IMPACT OF MERGERS & ACQUISITIONS - A CRITICALREVIEW OF LITERATURE

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ABSTRACT

In this age of cut – throat competition, every company wants to grow and be ahead of its competitors. There are two ways to achieve growth- first the Greenfield expansions resulting in Organic growth in one's own unit, and second the Brownfield expansions or M&As resulting in Inorganic growth. In a hurry to expand and beat the competitors profitably, the companies are restructuring themselves through M&As.

Mergers and Acquisitions (M&As) are the inorganic growth strategies which have become important in today's corporate world due to increase in competition and complexity. The companies are expected to perform post M&A so that they create wealth for the shareholders. This paper is an attempt to review the major studies undertaken in the field of mergers and acquisitions across the globe. Various researchers have studied differentaspects of M&As- ranging from the domestic and cross- border M&As, their causes, trendsetc. to the impact of Mergers and Acquisitions on the corporate performance. The studies looking at the effects of M&As can be broadly classified into three- market measures based, accounting measures based and mixed measures based studies. From the literature review, however, it is found that there is no conclusive evidence to show that M&As are responsible for value creation for the companies and their shareholders. Moreover in recent periods M&A deals have increased tremendously. Hence there is a need to look into the post M&A performance of companies more closely to find out whether the M&A activity helps thecorporations in achieving the objectives of increased efficiency and profitability in the form of value creation.

Keywords: Mergers, Acquisitions, Effects, Corporate Performance, Profitability, Cumulative Abnormal Returns, Regression.

INTRODUCTION

"Corporate Restructuring refers to the changes in ownership, business mix, assets mix and alliances with a view to increase the shareholder value. It includes a wide array of activities such as mergers, acquisitions, joint ventures, spin-offs, leveraged buyouts, demergers, buyback of shares, capital reorganization, sale of business units and assets, etc." Out of these, mergers and acquisition is the most common route taken by corporations for inorganic growth all over the world. In fact the last two decades have been known as the M&A waves.

Mergers and Acquisitions for long have been an important and routine part of companies in developed nations such as the US and UK. In India also, they have now become a matter of everyday occurrence. Every day, we find newspapers filled with news about M&A deals. "Various parties that are interested in this field include owners of business firms who are searching for potential partners to implement mergers in future, investment bankers who are responsible for managing the mergers, lawyers who provide advisory services to the parties

Citation Information: Rohra, N., & Anita. (2023). Impact of mergers & acquisitions - a critical review of literature. *Academy of Entrepreneurship Journal, 29*(S3), 1-14.

involved, regulatory authorities that are concerned about the operations & safety of capital market and increasing corporate dominance in the economy and, academicians who want to understand these areas better".

Mergers and Acquisitions take place when two or more companies are brought under the same effective control and are managed by the same group. It can be done in two ways: (i) acquisition of one business unit by another or, (ii) creation of a new company by complete consolidation of two or more units. For instance, Snapdeal has acquired Freecharge, Sun Pharma acquired Ranbaxy, Yahoo acquired Bookpad, Flipkart acquired Myntra, and TCS recently announced a merger with the listed CMC with itself, as part of the Tata group's renewed efforts to consolidateits IT businesses under a single entity.

The purpose of this paper is to examine and synthesize M&A literature on the effects of M&A transactions on the financial performance of the involved companies and their shareholders' wealth so as to identify the factors that might influence the performance, where such factors should be considered by management in decision making.

A sincere attempt has been made to review and summarize the major studies carried out in the field of Mergers and Acquisitions in India and abroad. This extensive review will be helpful in enhancing the present level of understanding in the area of mergers and acquisitions, understanding the reasons behind success or failure of merger deals and formulating the problem for further research in this field. Broadly, literature review has been done on empirical studies in journals, published papers and other useful internet material to explain different aspects such as domestic and cross- border M&As, their causes, trends etc. and the impacts of Mergers and Acquisitions on the corporate performance and shareholders' wealth.

