.

In the area of conglomerate merger **Elgers and Clark (1980)**[5] have done their study to link merger types and shareholders returns. Researcher has taken sample of 337 mergers from 1957 to 1975 and used Capital Asset Pricing Model to study returns. They observed moderate gains to buyer firms and substantial gains to seller firms over the pre-merger period. They also suggest that results are more favorable to conglomerate mergers than are the results of previous studies.

Hoshino (1982)[6] analyzed the performance of corporate mergers in Japan using accounting ratios. It conducted two tests on the performance of mergers. The first test compared the financial ratios before and after merger and the second test compared the performance of merging firms with non merging firms. The study concluded that (i) there was a difference in the financial performance - both before and after merger in fifteen corporate mergers examined in the study. After the merger, net worth to total liabilities/ assets, debt equity ratio, the turnover ratios and net profit to total liabilities/ assets ratio were worse than before the merger. An improvement was found only in case of current ratio. (ii) there was no clear distinction between merging and non-merging firms in the same industry. (iii) the comparison between ninety merging firms and forty eight non-merging firms showed that the two group's financial performance could be distinguished with clear adverse effect of mergers on net worth to total liabilities/assets ratio.

Fowler and Schmidt (1989)[7] presented a study which examines relationships between strategic acquisition factors and long-term financial performance measures of acquiring firms. The factors of interest include relative size, previous acquisition experience, organizational age, industry commonality, contested versus uncontested acquisitions, and percentage of stock acquired. The financial performance measures include both accounting and capital market data for the 4-year period preceding acquisition activity and the 4-year period following such activity. The study presents bivariate and multivariate analysis for 42 industrial manufacturing firms that engaged in the tender offer form of acquisition for the period of 1975-79. They found that, on an average, post-acquisition financial performance improved significantly for organizations that had previous acquisition experience, acquired a higher percentage of a target, or were older. Post-acquisition performance decreased significantly for acquiring firms when target firms contested an acquisition.

Instead of simply comparing post-acquisition with pre-acquisition measures of operating performance, **Sirower and O'Byrne (1997)**[8] used the pre acquisition market values of companies and the acquisition premium to determine the future levels of annual operating performance that are necessary to justify the investment. Also in contrast to prior approaches, their operating performance measures are expressed in terms of annual expected increases in economic value added. They examined the market's response to 41 large acquisitions between 1979 and 1990, and found a strikingly high correlation between the acquiring company's short-term stock returns and a present value measure of its first five years of post-acquisition operating performance based on their benchmark.

Comparing the pre merger profitability of the firms involved with the industry average, **Saple (2000)**[9] finds that the target firms were better than industry averages while the acquiring firms had 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. The target firms, on the other hand, were firms with higher than industry profitability, which had deteriorated over the period just prior to merger.

Worthington (2001)[10] employed a two part process to analyse the role of efficiency in merger and acquisition (M&A) activity in Australian credit unions during the period 1993-1997. The analysis is done in both pre M&A period, to examine determinants of M&A and in post M&A period to analyse the outcomes of M&A. Pre M&A period is 1993-1995 and post M&A period is 1996-1997. The measures of efficiency are derived using the non-parametric technique of data envelopment analysis. The first part uses panel data in the probit model to relate pure technical efficiency, along with other managerial, regulatory and financial factors, to the probability of merger activity, either as an acquiring or acquired entity. The results indicate that loan portfolio diversification, management ability, earnings and asset size have a significant influence on the probability of acquisition. The second part uses a tobit model adapted to a panel framework to analyse post-merger efficiency. Mergers appear to have improved both pure technical efficiency and scale efficiency in the credit union industry.

Ramaswamy and Waegelein (2003)[11] investigated the long-term post-merger financial performance of merged companies in Hong Kong using a sample of 162 merging firms from 1975 to 1990. The coverage of the analysis includes five years pre and post-merger period using financial ratios. Their study showed that there is positive significant improvement in the post-merger performance of target companies.

Timothy *et al.* (2003)[12] examined the long-term operating performance of Japanese companies using a sample of 69 mergers of manufacturing firms in the period 1969 to 1999. By examining the cash-flow performance in the five-year period following mergers, the study found evidence of improvements in operating performance during post merger period and also that the pre and post-merger performance was highly correlated. The study concluded that adjusted long-term operating performance of control firms *i.e.* pre merger aggregate of acquirer and target firms, following mergers was positive but insignificant and there was a high correlation between pre and post-merger performance.

Using cumulative abnormal returns to indicate improvement in performance, **Choi and Russell (2004)**[13] analyzed 171 acquisition transactions that took place between 1980 and 2002. They assessed the economic gains around acquisitions in U.S construction sector and the determinants of post acquisition performance such as - method of payment, acquisition timing and transaction size. The study showed that the number of acquisition transactions increased dramatically during the late 1990s and firms witnessed insignificant improved performance. Also, they found no evidence that method of payment, acquisition timing and transaction size had influence on performance after acquisition event.

Mansor and Mohammad (2005)[14] examined whether the bank mergers in Malaysia have created synergy or not? They have taken sample of 17 banks from the period of 2000-2005. They used four accrual operating performance ROA, ROE, PM and EPS. The results show that bank mergers had a significant post merger improvement. Study also suggests that though the mergers are "forced" in nature, it can contribute to synergy benefits.

Pazarskis *et al.* (2006)[15] used financial and non-financial characteristics of fifty Greek companies listed on the Athens Stock Exchange that undertook at least one merger or acquisition in the period from 1998 to 2002 to investigate the improvement of corporate performance of these firms after merger or acquisition. The study indicates that profitability of a firm that performed merger or acquisition has decreased as a result of merger/acquisition. **Cloodt, Hagedoorn and Kranenburg(2006)**[16] have examined the post acquisition 'innovative performance' of 376 U.S. acquiring firms in four major high-tech sectors from 1985-94. They found that absolute size of the acquired knowledge base only has a positive effect during the first couple of years after which the effect turns around and there is a negative effect on the innovative performance of the acquiring firm. This indicates that companies should target M&A 'partners' that are neither too unrelated nor too similar in terms of their knowledge base.

Petreski (2006)[17] deeply examined the acquisition of Stopanska Banka AD Skopje (SBAS) by National Bank of Greece (NBG). Researcher has studied the post acquisition performance of SBAS considering asset size and structure, deposit structure, income statement ratios, profitability measures and efficiency measures. The results show that there is corporate and financial improvement of SBAS after its acquisition by NBG.

Using again the case study from Banking industry (the BNP Paribas – TEB deal), **Arslan (2007)**[18] focuses on value creation analysis and managerial issues of cross-border bank acquisitions. He found out that the stock market responded very positively to this acquisition and TEB shares outperformed the index performance. Operating performance has improved after the acquisition with new products and services.

Cabanda and Pascaud (2007)[19] examined the corporate performance of Philippines shipping companies after merger. The study spans from 1994 to 2003 and employs the conventional accounting and financial approaches in analyzing the effects of merger. 3 years before merger and 3 years after merger were considered for the short-run analysis and 7 years after merger for the long-run analysis. It was concluded that mergers in the Philippines shipping industry does not lead to improved performance in both the short and long run.

Using non parametric Wilcoxon signed rank tests **Kawahara & Takeda (2007)**[20] investigated how acquisition affect corporate performance for three years after their implementation. They found that overall effect of acquisition on corporate performance are statistically insignificant, compared to other companies within the same industry with similar pre acquisition performance. Regression analysis shows that complete acquisition, smaller size and restructuring efforts may improve the post acquisition performance of acquiring companies.

Francoeur (2007)[21] evaluates the performance of the firm by using two methodologies to evaluate long-term abnormal returns: first, the control firm in event-time approach; second, the calendar- time/Fama & French three Factor Model(FF3FM). The study involves 551 cross-border acquisitions carried out by 178 Canadian acquiring firms and completed during the period from January 1990 to January 2000 inclusively. The results show no sustained gains or losses during the post-acquisition period for Canadian acquirers. The findings agree with the internalization theory and suggest that acquiring firms engaged in cross-border M&As can indeed realize efficiency gains and create long -term value for their shareholders, but only under certain conditions: namely, when they possess high levels of R&D and a strong combination of R&D and intangibles.

Wang *et al.* (2008)[22] analyzed the strategic motivation and performance of Chinese cross-border merger and acquisitions of 27 deals with the acquiring firms being listed on the Shanghai and Shenzhen Stock Exchange for the period of 2000-2004. These studies found that cross-border M&As in China are primarily motivated by the desire to increase market share, enter new markets for diversification, and obtain foreign technology of resources. They also found that cross-border M&As created value for acquiring firms around acquisition.

Similar result is found by **Lau, Proimos and Wright (2008)**[23]**,** while examining the operating performance of merged firms for a sample of 72 Australian mergers between 1999 and 2004. Profitability, cash flow, efficiency, leverage and growth proxy as the performance measures. Evidence that mergers improve the post-merger operating performance of target company was provided in the study.