This paper is organized as follows: Section 2 discusses the objectives of study, Section 3 details the Literature Review on the Impacts of M&As on Corporate Performance and Shareholders' Wealth, Section 4 presents the Critical Analysis, Section 5 contains Conclusions and, lastly References are given in Section 6.

OBJECTIVES OF THE STUDY

The major objectives of reviewing the literature are as follows:

- To have an in depth insight about the mergers and acquisitions taking place in India andacross the world.
- To inspect the literature which shows the relation of M&As with corporate performanceand shareholders' wealth.

LITERATURE REVIEW ON EFFECTS OF MERGERS AND ACQUISITIONS (IMPACT ON CORPORATE PERFORMANCE AND SHAREHOLDERS' WEALTH)

Mergers and Acquisitions are important strategic decisions that affect the long term profitability and wealth of shareholders of the company. Researchers, especially in developed economies such as USA and UK have conducted numerous studies to answer the basic question: Do mergers and acquisitions create any value for the company and its shareholders? Studies focusing on the post-merger performance and value-creation effect of M&As usually follow either of the two general approaches: first is share price analysis- using data regarding share prices to identify gains and losses to shareholders of acquirer and target firms, and second is operating performance analysis- using accounting data to analyze long-run operating and financial performance of acquirers in a merger deal.

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The studies falling under these two approaches can be further divided into three categories:

- Announcement period studies,
- Studies focusing on long term share price performance and,
- Studies focusing on operating performance.

This section discusses the important studies undertaken in each of the above-mentioned three categories to draw a general conclusion on the impact of M&As on the corporate performance as well as on the shareholders' wealth.

ANNOUNCEMENT PERIOD STUDIES

Such studies follow event study methodology and consider the short term returns earned by the shareholders surrounding the announcement period of the event. Whenever there is an announcement regarding merger of two firms, the market adjusts rapidly to this information and this new information is incorporated into the share prices of firms. The returns generated by shareholders on the days around the announcement that are specifically due to the announcement of the event are called Cumulative Abnormal Returns and have been studied by the researchers to determine the gains or losses to the shareholders. A large number of such studies conclude that the target firms earn positive returns while shareholders of acquiring firms experience loss of wealth. Some important studies are as follows shows in Table 1:

Table 1
SHAREHOLDERS SURROUNDING THE ANNOUNCEMENT PERIOD OF THE EVENT

AUTHOR (S) & YEAR	OBJECTIVE(S)	COUNTRY & PERIOD & METHODOLOGY	RESULTS
Dodd(1980)	To determine the impact of both accepted and rejected merger proposals on the wealth of shareholders.	US (1970-77) Market model Abnormal returns	Shareholders of target firms earn positive abnormal returns while bidder shareholders earn negative abnormal returns over the duration of proposal in case of both completed and canceled proposals.
Firth(1980)	To determine the impact of takeover on shareholders wealth and management benefits.	UK (1969-75) Market model Control group	Shareholders of acquired firms and managers of acquiring firms benefit while shareholders of acquiring firms suffer a loss of wealth.
Asquith et al. (1983)	To determine if mergers are value enhancing strategies for the shareholders of bidding firms.	US (1975-83) Excess returns Regression	Shareholders of bidding firms earn significant positive returns during the 21 days before the announcement of each of their first four merger bids. These abnormal returns are directly correlated with the relative size of the target firm's equity.

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Datta, Pinches and Narayana (1992)	To determine how shareholders' wealth is influenced by factors such as number of bids (single vs. multiple), type of financing (cash vs. stock), and type of acquisition (conglomerate vs. non-conglomerate).	US (Meta-Analysis) Event study Multiple regression	Stockholders of acquiring firms on an average earn nil or statistically insignificant gains from the announcement of merger while stockholders of target firms experience positive abnormal returns of over 20%. Both acquirer and acquired firms lose in stock-financed transactions. Also, there is a positive effect of related or non-conglomerate mergers on the wealth of acquiring firms' shareholders.
Davidson and Cheng (1997)	To test – (i) bid premium is greater for cash- financed acquisitions than stock-financed acquisitions, (ii) excess returns generated to the target firms in the announcement period depend upon the bid premium and not the method of payment.	US(1981-87) Market model Abnormal returns Cross sectional regression	Cash financed takeovers are associated with larger bid premiums, these larger premiums are positively related to abnormal returns generated to target shareholders.
Ocana, Pena, and Robles (1997)	To examine the share price returns generated to the shareholders of target firms in Spain.	Spain(1990-94) Average abnormal returns (AARs) and Cumulative AARs	Target shareholders did not earn significant abnormal returns during the first part of the year before the announcement period, but significant excess returns were experienced in the two months before the bid. Thus, small markets (Spain) respond in the same way as the larger US and UK stock markets.
Cybo-Ottone and Murgia (2000)	To analyze the impact of mergers in the banking industry in Europe.	Europe (1988-97) Market model (AR and CAR) Bivariate & Multivariate Regression analysis	Significant increase in shareholder value in case of within-country acquisitions, deals involving two or more domestic banks and banks with insurance companies. But M&A deals with securities firms or with cross-border institutions were not valued positively by the market.
Floreani and Rigamonti (2001)	To inspect the impact of amalgamations in the US and European Insurance Sector.	Europe and US(1996-2000) Event study Abnormal returns	Mergers resulted in an increase in the wealth of shareholders of acquiring firms. Direct positive correlation between the abnormal returns for acquirers and the deal size. Significant increase in the shareholders' wealth in case of cross-border deals, while the market did not respond positively to the amalgamations taking place between insurance companies of the same European country.
Billett, King, and Mauer (2003)	To study the impact of M&A transactions on the bondholders' wealth.	US (1979-97) Monthly Abnormal bond returns	Bonds issued by the target firm earn significant positive announcement period returns of 1.09% while bondholders of acquiring firms experience negative announcement period returns.

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Choi & Russell (2004)	To examine the effect of M&A in the construction sector in U.S. on firms' performance and investigate factors that may affect post M&A performance.	US(1980-2002) Market adjusted model & CARs Multiple regression	Acquiring firms experience insignificant improved performance. No evidence was found that either acquisition time, method of payment, or target status impact the reported performance. Related diversifications performed slightly better than unrelated diversifications.
Cummins and Weiss (2004)	To study the impact of M&As on the wealth of the shareholders of insurance companies in Europe.	Europe (1990-2002) Average abnormal returns & Cumulative average abnormal returns	Acquiring companies experienced negative cumulative average abnormal returns (generally less than1%) but targets experienced significantly positive CAARs in the range of 12-15%. Geographically diversifying mergers tend to create more value for acquiring firms, and focusing mergers are more beneficial for target firms.
Rosa, Limmack, & Woodliff (2004)	To analyze the impact of method of payment (i.e. cash or issue of shares) in takeover of private and public companies.	Australia (1990-98) Event study Continuously compounded market excess returns	Shareholders of acquiring firms realized significantly positive abnormal returns on announcement of bids for private targets but not for public targets. These positive returns accrue to the acquiring firms in the takeovers in which payment to the target is made through cash, rather than shares.
Ismail and Davidson (2005)	To determine the response of stock market to M&A announcements and compare the results to the previous studies undertaken in Europe and US.	Europe (1987-99) Event study Abnormal returns Bivariate analysis	Target firms realized positive returns but the returns to acquiring firms varied across - the deal type and the various event windows. Specifically, merger deals were more value enhancing than acquisition deals and bank-to bank deals provided higher returns to the shareholders than cross-product deals. European market generally reacts more favorably to cross-border mergers than to domestic mergers.