Seigel and Simons (2008)[24] assessed the effects of mergers and acquisitions on firm performance, plant productivity, and workers for virtually all Swedish manufacturing firms and employees. They found that mergers and acquisitions enhance plant productivity, although they also result in the downsizing of establishments and firms. Also, it was discovered that firm performance did not decline in the aftermath of the ownership changes.

Tsai (2008)[25] takes the initiative to examine whether acquirers in foreign M&A also experience the long-term post-acquisition underperformance phenomenon. Even though cross-border M&A creates enormous announcement wealth effect for the acquiring firms during the latest merger wave, the gain evaporates very quickly and a multiple-year underperforming period follows. The sharp contrast between the announcement wealth effect and the long-term underperformance is consistent with the notion that, at the time of announcement, investors may be too optimistic toward the potential global diversification gains which may take significant amount of time to consummate or may never will.

Fraser and Zhang (2009)[26] have studied 83 acquisitions in U.S. banking sector during 1980-2001 to compare pre and post-acquisition performance of target companies. Researchers used Operating Cash Flow Return on Asset (OPCFROA) and financial ratios for the period of 3years pre and post acquisition and found that acquisition improves the performance of target firms.

Chen and Lin (2009)[27] studied 42 Chinese outbound merger deals between year 2001 and 2008 to examine any patterns of target choice, the overall impact of merger on the financial performance of acquirers, and the determinants of such performance. It has been observed that in long run cross-border merger activities do not necessarily create synergy or add value for the Chinese acquirers. But it is found that investors generally respond positively to the cross-border merger deals and the share price of acquirer move upward upon announcement in short run.

For neighbor country Pakistan, **Kouser and Saba (2011)**[28] explored the effects of merger on profitability of selected 10 commercial banks of Pakistan that faced merger during the period from 1999 to 2010 by analysing six different financial ratios three years pre and post merger. Analysis was done by using paired t-test. Study concluded operating financial performance of all commercial bank's merger included in the sample from banking industry had declined after merger. The results shows that there is a decline in all 6 ratios: three profitability ratios, Return on Net Worth ratio, Return on Capital Employed, and debt to equity ratios.

Agorastos *et al.* (2012)[29] tried to evaluate the post-merger performance of Greek listed firms in the Athens Stock Exchange that executed as acquirers for merger or acquisition in a five-year-period (from 1998 to 2002) among seven different industry categories. For ratio analysis accounting data from 1994 to 2006 are compared to execute the post-merger performance of the sample firms at four years after the merger events. The results revealed the post-merger performance of the acquiring firms was affected by their industry type. Also, mergers have not provided a better post-performance for the acquiring firms on the examined sample of 30 firms.

Following similar methodology, **Oloyede, Adebayo and Adedamola (2012)**[30] have studied long term effect of merger by taking sample of seven firms from Foods & Beverages, Conglomerates and Manufacturing sectors of Nigeria. The duration of the study was 6 years excluding merger year and financial ratios were used for analysis.

The findings suggest that merger in the food and beverages sector has significant effect on only one measure of profitability (Return on assets) and liquidity. For conglomerates sector, merger has significant effect on profitability (in terms of earning before taxes and gross profit margin) only. Surprisingly merger in the manufacturing sector does not have significant effect on any of the corporate performance measures used in the study.

Arshad (2012)[31] analyzed the post merger performance of the Standard Chartered bank after acquiring Union bank of Pakistan in December 2006. Ratio analysis was conducted by using total 11 ratios. Data was taken from 2004-06 before merger and 2007-09 after the merger. After applying ratios, averages of all the ratio categories were taken. The researcher observed that 7 ratios were in favor of Union Bank before merger and after merger 4 ratios were in favor of Standard Chartered Bank. There was unavailability of complete financial statements before merger and after merger. So the study just focused on merger effect with limited applicability of ratios.

Ahmed and Ahmed (2014)[32] analysed the effect of merger on financial performance of Banking Institutes of Pakistan by taking sample of 11bidder banks for the period of 2006-2010. Various financial parameters like profitability, liquidity, capital performance and efficiency was measured. On the basis of findings, it was concluded that financial performance in terms of profitability, liquidity and leverage of acquiring banks insignificantly improved in the post-merger period while assets quality deteriorated significantly.

Pervan (2015)[33] has studied effect of acquisition on financial performance of target companies. The sample consists of 116 companies for the period of 2008 to 2011 from Croatia (European area). Financial parameters like ROA, ROE and Profit margin were used for analysis. The study concluded that target companies performance did not improve significantly after acquisition.

Alger (2015)[34] examined all the merger deals which took place in Philippine during 2006 to 2010 in financial industry. Author analysed performance using both return on asset and abnormal return on asset. The result showed that performance has deteriorated significantly after merger.

3.2.2 INDIAN STUDIES

As mentioned in Chapter 1 'Introduction', the studies on M&A in India started very late. The first study could be traced of 1986. Hence the Indian Studies covered are for the time span of 1986 to 2015.

Kaveri (1986)[35] studied the effect of merger on revival of sick units. Researcher studied nine merger cases for the period of 1975 to 1984. To measure effectiveness of merger by comparing actual performance and various expectations laid down for each merger. The performance is analysed based on various financial indicators like, profit, sales, share prices *etc.* The study concluded that revival of sick unit is possible through merger and merged companies performed better after merger.

Yadav, Jain and Jain (1999)[36] analysed effect of merger on profitability of acquirer firms by taking sample of four Indian companies, two of which merged with Indian companies and rest two with multinationals. They compared three years pre and post merger performance through various ratios, like cost ratios, earning ratios and profit ratios and applied independent t test. The study concluded that financial performance has improved post merger in case of both the mergers, Indian and multinationals, but it was more in case of later.

Pawaskar (2001)[37] has studied the impact of merger on corporate performance by taking sample of 36 acquiring companies involved in merger between 1992 to 1995. Study compared the pre and post merger operating performance of the corporations to identify their financial characteristics. It has seen that there are no significant differences in the financial characteristics of the two firms involved in merger, the merger seem to lead to financial synergies which is measured in terms of financial leverage and onetime growth.

In another study **Mohan and Suganthi (2001)**[38] revealed that only 17 percent of India financial service firms those merged in the in the period of 1999 to 2000 could manage to create good returns. The study showed that merger did not lead to improved performance. The analysis further showed that merger did not lead to excess profits for the acquiring firm because of ownership patterns of Indian industries and tight regulatory environment. **Surjit Kaur (2002)**[39] carried out an analysis of 20 acquiring firms from manufacturing sector to compare the three years pre and post takeover performance, applying a set of eight financial ratios from 1997-2000. Researcher found that profitability and efficiency of acquiring companies declined in the post takeover period.

Beena (2004)[40] studied 115 domestic and cross border acquisitions from manufacturing industry of India during 1995-2000, to analyse effect of M&A on the performance of acquirer firm. The researcher used price-cost margin, rate of return, shareholders' profit, dividend per equity and debt-equity ratio, export intensity, R&D intensity and capacity utilization for analysis and applied t statistics. It is observed that except debt equity ratio all other measures show significant decline after acquisition. An attempt was also made in the study to analyse the pattern of M&A wave during this period. The study concluded that, the new economic environment of the nineties has facilitated M&As between companies under domestic or foreign ownership. The firms under the same business groups dominated the Merger-wave. The absence of anti-trust regulation in India in the 1990s has helped Foreign or Indian firms to expand its product market share through M&As.

The study by **Sood(2004)**[41] attempts to develop a model for predicting corporate takeovers in India. The data comprises of 37 target companies and a matching sample of control companies for the period 1997–98 to 2000–01. The study reveals that the target companies generally show a lower profit margin and ROCE with liquidity concerns being predominant for such firms. The model used to predict acquisitions shows moderate rate of success in the Indian context.

Tambi (2004)[42] evaluate the impact of Mergers on Indian companies through a database of 40 Indian Companies from 2000 to 2001, using paired t-test for mean difference for four parameters; Total performance improvement, Economies of scale, Operating Synergy and Financial Synergy. This study proves that mergers have failed to contribute positively in the performance of the acquirer company.

Shah (2005)[43] examined the effect of merger on corporate performance by taking five case studies of Pharma companies. Financial ratios of 2 years before and 2 years after the merger were analysed and the study shows that four out of the five acquirer companies managed to improve operating and financial synergies. The only exception was Pfizer India Ltd. with Parke-Davis (India) Ltd, where margins and returns on capital employed showed declining trends.

Usman (2005)[44] attempted to relate merger activity to the business cycle measured by industrial production, stock prices and trading business incorporation's interest rates. Researcher has taken two case studies; (i) Merger of Hindustan Lever Limited with Ponds India Limited and (ii) Merger of ICICI with Madura Bank. The study concluded that merger activity is cyclical and roughly coincident with stock price movements. The peak of M&A activity tends to precede the peak in the general business cycle, and increases in interest rates precede declines in M&As.