Studies Focusing On Long Term Share Price Performance

A large number of studies, using event study methodology, have been undertaken by researchers to examine the effect of M&As on the share prices of firms in the long run. Some significant studies discussing this aspect are as follows Table 2:

Table 2
LONG TERM SHARE PRICE PERFORMANCE

AUTHOR(S) & YEAR	OBJECTIVE(S)	COUNTRY & PERIOD	METHODOLOGY	RESULTS
Malatesta, P.		US	Market model	Long-run wealth effect of the various events
(1983)	To determine the long run wealth	(1969-74)	Cumulative	resulting in merger was significantly negative for
	effect of M&A activities.		abnormal return	acquirers and for target firms the effect

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			(in	was
			dollars)	negative but not significant. Abnormal return
				generated to the acquiring firms is a function of
				firm's size, with the shareholders of smaller firms
				experiencing significantly negative post-merger
				returns.
Gilbert and Lyn (1990)	To test whether i) abnormal returns in the merger announcement month will be higher in friendly mergers than in hostile mergers, ii) abnormal returns during the pre-announcement period will be higher for friendly mergers than in hostile mergers, and iii) abnormal returns during the post-announcement period will be higher for hostile mergers than in friendly mergers.	US (1975-78)	Market model Abnormal returns & Cumulative abnormal returns, t-test, Kolmogorov-Smirnoff (K-S), and Wald-Wolfowitz's Run test	Hostile mergers result in more efficient and profitable organizations as significantly positive returns were earned by the hostile bidding firms during the post announcement period.
Agrawal, Jeffe, and Mandelker (1992)	To examine the long term performance of acquirers after merger.	US (1955-87)	Avg. abnormal returns, Cumulative avg. abnormal Returns, Regression	Shareholders of acquiring firms experience significantly negative returns after merger in the long run. Losses were suffered by shareholders of acquiring firms in post- merger period in both conglomerate (CARR=-8.6%) and non-conglomerate mergers (CAAR=-25.5%). Loss is larger in case of tender offers financed through equity rather than through cash.
Parkinson and Dobbins (1993)	To study the returns to the shareholders in companies engaged in fighting and preventing a hostile bid.	UK (1975-84)	Mean adjusted returns Method ARs and CARs	M&A deals mainly benefit the shareholders of target firms although there is also an increase in efficiency and performance post-bid for the acquiring companies in unsuccessful bids.
Sudarsanam, Holl, and Salami (1996)	To discuss the synergistic benefits accruing to the shareholders of the merging companies.	UK (1980-90)	Market model & market adjusted model Average ab. Returns & Cumulative avg. ab. returns	M&A deals where two companies complement each other e.g., one company has liquidity slack and other has profitable investment opportunities- benefit both groups of shareholders. However, when a less highly rated firm is acquired by a highly rated firm, then the shareholders of acquiring firm experience loss of wealth whereas shareholders of the target firm realize wealth gains.

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Gregory (1997)	To examine the long run performance of acquiring firms in UK.	UK (1984-92)	Various models of abnormal returns, Cross sectional regression	The acquiring firms earn unambiguously and significantly negative average abnormal returns for up to two years post-acquisition. Specifically, acquirers financing a takeover through equity, and single (as opposed to regular) acquirers demonstrate significant negative performance. Diversifying acquirers perform worse than non-diversifying acquirers.
Rau and Vermaelon (1998)	To explain the impact of type of acquisition, pre-bid valuation of the acquirer, and method of payment on the long-run performance of acquiring company.	US (1980-91)	Abnormal returns, cumulative abnormal returns relative to size- & book-to-market based Benchmark	Acquirers in mergers earn significant negative abnormal returns of 4% in three years after the acquisition while in tender offers earn small but statistically significant positive abnormal returns. However, the long run under-performance of acquirers in mergers is not uniform across firms. The financial performance post the event is worse in case of low book to market "glamour" acquirers as compared to other firms.
Slovin and Sushka (1998)	To investigate the effects of parent-subsidiary mergers.	US (1970-93)	Event study Market model Abnormal returns	Parent-subsidiary mergers result in wealth gains for both subsidiary and parent shareholders and the merged entity is higher in value than the sum
				of the pre-event figures of the two different entities.
Markelevich (2003)	To determine the impact of merger-motives on long run performance of acquiring firms.	US (1987-99)	Market adjusted model -ARs & CARs Operating profit return on assets	Acquisitions motivated by agency, decrease post-acquisition long run performance, while synergy-motivated acquisitions result in an increase in post-acquisition long run performance.
Vanitha and Selvam (2007)	To study the reaction of security prices and to find out the net wealth increase or decrease to the shareholders of acquiring companies.	India (2000-2005)	ARs and CARs using market model & market adjusted returns model	M&A activities of acquiring firms did not improve the wealth of their shareholders.