Chari (2006)[45] has selected a sample list of 12 cases of acquisitions over the period from 1999 to 2005 in India. Author has adopted both event based method and accounting based method to evaluate the success or failure of the merger. The one year pre and 3 years post merger performance was analysed using Cash Profit Margin (CPM) and Profit Margin Before Interest and Taxes (PBITM), Return On Capital Employed (ROCE) and Return on Net Worth (RONW). The study concluded that the returns to shareholders based on the ROCE and RONW show improvements, only about 50% of the companies show significant improvement in fixed asset utilization and cost reduction due to acquisition for the acquirer.

Chellasamy and Udhayakumar (2007)[46] have studied the case of Centurion Bank – Bank of Punjab merger. By using ratio analysis they concluded that there is an improvement in financial performance of the Centurion bank of Punjab after the merger compared to pre-merger period.

Vanitha and Selvam (2007)[47] by studying mergers of 17 manufacturing companies during 2000-2002 found that merging companies are taken over by companies with good reputation and management. Therefore, it was possible to turnaround merged company in due course. Financial performance has been evaluated by ratio analysis, mean, standard deviation and independent t test.

Satish (2007)[48] has studied the amount of value capitalized of the potential synergy in long run and in short run time period. It is added that ultimately this enhance the value of firm and shareholders returns. Like P L Beena the sample is taken of Indian firms post liberalization period. The results show that in short run there is no significant change in the performance of M&As but in long run, there is certainly change in the performance of M&As. There is also an improvement in the performance of the target firms for more than 50% cases of M&As under study.

Going in the same line **Mantravadi and Reddy (2008)**[49] study the impact of mergers on the operating performance of 118 acquiring corporates in different industries during 1991 to 2003 by using financial ratios and applying paired t-test. There are mixed results of the study, mergers seem to have a slightly positive impact on profitability of firms in the banking and finance industry. The pharmaceuticals, textiles and electrical equipment sectors saw a marginal negative impact on operating performance (in terms of profitability and returns on investment). For the chemicals and agri-products sectors, mergers had caused a significant decline, both in terms of profitability margins and returns on investment and assets.

Ramakrishnan (2008)[50] used statistically analysed cash flow accounting measures to study whether firm performance improved in the long-term post-merger by taking the sample of 87 firms. Synergistic benefits appear to have accrued due to the transformation of the hitherto uncompetitive, fragmented nature of Indian firms before merger, into consolidated and operationally more viable business units. This improvement in operating cash flow return was inferred to be on account of improvements in the post-merger operating margins of the firms which were not attributed to the efficient utilization of the assets to generate higher sales. This study indicates that in the long run, mergers appear to have been financially beneficial for firms in the Indian industry.

The paper by **Alkhathlan and Ravichandran (2008)**[51] analysed the efficiency and performance of selected Indian Banks after merger, using CRAMEL type variable, which are initiated by the market forces. They took sample of 3 private and 4 nationalised banks' merger in the year 2000 and applied regression analysis and ANOVA. The results suggest that the mergers did not seem to enhance the productive efficiency of the banks as they do not indicate any significant difference. The financial performance suggests that the banks are becoming more focused on their retail activities (intermediation) and the main reasons for their merger is to scale up their operations.

Vyas (2008)[52] has carried out performance evaluation of fifty six selected companies which have undergone mergers during the 1999-2000 by using value added metrics EVA and MVA and the traditional value added measure metric RONW. It was found that 81 % of companies resulted in value erosion in terms of EVA with decreasing or no trend over the four merger years. Only 19% of sample companies revealed positive value addition with increasing trend in post merger years. As far as association between economic efficiency of industry and its market assessment is concerned, in case of industries like chemical, petrochemicals, electrical, electronics and computer industries it has emerged significant. For the rest of the industries economic performance does not seem to drive market value.

Indhumathi, Selvam and Bennet E (2009)[53] have taken a sample of companies from various sectors which underwent acquisition in the similar industry during the period of 2002-2005 listed on Bombay Stock Exchange. It is proposed to compare the liquidity performance of the thirteen sample acquirer and target companies before and after the period of acquisition by using ratio analysis and t-test during the study period of three years. The study found that the shareholders of the acquirer companies improved their liquidity performance after the event.

Following the similar methodology **Kumar (2009)**[54] evaluated the operating performance of a sample of 30 acquiring companies that were involved in merger activities in India between 1999 and 2002. Using accounting data, it was found that profitability, asset turnover and solvency of the acquiring firms in the post-merger period show no improvement in comparison with values in the pre-merger period.

Saboo and Gopi (2009)[55] studied the impact of mergers on the operating performance of acquiring firms by examining some premerger and post-merger financial ratios of 54 firms merged between 2000-2007. The results suggest that there are variations in terms of impact on performance following mergers, depending on the type of firm acquired – domestic or cross-border. In particular, mergers have had a positive effect on key financial ratios of firms acquiring domestic firms while a slightly negative impact on the firms acquiring cross-border firms.

Mishra and Chandra (2010)[56] in the context of policy reforms in the 1990s examine the impact of acquisitions on financial performance of Indian pharmaceutical companies. It is found that the profitability of a firm depends directly on its size, selling efforts and exports and imports intensities but inversely on their market share and demand for the products. However, acquisitions do not have any significant impact on profitability of the firms in the long run possibly due to the resultant inefficiency and entry of new firms into the market. In addition, in-house R&D and foreign technology purchase also do not have any significant impact on profitability of the firms.

Gurusamy and Radhakirishnan (2010)[57] examined effect of acquisitions on four industry groups: chemical drugs and fertilizers, basic metal, IT and telecom and manufacturing of machinery and equipment. Sample of 117 companies was taken and data were collected from 1994-95 to 2005-06. The study used statistical tools like trend analysis, one way ANOVA, factor analysis and cluster analysis. Researcher concluded that acquiring firms' profitability, asset utilization, debt utilization, cost utilization, liquidity and capital structure did not change significantly in all the sample companies.

Mehtab (2010)[58] analysed the effect of merger on profitability of the firms in Indian steel industry since liberalization. Researcher took sample of five major domestic mergers in the steel industry one from the year 1998-1999, three during the year 2005-2006 and one during the year 2007-2008. Various financial ratios are used to evaluate profitability and t test is applied. It was concluded that merger is profitable for both bidder and target firms.

Bharathi (2010)[59] studied financial efficiency of merged banks in India. Researcher has taken sample of 9 banks' merger during the period of 1995-2005 and applied factor analysis. Five years pre and post merger ratios are grouped into seven factors to study the effect of merger on performance of the banks. Study concluded that the performance of acquirer banks have not improved much after merger.

Singh and Mogla (2010)[60] took sample of 153 companies who have undergone acquisition from 1993 to 2003 to analyse profitability of acquirer firms. They divided sample in to healthy acquisitions and sick acquisitions on the basis of financial health of targets. They used parameters like OPM, NPM, ROCE, RONW and NATO ratios. They concluded that basically M&A occurs because of desirability of profit and growth but it can be seen from the study that most of the companies who have undergone acquisition have suffered loss and decline in revenue.

Sinha and Kaushik (2010)[61] examines the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions in India. The analysis consists of two stages. Firstly, by using the ratio analysis approach, they calculate the change in the position of the companies during the period 2000-2008. Secondly, they examine changes in the efficiency of the companies during the pre and post merger periods by using nonparametric Wilcoxon signed rank test. While they found a significant change in the earnings of the shareholders, there is no significant change in liquidity position of the firms. The result of the study indicate that merger cases in India show a significant correlation between financial performance and the merger deal, in the long run, and the acquiring firms were able to generate value.

Dealing with the financial service industry **Sinha and Gupta (2011)**[62] have taken eighty cases of M&A for the period March 1993- Feb 2010 for a set of ten financial parameters representing the various characteristics of a firm. All the cases have been analyzed individually and collectively to determine the overall effects of merger in the industry. The results of the study indicate that PAT and PBDITA have been positively affected after the merger but the liquidity condition represented by Current Ratio has deteriorated. Also Cost Efficiency and Interest Coverage have improved and deteriorated in equal number of cases. And looking at the diversification effects of merger, in two out of the three cases there has been a reduction in total and systematic risk.

Following the similar methodology of Indhumathi, Selvam and Bennet (2009), **Jain and Raorane (2011)**[63] have taken the sample of Indian firms which merged with the firm of same industry. They suggest that merges have failed to contribute positively in the performance of the company. It neither provides economies of scale nor synergy effect. When overall impact (i.e. ROCE), was calculated mergers failed to provide any positive contribution here also. According to authors there are numerous motives that motivate a company to enter in to merger activities. Sometimes these motives are qualitative and cannot be interpreted in to quantitative figures.

Dhiman and Parray (2011)[64] and **Azhagaiah and Sathish (2011)**[65] have studied the impact of acquisitions on the financial performance of acquiring firms by examining some pre and post-acquisition financial ratios of Indian manufacturing firms.

Dhiman and Parray (2011) have used 2006-07 as a base year and studied 3 pre and post year data. By using t test, the result shows that acquisitions do not have any significant impact on profitability of the firms in the post acquisition period.