STUDIES FOCUSING ON OPERATING PERFORMANCE

A large number of studies based on accounting measures such as financial ratios and financial statements data have been conducted by the researchers to determine meaningful improvements in various financial measures of profitability, cash flow position, liquidity etc., resulting primarily from Mergers and Acquisitions over a long time period of time. The studies reviewed are as follows Table 3:

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Table 3
LONG TERM SHARE PRICE PERFORMANCE

AUTHOR(S) & YEAR	OBJECTIVE(S)	COUNTRY, PERIOD & METHODOLOGY	RESULTS
Ravenscraft	To inspect the theorem that ceteris	US (1950-77)	No improvement in the post-merger operating
and Scherer	paribus, if amalgamations lead to	Operating income over	performance of acquiring companies. In fact, with no
(1989)	synergistic benefits or economies of	end of year assets;	control for the merger accounting methods (purchase *vs.*
	scale/scope, the profitability after the	Operating income over	pooling), the post-merger profits of acquiring companies
	amalgamation should exceed the	sales, Univariate	were significantly negative at 13.34%.
	profits before the event and/or the	regression	
	industry averages.		
Healy, **Palepu**	To understand whether mergers	US(1979-83)	Industry adjusted operating cash flows of merged firms
and Ruback	improve corporate performance and	Operating cash flow	increased post -merger. This improvement was found to be
(**1992**)	if yes, then what is the reason for this	returns on assets; Stock	due to increase in asset productivity post-merger.
	improvement?	returns at acquisition	
		Announcement,	
		Univariate regression	
Cornette and	To investigate post-acquisition	US(1982-87)	There was a significant increase of 1.2 per cent in
Tehranian	performance of large banks.	Operating cash flow	performance post-merger as compared to before the
(1992)		returns on assets; Stock	merger.
		returns at acquisition	
		announcement,	
		Univariate Regression	
Tsung-Ming	To find out whether mergers resulted		Acquirers in Taiwan found no improvement in profitability
and Hoshino	in value- creation for the firms	Taiwan (1987-1992)	post-merger and in fact, there was deterioration in some
(2000)	through realizing economies of scale.	Accrual measures; Share	profitability indicators. No significant difference in the pre-
		price returns, Univariate	and post-merger values for leverage and debt equity was
		Regression	observed while the current ratio fell significantly in the first
			year after the merger. The acquirers significantly under
			performed on even the measure of sales growth
			post-merger. The stock market reaction to acquisition
			announcement is positive but it is not correlated to
			post-merger performance.