Azhagaiah and Sathish (2011) examined the corporate performance of 12 Indian manufacturing firms analysing two periods: three years prior to merger and three years immediately after merger covering a period from 2004 to 2010. The study proves that Indian manufacturing corporate firms involved in mergers have achieved an increase in the liquidity position, operating performance, profitability, and financial and operating risk. Further, it is inferred that the overall efficiency of acquirer firms has also improved. The statistical analysis supports for a significant relationship between the pre and post merger performance of the corporate firms.

Mistry (2011)[66] analysed the effect of merger on operating performance of 95 companies from 2000 to 2006. Theory driven numerical methods namely the Kolmogrov-Smirnov test and the Shapiro-Wilk Test have been used in this study. Non parametric Wilcoxon test was also used. Out of total 14 parameters, 11 parameters indicating operating performance include PBIT, PBT, PAT, PBDITA/Total income, PBT/Total income, PAT/Total income, Return On Net Worth, Return On Capital Employed, Net Worth, Interest Coverage Ratio, Capital Employed have shown significant increase after merger.

Many Indian studies have taken place in banking sector recently. **Khan (2011)**[67] has analysed the effect of merger on financial performance taking two case studies. One public sector Punjab National Bank with Nedungadi Bank Ltd and another private sector HDFC Bank Ltd with Centurion Bank of Punjab Ltd. The author used ratios for financial analysis and applied t statistics. The results suggest that after the merger the efficiency and performance of banks have improved. Both the acquirer banks generated higher net profits after the merger. This justifies the decision of merger by the management.

In the same sector, **Devarajappa (2012)**[68] explored the various motives of merger through case study of merger of HDFC bank with Centurion bank. This includes various aspects of bank mergers and compares pre and post merger financial performance of merged banks with the help of various financial ratios. For the purpose of testing significance of change independent t-test is applied. The study indicates that the acquiring banks have been positively affected by the event of merger.

Leepsa and Mishra (2012)[69] studied sample of 115 mergers of Indian manufacturing companies from the period of 2003 to 2007. They used the ratio analysis and t statistics. They found that liquidity position of the companies has improved but it is not statistically significant. The solvency position in terms of networking capital/sales has decreased, but it is not statistically significant. The profitability position of the companies has significantly improved in terms of return on capital employed and insignificantly deteriorated in terms of return on net worth.

Ghatak (2012)[70] has studied the effect of merger and acquisition on the profitability of Indian pharmaceutical industry by taking sample of 52 listed drugs and pharmaceutical companies over the period from 2005-2010. They have found that the profitability of firm depends directly on its size, selling efforts and exports and imports intensities but inversely on their market share and demand for the products. It is also found that mergers and acquisition do not have any significant impact on profitability of the firms in the long run possibly due to the resultant post inefficiency and entry of new firms into the market.

Sengupta, Ahuja and Kumar (2012)[71] analyzed the post-merger performance for ten mega mergers in different sectors from 2000 to 2007. For the purpose of analysis, various ratios are taken into account and analysis is made based on t-test. They found that the performance of acquiring company has significantly deteriorated after the mergers.

A very different sector has been selected by **Mahesh and Daddikar (2012)**[72]**.** They focused on the performance of Indian airline companies after the consolidation of airline sector in year 2007-08 by taking case study of two companies; Air India and KFA Ltd. The main objective of this paper is to analyze whether the Indian airline companies have achieved financial performance efficiency during the post merger period specifically regarding profitability, leverage, liquidity, and capital market standards. Paired t-test was applied to examine the significance of differences in financial performance standards two year before and two year after the merger activity. The finding of this study shows that there is no improvement in surviving company’s return on equity, net profit margin, interest coverage, earning per share and dividend per share for post-merger.

Dewan (2012)[73] tried to evaluate the post merger performance of acquirer companies. The researcher has taken 16 merger cases for the year 2003 as a sample and the financial data has been collected for six years from 2000-06. Pre-merger and post-merger financial ratios have been examined using paired t-test. The results of the analysis reveal that there is significant difference in the financial performance of the companies before and after the merger. Further, it has been found that the type of industry does seem to make a difference to the post-merger operating performance of acquiring firms. The results of this study show that synergy generation and increase in profit are not necessary outcomes of merger.

In the Pharmaceutical and steel Industry **Kanika and Sahni (2013)**[74] analysed and compared the pre and post-merger financial performance of four firms- Ranbaxy, Dr Reddy, Tata Steel and Hindalco through ratio analysis. For this, the data were collected for three years before and after the acquisition from Capitaline database. To compare the changes, SPSS tool- Wilcoxon Signed Rank Test was applied. They concluded that cross-border Mergers of the selected firms have resulted in no significant change in the financial performance of these firms. **Trivedi, Desai and Joshi (2013)**[75] have studied the effect of merger on operating performance and shareholder's wealth by using the case studies from Oil and Gas sector in India. The researchers took case studies of RIL and IPCL merger and IOCL and IBP merger. They analysed the effect of merger on acquiring firm's performance by using 6 financial ratios, 2 years pre and post merger. They concluded that the merger do not improve the performance of acquiring companies at least in immediate short term.

Rani, Yadav and Jain (2013)[76] investigates the impact of mergers and acquisitions (M&A) on corporate performance. It compares performance of the corporate from 2003 to 2008 involved in M&A. They have taken the sample of 383 firms. The results pertaining to operating cash flow ratios show that there is an improvement in performance of the acquiring firms in the post-M&A period and the analysis in terms of Du Pont shows improvement in the long-term operating profit margin of the acquiring firms. This indicates that the acquiring firms earn higher profits per unit of net sales after M&A.

Singh (2013)[77] examined the effect of merger on 20 companies for mergers during 2005. Three years pre and post merger performance is studied. Financial ratios and paired t test is applied to measure financial performance. The study concluded that mergers are effective methods of corporate restructuring, and should become an integral part of the long-term business strategy of corporates in India.

Gupta (2013)[78] has studied the foreign takeovers by Tata Steel company. Researcher has taken three takeovers - Nata Steel, Millennium Steel and Corus by Tata Steel during 2001-02 to 2009-10. Various profitability ratios are used for analysis and paired t test is applied. Study concluded that in the post takeover period some of the individual performance dimensions have registered improvement and some others have deteriorated. In overall perspective, for the window period taken, there is no improvement in the financial performance of the company.

Sathishkumar (2013)[79] has measured effect of mergers on operating performance and shareholder's wealth of the companies. 39 Indian firms are selected as sample which merged in the year 2006-07. Five years pre and post financial data was used to calculated 45financial ratios. Out of which 23 ratios measured the operating performance and 25 ratios measured the shareholder's wealth of acquiring manufacturing firms. Paired samples t-test, factor analysis, correlation matrix, multiple regression analysis and the chow test were used for analysis. Author concluded that most of the acquiring manufacturing firms have performed well financially after merger when compared to their performance in the pre-merger period.

Sharma (2014)[80] has studied the impact of merger on financial performance by taking sample of 196 mergers from 1990 to 2000. EVA, MVA and six different ratios were used to analyse the performance. Regression analysis was carried out taking EVA was taken as dependent variable and ratios as independent variable to study the effect of change in various ratios on value creation for share holders. The study concluded that prime motives are to afford greater synergies with economies of scale, better administration, expanded capital base, better leverage, operational improvement and consequent cost savings, improvement in market share and achieving market dominance, achieving diversification leading to enhanced growth prospects by product extension and market extension. Few mergers are undertaken for revival of sick companies and claim tax benefits in return.

Kanahalli and Siddalingya (2014)[81] have studied the effect of merger on financial performance by taking two case studies in 2007; Tata power acquired Coastal Gujarat Power and Tata steel acquired Rawmet industries. The study covered six years. Liquidity and profitability measures are used for analysis. The results of the analysis reveal that there is no significant difference between the financial performance of the companies before and after the merger.

By taking sample of 40 mergers from 2000 to 2006, **Vidhya (2014)**[82] has studies the effect of merger on long term financial performance of the companies. The researcher has used eight different ratios in three categories and Paired t test is applied to check statistical significance. It was concluded that study gave mixed results; various ratios are statistically significant for few industry groups. Like the current ratio was statistically significant in the case of banking and automotives, debt-equity ratio has improved after merger only in the case of banking sector, the increase in long term debt-equity ratio was significant at 10% in the case of non-metallic minerals sector.

Verma and Sharma (2014)[83] examined effect of merger and acquisition on financial performance of the companies. They took sample of 59 M&A deals from telecom sector for the period 2001 to 2008. Data for three year pre and post M&A was considered for analysis. Four financial performance variables: PAT, CR, EPS and Interest Coverage ratio and four operating performance variables: STR, DTR, ATR and CTR are used in the study. Through regression, the effect of these variables on Return On Shareholder's Fund (ROSF) was studied. They concluded that M&As do not cause improvement in acquirer's performance after M&A.

Siddalingya(2015)[84] has studied the effect of both M&As on financial performance by case study of four M&A deals by TATA group. Researcher has studied merger of Tata Finance Ltd. with Tata Motors Ltd., acquisition of Usha Ispat by Tata Metaliks Ltd., acquisition of Rawmet Industries Pvt Ltd. by Tata Steel Ltd. and acquisition of Coastal Gujarat Power Company Ltd by Tata Steel Ltd. Researcher has used three profitability ratios, two liquidity and leverage ratios, EVA and MVA to measure effect of M&A on financial performance of acquirer companies. Study concluded that one size doesn't fit all. Financial ratios gave mixed results for all the four case studies.

Nirmala and Aruna (2015)[85] have examined the impact of merger on long term financial performance of 41 sample companies from chemical sector. They used Altman's z score model developed by Altman in 1968. Model used five parameters working capital to total assets, retained earnings to total assets, EBIT to total assets, market value of total equity to book value of total liabilities and sales to total assets. They concluded that overall financial performance of selected chemical companies in India is at present viable as Z score indicates but may lead to corporate bankruptcy in near future unless regulatory measures are undertaken immediately.

3.2.3 CONCLUDING REMARKS

On reviewing the studies based on measuring the effect of M&A of Long term financial performance of the companies it was found that,

- The research in the area of M&A has picked up pace after 2005-06, both in India as well as abroad.
- Foreign studies are mainly from the countries like U.S., U.K. and Japan. There are few studies from the countries like Greece, Sweden, China, Pakistan *etc.* The studies are mainly focusing on mergers, acquisitions and takeovers and studying the financial performance of both acquirer as well as target firms.
- Foreign studies focused on manufacturing sectors, banking sectors, high tech sectors like Aviation and defense, computer technology, pharmaceuticals etc. There are many studies which combined many sectors for analysis. They mainly applied ratio analysis for performance evaluation, in addition to that they also applied EVA, Cash flows *etc.* to measure impact of M&A on corporate performance.
- Majority of the foreign studies concluded that the performance of acquirer did not improved significantly after M&A and target show improvement in the financial performance after M&A. There are few exception also.
- Majority of the Indian studies are examining effect of mergers. There are few studies concentrating on acquisitions and takeovers. There are many researches which are based on case studies and others mainly focus on manufacturing and banking industry. There are very few studies which analysed various sectors together.

- Ratio analysis is the technique adopted by many studies to evaluate financial performance of the companies. For bank studies CRAMEL technique is applied. Paired t test is used for statistical analysis in majority of the studies.

- Almost all the studies concentrate of the post M&A performance of acquirer firms as the performance measures are available for acquirer firms both in case of acquisition and merger.

- Indian studies show mixed results, some variables show improvement in performance and some deteriorate. Some studies concluded that performance of the acquirer firm deteriorate or did not change significantly after M&A and some concluded that performance of acquirer has improved. Studies in banking industry are an exception here. Majority of the acquirer banks show improvement in the performance after M&A.

3.3 STUDIES MEASURING THE EFFECT OF M&A ANNOUNCEMENT ON SHARE PRICE OF THE COMPANIES (EVENT STUDY METHODOLOGY)

Mergers and Acquisitions are so difficult to complete, it is usually unsure how many attempted mergers are there actually in a year, especially since they are usually kept secret, even from their own employees. When M&As are successful and they are announced to the public, it is generally a good news for shareholders. By joining efforts the company should be able to lower the costs of the company while maintaining revenue, therefore yielding more profit. Also, if a company has joined with a competitor, the two together will now have more market power *i.e.* a company can influence price by horizontal M&A and reduce dependence on external suppliers by vertical M&A. There are three forms of Market Efficiency: Weak, Semi-Strong, and Strong, that explain how quickly the security market will react to publicly announced information, such as a merger. The Efficient Market Hypothesis states that investors should not be able to earn above normal returns in the market, due to the fact that the market operates with all pertinent information taken into account. The event studies are based on testing of efficient market hypothesis.

Applying event study methodology, many research studies are carried out to examine the effect of merger or acquisition on share price of the concerned companies. The following paragraph presents the important aspects of these studies. Paragraph 3.3.1 presents review relating to studies for countries outside India and paragraph 3.3.2 presents review relating to studies for India.

3.3.1 FOREIGN STUDIES

Newbound (1970)[86] studied share price behavior of 223 mergers for the period of 1967 to 1968. The study measured acquiring and target company's share price in the event window of -4 to +4 weeks. The study concluded that bidding firms performed better than target firms. They also applied various financial indicators like profit, sales, EPS *etc.* for the period of five years after the event and concluded that required rate of growth was more than double. They also added that firms should takeover only those firms whose share stands on a PE ratio lower than its own.

Melicher and Harter (1972)[87] attempted to provide insight into the understanding of acquisition-related market price movements by examining a group of New York Stock Exchange based companies engaging in large acquisitions during the 1960s. Emphasis is placed on: 1) trend-adjusted stock price movements before and after large acquisitions; and 2) the relationship of recent merger trends and characteristics like the type of merger, the method of financing, and the relative size of merging companies with the trend-adjusted stock price movements. The result suggest that when a company acquires another company approaching its size (or even larger), significant immediate growth in book values, earnings and the potential impact of longer-run operating synergies would be expected to be greater in contrast to the acquiring of relatively smaller companies.

Firth (1980)[88] examined that share prices of successful acquirers faced a decline after the merger. Researcher took a sample of 434 mergers for the period 1969-1975 for U.K. It was observed that in more than half of the sample firms, there were aggregate losses in value for the shareholders. The average total change in market value was calculated by subtracting the sum of shares prices of two firms in a successful merger from during one month before the takeover bid and share price of the combined firm during the month of acceptance of the offer.

On the other line, **Asquith and Han Kim (1982)**[89] investigates whether merger bids have an impact on the wealth of the participating firms' bondholders and stockholders. Monthly and daily bond and stock returns are calculated relative to the announcement date of a merger bid for a sample of conglomerate mergers. The results show that while the stockholders of target firms gain from a merger bid, no other security holders either gain or lose. This provides direct evidence on the existence of "diversification effects" and "incentive effects,"

Jensen and Ruback (1983)[90] reviewed 13 studies on the abnormal returns around takeover announcements. They found that the average excess returns to target firms' stockholders are of 30% and 20% for the successful tender offers and mergers respectively. While bidding firms' stockholders gained an average of 4% around tender offers but no abnormal return around the merger.

Using a huge sample of 1898 target firms and 1058 bidders **Franks and Harris (1989)**[91] investigated the wealth gains to shareholders in UK acquisitions during the time period 1955-85. The results of the study found that mergers were on an average, value creating for shareholders as measured by equity market prices around the merger announcement date. Shareholders of target firms gain and bidder shareholders gain or do not lose. The study found higher target wealth gains when bidders held pre-merger equity interest. There was no strong evidence, however, that revised bids or contested bids or pre-merger equity interests affected bidder gains around merger dates.

Hannan & Wolken (1989)[92] have analyzed a sample of 69 bidders and 43 targets from banking industry between 1982 and 1987. To estimate the market model parameters the authors used daily stock data from the days [-90,-15] in relation to the event. Analyzing several windows of abnormal and cumulative abnormal returns revealed a wealth transfer from bidders to targets. In other words, on an average a merger caused the stock price of the acquiring bank to show a significant decrease in abnormal returns, while the share price of the target showed a significant increase therein.

Victor, Pastena and Lilien (1990)[93] focused on (i) The ability of publicly available information to explain target firms' market "runups" prior to mergers and tender offers and whether market price movement prior to the release of merger information varies with firms' ownership structure (manager-controlled and owner-controlled firms). This study finds that substantial market activity occurs prior to the first known public disclosure of either definitive or hypothetical acquisition (merger, or tender offer) information. The second finding is that early market price runups occur more among Ownership Control than Management Control firms (for both the merger and the tender offer cases) irrespective of whether the first public disclosure is definitive or hypothetical. Thus, it is concluded that information leakage varies with ownership control structure.

Fauzias (1992) [94] also concluded that the increase in share price prior to the announcement may be due to information leakage, while testing the efficiency of the Malaysian stock market's reaction to acquisition announcements. He uses the daily common stock returns of Kuala Lumpur Stock Exchange (KLSE) for a period ranging 200 days before and 200 days after the acquisition announcement date. He added that the bidder may have overestimated the value of the shares, which results in paying too much for the assets.

Agrawal, Jeffrey and Mandelkar (1992)[95] have taken the huge sample of the acquisition from 1995 to 1987 for almost 32 years from New York Stock Exchange. They find that stockholders of acquiring firm suffer a significant loss of 10% over the five year post-merger period. The evidence suggests that neither the firm size nor beta estimation problems are the cause of the negative post-merger returns.

The study by **Sharma and Thistle (1996)**[96] examines the motives of horizontal merger by utilizing a sample of 120 acquiring firms based on SIC database from 1977 to 1988. A three factor Arbitrage pricing model was used, with Tobin's q ratio as a measure of market power, to study the performance of the firms involved in the mergers. The results indicate the acquisition of market power not to be a significant motive for merger.