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Cosh and Guest (2001)	To study the long-run pre- and post-takeover performance of acquirers and targets in hostile takeovers.	UK (1985-96) Accounting study (operating profit return on assets), and event study methodology (buy and hold returns)	The performance of combined firms improved in post –takeover period following hostile takeover. But, friendly takeovers did not improve performance in the post takeover period and resulted in significantly negative share returns in the long run period following the takeover.
Pawaskar (2001)	To find out if the mergers lead to an improvement in financial performance of firms.	India (1992-95) Operating cash flow returns on assets, Univariate regression	Although most mergers resulted in significant increase in size (once-and-for-all growth) and financial synergies (increased leverage), the profitability of the merged firms was impacted negatively due to the merger.
Sharma and Ho (2002)	To examine whether corporate acquisitions create synergies that lead to an improvement in operating performance.	Australia (1986-91) Earnings and cash flow, Univariate Regression	Corporate acquisitions did not lead to significant improvements in operating performance of company post-acquisition. The type of acquisition (conglomerate versus non conglomerate) and the form of acquisition financing (cash, share or a combination) did not significantly influence post-acquisition performance.
Rahman and Limmack (2004)	To determine if operating efficiency increases after mergers.	Malaysia (1988-92) Operating cash flow returns on assets, Univariate Regression	There was an improvement of 3.75 per cent per year in operating cash flows of companies post-merger. Main reason for the improvement in post-acquisition performance was the increase in asset productivity.
Narayan Kar and Soni (2007)	To identify any trends in M&A activities of various sectors of Indian industry post liberalization and to determine the impact of M&As on the corporate performance.	India (1990-2001) Trend analysis, Bivariate Analysis	The period from 1996-97 to 2000-01 (1318 M&As) is the first time when M&As were seen in abundance amongst Indian companies. These normally go for horizontal and vertical mergers and main advantages to them are growth in size and larger market share. The turnover of the acquiring companies increased after M&As but no impact was seen on return on net worth.
Mantravadi and Reddy (2008)	To investigate the result of business combinations on the post- hoc financial performance of acquirers, post the economic reforms in India.	India (1991-2003) Pre- and post-merger financial ratios, Paired sample t-test	Mergers have a negative impact on operating performance of acquiring companies. However, there are minor variations in terms of impact of mergers on operating performance in different industrial sectors.
Selcuk and Yilmaz (2011)	To determine if there are significant changes in the operating performance and stock prices of the acquirer	Turkey (2003-07) Event study (market model-Abnormal returns and CARs) and	Both event study and accounting data weakly supported the hypothesis that M&A activities have a negative impact on acquiring companies.

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	companies after M&As.	Industry adjusted profitability ratios	
Leepsa and Mishra (2012)	To compare the post-acquisition performance of manufacturing companies in India with their pre-acquisition performance in terms of profitability, liquidity and leverage.	India (2000-2010) Average pre- and post-acquisition financial performance ratios, Paired Sample t-Test and Wilcoxon Signed Ranks test	The acquiring companies which had taken over relatively larger companies, compared to their own size experienced a decrease in performance. Also there was no difference in performance if the companies were divided into related and unrelated acquisitions.
Jawa (2013)	To determine if the shareholders have been able to receive greater returns as a result of synergies that flow from mergers and acquisitions.	India (1997-2004) Pre and post-merger stock returns, Free Cash Flows(FCF), Economic Value Added (EVA) and Market Value Added (MVA)	Most of the M&As are taking place in India to improve the size to withstand international competition post liberalization, but most of them are not value creating since the EVA and FCF have not shown an impressive performance post-restructuring.
Tripathi and Lamba (2015)	To compare the pre and post-merger financial performance of Indian companies undertaking cross border mergers and acquisitions.	India (1998-2009) Pre and post financial ratios, Paired comparison t-test, Mann-Whitney test and Kolmogorov Smirnov Z test	There was a significant increase in the size of the acquirer firms along with a significant decline in profitability, liquidity and solvency in aggregate. Deals done in developed countries resulted in significantly higher increase in the size than those done in developing countries. But the decline in profitability, liquidity and solvency was higher in case of deals done in developing countries.
Kar et al. (2015)	To inspect the post merger long term performance of listed Indian companies on the basis of accounting data.	India (1990-91 to 2000-01) Pre and post financial ratios of fifteen listed companies	Turnover, size and market share increased for the merged companies post the event of M&A.
Kar et al. (2020)	To study the financial implications of M&As by doing a comparative analysis of domestic and cross border deals.	Fixed and random effect panel data regression (2007-2015)	Return on Net worth and Revenue of IT companies increased for the merged companies post the event of M&A for both domestic and cross border transactions. Whereas, EBITDA decreased significantly. Return on Capital Employed did not show any significant change due to the event.

CRITICAL ANALYSIS

The researchers have conducted in depth theoretical and empirical studies in the field of Mergers and Acquisitions to identify the reasons and impacts of such activities. While a plethora of literature is available on M&As in the international context, few studies have been done in

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developing economies like India particularly in the financial sector.

On the basis of literature review, the studies conducted to identify the effects of M&As can be broadly divided into three categories:

(i) Announcement period studies,

(ii) Studies based on long term share price performance,

(iii) Studies based on operating performance.