A. Craig Mackinlay (1997)[97] has studied the various articles from 1933 to 1996 and presented a detailed and step wise calculation of Event Study Methodology. The study is a base for many articles applying Event Study Methodology. The researcher concluded that as would be expected in a rational marketplace, prices do respond to new information and as one moves forward, it is expected that event studies will continue to be a valuable and widely used tool in economics and finance.

Seiler and Walter (1997)[98] have done historical analysis of Market Efficiency, with main concentration on base of EMH i.e. Random walk. They examined the degree of random walk in daily stock prices for all stocks listed on the NYSE from 1885 to 1962. Although monthly and weekly return patterns were found to be significant, they were still unable to predict future stock price movements. So we can say that this conclusion is consistent with modern efficient market studies.

Totally different area has been explored by **Kenneth and Kane (2001)**[99]. They applied event study analysis to analyse the effect of two events on share prices (i) announcement of conference committee agreement on 22nd October 1999 and (ii) merger of Citicorp with Travelers Bank on April 1998. The researchers used 3 days event window *i.e.* (-1,+1) to analyse effect of Citicorp and Travelers Bank's merger on share price of both the banks. They concluded that event returns are not significant on all three days of event window.

King, Wilson and Naseem (2002)[100] applied event study analysis to the announcement of two M&A events in the agricultural biotechnology industry. They have taken two case studies of Pioneer Hi-Bred by Dupont in 1997, and the merger of Astra with Zeneca in 1998. The results show that financial markets viewed the performance of the combined firms positively. A view that the combinations might provide the firms with valuable synergies is one explanation that they have given.

Lepetit , Patry and Rous (2002)[101] examines the stock market valuation in terms of expected gains of (M&As) amongst banks that were announced between 1991 and 2001 in 13 European markets. A Bivariate GARCH model is used to estimate abnormal returns taking beta variability into account. Results indicate that, on an average, a positive and significant increase in value for the group of target banks when they are engaged in these two types of transactions: cross product diversification and geographic specialisation. **Conn *et al.* (2003)**[102] established a difference between public and private targets. According to this study, cross-border acquisitions of public targets result in negative abnormal returns while M&As involving private targets show no significant long-run abnormal returns.

Silva Rosa *et al.* (2003)[103] reviewed the long-term post-takeover share market performance of firms that made 502 US corporate acquisitions during 1980-1995. They found that acquirers involved in mergers, but not tender offers, earned abnormally negative returns in the three-year period following the target delisting. Merging firms covered by analysts exhibit insignificant abnormal performance. They concluded that apparently anomalous post-merger performance is driven by a subset of firms for which information costs are higher and therefore non-controversially likely to have share prices that are slower to reflect value-relevant information.

Goergen & Renneborg (2004)[104] have examined the effect of announcement on share price of UK target firms from 158 acquisition deals for the period of 1993 to 2003. The event window was from -1 to +2 days. They observed negative impact of target hostility on acquiring firm performance.

Cummins and Weiss (2004)[105] and **Ebneth and Theuvsen (2005)**[106] have applied event study methodology in European region. Cummins & Weiss have studied insurance sector. They examined cumulative average abnormal returns (CAARs) which accumulate the abnormal returns over event windows surrounding the M&A transaction dates. Their analysis shows that European M&As created small negative cumulative average abnormal returns (CAARs) for acquirers (generally less than 1%) and substantial positive CAARs for targets (in the range of 12% to 15%). Cross-border transactions were value-neutral for acquirers, whereas within-border transactions led to significant value loss (approximately 2%) for acquirers. For targets, both cross-border and within-border transactions led to substantial value-creation. Ebneth and Theuvsen (2005) employed event study analysis to examine daily stock returns of five European brewing groups which announced 29 M&As during the sample period from March 2000 through January 2005. The results of this study provide empirical evidence on both significant differences regarding the peer group members' level of acquisitioning and their impact on several brewers' financial performance as expressed in increasing or decreasing stock prices.

Moeller and Sehlingemam (2005)[107] analyzed the performance of acquirer firms through two major merger waves that occurred during 1998 to 2001. They found that shareholders in bidders lost $240 billion. They also found that even when the target shareholder benefits were taken into account the net effects were still negative $134 billion. They opined that the target shareholders gain at acquirer firm shareholder's expense.

The study by **Soongswang (2006)**[108] focused on takeover announcement effects during the pre-bid period, (-12,-1) months, on Thai bidding firms. The findings suggest that before the announcement month, the effect of a potential takeover leads to significantly positive abnormal returns at approximately 27% and 29% for the bidding firm's shareholders. In addition, the market apparently anticipates the takeovers as being good news for three and four months, at least, prior to the takeover announcement, resulting in positive abnormal returns of about 8-16% for the bidding firm's shareholders.

Between 1998 and 2005, **Liao and Williams (2006)**[109], identified 74 cross-border M&A transactions in which international banks acquired ownership stakes in 46 listed banks in emerging market economies (EME). Using an event study approach, there is scant evidence of win-win situations when joint abnormal return is positive. Whereas abnormal returns to targets are mostly positive and significant, they tend to be offset by negative returns to acquiring banks, which drives joint returns. The evidence implies there are considerable perceived risks associated with expanding banking operations into emerging markets, which affects stock market valuation of cross-border M&A.

Hee-jin and Heshmati (2007)[110] analyzed some critical M&A cases among large Korean companies after currency crises to evaluate the extent of influences of government interventions in the market. In order to evaluate the Government policy, financial and stock price fluctuations of firms are reviewed and firms' performances are analysed using cycle time theory. After currency crisis of 1997, the Government authority of Korea made the Korean blue chip enterprises to merge their principal business to strengthen business structure and profitability. But the results suggest that the merger have not been very successful. The acquirer firms following the merger, lost value and were not able to improve their position as compared to pre-crises period.

Cave (2007)[111] has compared the effect of Equity financed M&As and Cash Financed M&As. Researcher has taken a sample of 40 UK based firms from SFD database. The study found that Cash financed mergers clearly experience greater abnormal returns over a period of one year prior to takeover. Possible reasons why have been explained including cash being more costly when the acquiring company has overvalued shares, so target shareholders make positive abnormal returns. Researcher has also added that both equity and cash based M&A's returns move closer to the market near takeover date, suggesting semi strong efficiency where all data becomes incorporated in the market price- i.e. a return to zero abnormal growth.

Fang, Shun and Chen (2008)[112] applied event study methodology to examine the stock price behaviors of US target firms. They applied factor analysis with country fixed-effect specifications to identify the determinants that may significantly contribute to the abnormal stock performance associated with cross border M&A. As the sample target firms are all headquartered in the US, the foreign corporate bidders are grouped into various sub samples based on their countries of origin and presumably distinct cultures. The evidence suggests that culture disparities could play an important role in determining stock price performance around M&A public offer announcement. To continue the study with the same region, **Gersdorff and Bacon (2008)**[113] studied fifteen mergers in U.S. as provided by Yahoo Finance (2008). Specifically, this work focuses on the semi-strong form test in an effort to test the efficiency of merger announcement public information. The findings show that there definitely is action in the stock price around Day 0, but the analysis displays that the merger may not be significant in determining the reason for the particular action. The Semi-Strong Efficiency theory begins to show signs in the 30 days after the announcement. So we can conclude that if larger sample is taken by them then these signs would probably be more obvious.

McGowan and Sulong (2008)[114] examined the effect of M&A announcement on the stock price behavior for two anchor banks in Malaysia: Hong Leong Bank Berhad and Arab Malaysian Bank Berhad. They used the event study technique, to compute the abnormal returns. They found that the M&A announcement are treated as positive information.

Canh and Doan (2008)[115] investigated the effect of M&A in Telecom industry by using Event study methodology. They studied (1) whether the shareholder value effects depend on the degree to which M&As are driven by a service diversification strategy; and (2) whether the shareholder value effects depend on the M&As being driven by an international diversification strategy. They experience positive abnormal returns and outperform firms that expand domestically. In addition, it is found that mergers that are both non-conglomerate and cross-border add value to the acquiring telecommunications operator, whereas no significant stock reactions are found when acquirers engage in conglomerate domestic mergers.

Chi *et al.* (2008)[116] examined the performance and characteristics of 1148 acquiring firms during 1998-2003. They found significant positive returns pre and post the acquisition announcement, but with insignificant long-run abnormal returns six months after acquisition. Their research also showed that political advantage, the power balance of shareholders, and payment of cash or stocks have significant wealth effects.

Bjerregaard (2009)[117] in her thesis explores cultural differences between the countries of target and acquirer for 424 companies during 1996-2008. Cumulative abnormal returns are investigated using three different event windows of two days, three days and 11 days. The study concluded that cumulative average abnormal returns of respectively 0.17 %, 0.37 % and 0.76 % which were not significantly different from zero. The cultural effect is investigated through a number of different proxies measuring cultural distance. All regression models are however insignificant with only one variable *i.e.* masculinity variable of Hofstede's dimension, proving a significant effect on acquirer returns. The study finds that acquiring a target in home country has a highly different view on masculine values compared to the UK and it will impact the cumulative abnormal return positively.

Wong *et al.* (2009)[118] studied the effects of acquisition announcements on the pricing behavior of the Asian bidding and target firms using the data of Hong Kong, China, Taiwan, Singapore, South Korea and Japan over the period from 2000 to 2007. The result indicates that information concerning a forthcoming corporate takeover is considered good news for the shareholders of bidding firms but not regarded as good news for the shareholders of the target firms.

Flugt (2009)[119] tried to study the shareholder wealth effects of M&As by taking the sample of 288 deals with announcement of mergers and acquisitions (M&A) in the European Union over the period 2000-2008. Study concluded that target firms receive on an average a statistically significant cumulative abnormal return of 14.92% in a five-day window around the announcement day. Bidders' cumulative abnormal returns are on an average zero.

Hoek (2010)[120] studied the relationship between M&A and Shareholder Wealth in Financial Institutions in the Asia-Pacific Region by using event study methodology. His main findings include significantly positive abnormal returns to bidders and targets and significantly positive weighted average merger revaluations. These abnormal return effects are primarily obtained in the five day prior to run-ups to the merger announcement date and on the merger announcement date. Bidders experience a correction in abnormal returns in the days after the merger, but target company's abnormal returns remain significantly positive in the longer term event window [-10,+10].

Similar results are obtained by **Uddin & Boateng (2011)**[121]. The study concluded that the UK acquirers do not earn positive abnormal return on the announcement of cross-border acquisition decisions. However, the estimation period of the study is shown to be crucial. They find that the results are significantly positive when the event window is (-1, 0, +1) and tend to become insignificant as the window size increase (-10, 0, +10).

Selcuk and Yilmaz (2011)[122] have used stock market approach and accounting approach to study the performance for companies of Turkey. Event study analysis showed that the abnormal returns are negative and statistically different from zero for 10-day and 7-day event windows. Also CAR (-5,-1) and CAR (-3,-1) values are significantly negative, indicating pre-event leakage. Hence, it was concluded that returns for stocks of Turkish companies involved in acquisitions exceed average industry returns. When accounting data were used, parametric t-test showed that post-acquisition ROA and ROS values are significantly lower than pre-acquisition values. Therefore, accounting data, using the change model, supports the hypothesis that acquirer company performance is affected by M&A activities. However, the result were not confirmed when ROE measure of performance or the intercept model were used.

Chi-Vi Ly (2011)[123] in his research empirically investigate whether M&A activities can create value for the shareholders of 762 publicly listed Chinese acquirer companies by measuring abnormal returns on the M&A announcement date. In addition to that he evaluated the M&A success factors, which have an effect on the cumulative abnormal returns (CAR) of the bidding firms. All deals of publicly listed

Chinese, Hong Kong, Taiwanese and Singaporean acquiring companies that were announced between January 1, 2000 and October 31, 2010 are included in this research. The results on the abnormal returns point to a significantly positive impact of the M&A announcements on the stock performance of bidding firms from Mainland China and Greater China on both stand-alone and accumulative days surrounding the official date of M&A disclosure.

Sehgal, Banerjee and Deisting (2012)[124] examined the market reaction to M&A announcements in BRICKS countries during the period 2005-2009 by taking sample of 214 acquirer companies. Significant pre event returns were observed for 5 out of 6 sample countries. Four of the BRICKS countries, i.e. India, Russia, South Korea and China provide significantly negative post-event returns while strong positive returns are observed in case of South Africa. While the change in performance was insignificant in case of Brazil.

Dilshad (2013)[125] has studied the effects of bank mergers and their announcements on the prices of stocks, in Europe. The researcher studied 18 mergers during 2001 to 2010 in order to investigate the returns of shareholder of the targets and acquirers. The author concluded that cumulative abnormal returns fade away at the completion of event window. These returns were observed surrounding the event date. This also indicates information leakage. At the same time, the results of cumulative abnormal returns showed that target banks earned abnormal returns on the merger announcement day.

Bakatselos and Karamanos (2014)[126] examined wealth effects of bank M&As in Greece over the period 1996-2013.They took sample of 16 acquirer and target firms and used event study methodology. The findings indicate that, on an average, the Greek bank mergers neither create nor destroy shareholder wealth. On an average, acquired firm shareholders gain at the expense of the acquiring firm and market value of the combined entity appears to have little improvement around the announcement of the transaction.

Cortes, Garcia and Agudelo (2015)[127] analysed a sample of 8 firms from airline industry in Latin America for the period of 1996-2013. By using GARCH and OLS models of event study, researchers analysed effect of merger on both buying and selling companies. The study concluded that 3 airline companies out of 6 could get positive abnormal returns that are statistically significant after the announcement of the merger. One company has statistically significant negative abnormal returns and in case of rest two companies, abnormal returns are insignificant. However, when the merger is not strategic, the companies present statistically significant negative abnormal returns. The results are not conclusive when analyzing the effect on the value of the buying companies.

3.3.2 INDIAN STUDIES

The use of Event study methodology to study the effect of M&A on the short term performance of the companies have started little late in India, almost after post liberalization *i.e.* after 1991. In one of the initial articles **Vijh (1994)**[128] shows that some of the wealth gains from financial decisions involving changes in security form occur on predictable ex dates. For a sample of 113 spin-offs during 1964 to 1990, an average excess return of 3.0 percent on ex dates, roughly the same magnitude as the average announcement-date return were observed by the author. Study concluded that the spin-off ex-date return arises because the parent and subsidiary stocks attract different investors who prefer to buy the separated shares after the ex-date. The major studies in this area have taken place after 2000.

Pandey (2001)[129] has studied the announcement effect on share price of the target firm by taking sample of 14 takeovers during the period of 1997-2001. -51 to +150 days event window was used. It was observed that the abnormal returns were up by 28-30 percent prior to a month of announcement and were around 10 percent during three days post announcement window. The abnormal returns were insignificant in the five-day period of post announcement date.

Agrawal and Singh (2002)[130] analysed the possibility of insider trading during merger announcement by taking sample of 42 companies during the period of 1996 to 1999. The event window of -50 to +14 days was selected. It was observed that abnormal returns were as high as 37%, 10 days prior to merger announcement and were positive but reduced in post merger period as compared to pre merger. The study concluded that there is a possibility of insider trading in Indian capital market.

Sehgal, Singh & Choudhary (2005)[131] examined the relationship between corporate takeovers and share prices of Indian market using data for 31 target firms during the period from 1997-2001. Researcher took monthly returns in place of daily returns to observe possible value creation on long time horizon. The study observed significantly positive returns in pre event period, which suggest that takeovers could generate profits for the investors over long run only if the object is to bring change in management.

Mishra & Goel (2005)[132] have studied effect of merger announcement on share prices by taking case study of RIL and RPL merger. They took event window of 41 days and studied share price of both target and acquirer. The study concluded that the positive excess returns occurred to the shareholders of the target company RPL and negative excess returns for the shareholders of acquiring company RIL. Further, for the combined company, the RIL and RPL merger experienced negative returns.

Chari (2006)[45] has selected a sample list of 12 cases of acquisitions over the period from 1999 to 2005 in India. Author has adopted both event based method and accounting based method to evaluate the success or failure of the merger. The abnormal returns have been calculated using the Capital Asset Pricing Model (CAPM). She concluded that the target company shareholders gain immediately on the basis of the high premium they receive from the acquirer on acquisition.

Zhu and Malhotra (2006)[133] examined the short term stock performance of a sample of Indian firms acquiring US firms in the period 1999-2005.They found that Indian stock market reacts positively to the acquisition announcement. They have also added that the positive abnormal returns last for only three days, after which, the returns become negative. On the basis of multiple empirical tests, they concluded that the announcement returns in the Indian cross border acquisition are mainly driven by the price pressure effect rather than the information effect.

Meisami and Misra (2008)[134] have studied the effect of liberalization and role of relaxation of legal impediments in takeover transactions in Indian market. They have taken a broad sample of 662 domestic and 281 cross border firms in India during 1995 to 2007, excluding financial sector. Contrary to the evidence presented in recent literature on mergers in developed countries, they find positive abnormal returns for domestic as well as cross border Indian acquirers. They added that cross border acquisitions are substantially greater value increasing activities for the Indian acquirers compared to domestic acquirers.

Gopalaswamy *et.al.* (2008)[135] examined market behavior on acquisition announcement for the 25 companies listed in Indian stock exchange for the period of 2000 to 2007. Researcher has analysed the effect on both acquirer and target firms. The study used three event windows (-10,+5), (-15,+10), (-25,+15). It was observed that the abnormal returns were significantly positive on the event day for acquirer and significantly negative for target companies, 2 days post event in the event window (-10,+5). In the second event window returns are statistically significant and positive on the event day and negative on 6th, 7th and 8th day after the event for acquirer firm and returns are significantly negative 2 days post event for the target firm. Similar results were obtained for (-25,+15) event window. The study concluded that around the announcement period the returns for the acquiring companies are higher than those for the target companies. In the post acquisition period there is a downward trend in the cumulative returns implying a negative result of the acquisition.

Anand and Singh (2008)[136] studied the impact of merger announcements of five banks in the Indian Banking Sector on the shareholder bank. The announcement of merger of Bank had positive and significant impact on shareholder's wealth. The market value of weighted Capital Adequacy Ratio of the combined Bank portfolio as a result of merger announcement is 4.29% in a three day period (-1, 1) window and 9.71 % in a Eleven days period (-5, 5) event window. The event study is used for proving the positive impact of merger on the bidder Banks.

Nagar (2008)[137] has done event study by taking cross-border mergers between the Indian acquiring companies and European target companies. An interesting fact that emerged from this study is the significant abnormal gain before the announcement of merger. This indicates the probability of insider trading in the Indian stock markets. Similar to Zhu and Malhotra, this study also shows that the announcement effect has a very short-lasting effect and the abnormal gains are only seen on the day of the announcement. This study also reveals that shareholders do gain abnormal returns around the date of the announcement. However, this gain is due to the price pressure effect and not the announcement effect.

The study carried out by **Misra (2009)**[138] attempts to test the 'Market for Corporate Control' hypothesis in the food & beverages industry of the Indian economy. Data on 20 merged firms and 93 non merged firms from the Indian food and beverage industry over the period 1998-2007 were collected from the prowess database of Centre for Monitoring Indian Economy (CMIE). The explanatory variables used for the logit analysis included a measure of leverage, size, productivity, profitability, dividend policy of the firm and a variable showing trading volume in the year of acquisition. Results of the logit analysis support the market for corporate control hypothesis only partially indicating that acquisitions in the Indian food and beverages industry have only been driven partially by managerial efficiency and disciplinary motives.

Kumar *et al.* (2009)[139] has taken a sample of 252 acquirer and 58 target companies involved in acquisitions, and 165 acquirer and 18 target firms involved in mergers during the period 1998–2006. They have taken event window of -20 to +20 days. The results reveals that shareholders of both the acquirer and the target companies experience cumulative abnormal returns, which are positive and statistically significant.

Locke, Duppati and Lawrence (2011)[140] investigated the short-term stock market reaction to the announcement of outward foreign direct investment (OFDI) related mergers and acquisitions (M&As) by Indian companies. The Event Study involves 30 companies engaged in M&A transactions between 2000 & 2007, from seven sectors (Metals & Mining, Oil, Gas and Energy, Chemical/Fertilisers, Food & Beverages, Information Technology, Pharmaceuticals and Manufacturing & Processing). An event study approach using both abnormal returns and price pressure effect analysis is adopted and statistically significant results are obtained. It is found that the market reacted favorably to the announcements, in contrast to other studies using similar time periods, suggesting there may be some interesting behavioral contrasts between emerging market and mature market responses to such announcements.

Pandya (2012)[141] has analysed the effect of acquisition announcement on shareholders wealth. Two different types of sample were taken for the consideration i.e. top ten acquisitions by Indian companies and secondly, the sample of thirty acquisitions from the year 2010 and 2011 by Indian companies. The analysis was done on the basis of two variable i.e. market return and script return. The former is independent variable while the later one is dependent variable. The pre and post merger impact on both variables was analyzed by event study methodology. The researcher concluded that acquiring firms show positive returns after the event.

Operating performance of the acquiring companies are analysed by taking sample of 30 mergers consisting of 10 mergers for each of the 2004, 2005 and 2006 years. Six ratios were used and z test was applied. The study concluded that acquiring firms show mixed performance for profitability for post merger period.

Kashiramka & Rao, (2012)[142] studied effect of merger on abnormal returns for target companies in Indian IT and ITes sector during 1999 to 2009. The event study methodology was used, cumulative average abnormal returns were estimated using single factor market (SFM) model. The results indicate that in case of acquisition the target firms on an average gain significantly on the announcement but in case of mergers, positive wealth gains are made but they disappear in post announcement period.

Sehgal, Banerjee and Deisting (2012)[143] have analysed effect of acquisition announcement and method of financing on share price of acquirers from BRICKS countries. Sample consisted of 217 companies from 2005 to 2009. Both the acquirer and target companies were publicly listed in Brazil, Russia, India, China, South Korea and South Africa. Cross border M&A cases were not included. Event window was -20 to +20 days. They concluded that significant pre-event returns were observed for 5 out of 6 sample countries. This indicates possible leakages in the information system. Three of the BRICKS countries, i.e. India, South Korea and China provide significantly negative post-event returns while strong positive returns are observed in case of South Africa.

Vyas (2012) [144] carried out the event study analysis by using sample of 116 companies, 80 Indian acquirers and 36 overseas acquirers which carried out M&A during the period of 2002-2011. The researcher used event window of -180 to +180 days. The study concluded that there are no significant cumulative gains during the event window. The researcher analysed three case studies using five event windows – (-11,0), (-11,+11), (0,+11), (-1,+1), (-5,+5). (i) Takeover attempts of RIL, to takeover L&T and subsequent sell of shares to Birla group, it was observed that there were fluctuations in AR of RIL. (ii) Merger of RIL and Bharti AxaLife Insurance Company Ltd. It was found that RIL showed positive returns in all the event windows. (iii) Acquisition of Hutch by Vodafone, the positive CAR is observed in post event window but no sudden incremental growth in CAR during pre event window or on the event day.

Kumar and Kumar (2013)[145] have examined 13 bank merger during the period of 1999 to 2013. They have studied the impact of merger announcement on share price of bidder firm. They concluded that the merger announcement had a mixed impact on the returns to the shareholders of the bidder banks. Five banks had significantly positive abnormal returns; four banks had significantly negative abnormal returns and four banks showed no significant abnormal returns.

Senthil (2014)[146] has studied 16 bank mergers between 2000 to 2001 through event study and Data Envelopment Analysis. Event window of -30 and +30 days was used. It was observed that adverse stock market reaction was there for most of acquiring banks in the first few days around the merger announcement. In most merger announcements a declining trend in share price was observed in various event windows after the merger announcement. The result of Data Envelopment Analysis suggests that profit efficiency of 14 banks and cost efficiency of 6 banks declined after merger. The profit efficiency gains were observed in two mergers and cost efficiency gains were observed in one merger. Thus, the researcher concluded that mergers do not appear to have a favorable impact on the efficiency levels of acquiring banks.

Shah and Arora (2014)[147] have examined the effect of acquisition announcement of the share price of target and bidder firms. Sample consisted of 37 acquisition announcements from the duration of May 2013 to September 2013. Event window of -2 to +2 days were used for event study methodology and paired t test was applied. The results of the study is similar to previous studies that the target firms show significantly positive returns and bidder firms returns are not statistically significant. Also the target firms depict that the post announcement returns are significantly greater than the pre-announcement returns, indicative of the immediate market reaction to the information disclosure.

Agrawal and Krishnakumar (2015)[148] have analysed very different aspect of announcement effect. They carried out an event study on the rival of target firms for a sample of acquisitions by Indian firms to examine how stock prices of rival firms of targets react to an acquisition announcement. They took sample of completed, proposed and pending deals in India for a 7 year period from 2008-2014. They took all the deals in which target is an Indian listed company and the percentage sought is more than 50 percentage of the target. They used 3 days and 5 days event window. They concluded that on an overall basis the stock prices of rivals do not show a significant abnormal returns around the announcement period.

3.3.3 CONCLUDING REMARKS

On reviewing the studies measuring impact of M&A announcement on share price of the companies following observations are made:

- Studies used Event Study Methodology to examine the impact of M&A announcement on share price of the companies. Market model is used to find abnormal returns, which is the recent model. Daily and weekly and in very few studies monthly share prices are considered to calculate estimated returns.
- Majority of the foreign studies are carried out in U.K. and few are carried out in other countries like U.S. China, Asian region, BRICKS countries, Malaysia *etc.*
- Almost all the foreign studies have similar conclusion that shareholder of target firms gain and bidder shareholders gain or do not lose.
- Whereas the conclusion in case of Indian studies reveal that shareholders of target firms gain and acquirer shareholders gain, but that gain is mainly in pre event period which vanishes slowly after the event. This show information leakage in Indian Capital market.

3.4 CONCLUSION

Majority of the foreign and Indian studies focus on either of the aspect to analyse effect of M&A on the financial performance of the companies *i.e.* either short term or long term. Very few studies have carried out the analysis of effect of M&A on short term as well as long term performance on the same sample companies. In addition to this, most of the studies are sectoral or case studies, very few researches have used different industrial sectors for analysis.

At research front in India, studies are mainly based on merger and from banking sector or manufacturing sector. In the context of above , the current study bridges this gap in Indian as well as foreign literature by examining effect of acquisition on long term and short term financial performance on the Indian companies from various sectors over the period of 12 years.

This chapter has carried out review of academic literature on the "effect of M&A on Financial Performance of the companies in long run" and " effect of M&A announcement on share price of the companies" created by practitioners, industry analysts and researchers in India and abroad. This has helped to identify the research gap and in the said context, following chapter presents the "Methodology Adopted" to carry out the present study.

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