In terms of the methodology, two empirical approaches namely; event study methodology and pre- and post-merger performance using accounting data, have been used in the studies conducted all over the globe.

As far as the announcement period studies are concerned, majority of them have reportedsignificant increase in the wealth of target shareholders, while insignificant gains (or even negative abnormal returns) for acquirer shareholders around the announcement period (except Rosa et al., 2004) who have reported that shareholders of acquiring firms realize significantly positive abnormal returns on announcement of bids for private targets, Floreani & Rigamonti (2001); Asquith et al. (1983) who have shown that M&As result in an increase in the wealth of shareholders of acquiring firms).

Further, it is not clear if domestic or cross-border deals result in positive abnormal returns for shareholders. However, in Europe, the markets have reacted positively to cross-border deals rather than domestic deals (except Cybo-Ottone and Murgia (2000) who have shown that in the European banking market, domestic deals tend to create more value than cross-border deals).

The studies focusing on long run share price performance, conducted in both developed and developing nations like India have concluded that mergers and acquisitions do not result in significant wealth gains to the shareholders of acquiring firms in the long run. Specifically, acquirers financing a takeover through equity, and single (as opposed to regular) acquirersdemonstrate significant negative performance.

Almost all US and Indian studies focusing on operating performance have argued that M&As arenot value creating, they do not result in an improvement in post-merger operating performance ofacquiring companies (except Healy et al., (1992); Cornett & Tehranian (1992) who have reported a significant increase in operating cash flows of merged firms post – merger). However, these results are not consistent with empirical studies from other economies. Malaysian studies have given positive results (see. Rahman & Limmack, 2004). Further,Australian studies have produced insignificant post-merger profitability (see. Sharma & Ho, 2002).

Moreover, all the studies reviewed have shown that cash financed M&As result in significant positive returns while stock financed deals result in negative or insignificant positive abnormal returns (except Choi & Russell (2004); Sharma & Ho (2002) and Floreani & Rigamonti (2001) who have shown that method of payment does not significantly influences post-acquisition performance). Also, it has been found that diversifying acquirers perform worse than non-diversifying acquirers (except Sharma & Ho (2002) who have shown that the type of acquisition (conglomerate versus non conglomerate) does not

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significantly influence post-acquisition performance).

Also, there is a unanimous conclusion in literature that hostile mergers are more likely to result in leaner, efficient and more profitable organizations as the studies reviewed have shown that the hostile bidding firms earn significantly positive returns in the post announcement period.

CONCLUSION

With an impressive body of research literature on M&As, it can be safely concluded that Mergers and Acquisitions are one of the most researched areas in finance. However, most studies have been done only in the efficient markets of the developed world, especially US and UK to determine wealth creation effects of mergers and acquisitions.

Though M&As basically aim at maximizing the wealth of shareholders, several empirical studies have shown that M&As benefit shareholders of target firms while shareholders of acquiring firms either fail to earn any significant positive returns or experience negative returns during post-merger period. The profitability of acquirers also decreased after mergers and acquisitions.

The reason behind the shareholders of acquired companies being benefited the most is that in majority of the cases, the acquiring company usually pays a little extra than what it should. So that the shareholders forego their shares, the acquiring company offers an amount more than the actual price prevailing in the market. This gain is larger in case of cash-financed deals because the cash targets demand greater payments from acquirers to offset their higher tax liability. On the other hand, the acquirer shareholders are most harmed. The reason behind this can be debt load, which comes along with acquisition.

In developing countries like India, very few studies have been undertaken on this hot topic, especially, limited studies have been done to examine the implications of M&As on the shareholders' wealth. But still, there is little additional evidence coming from small or emerging economies to complement the results already established for the larger market.

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Received: 06-Feb-2023, Manuscript No. AEJ-23-13088; **Editor assigned:** 07-Feb-2023, PreQC No. AEJ-23-13088(PQ); **Reviewed:** 20-Feb-2023, QC No. AEJ-23-13088; **Revised:** 22-Feb-2023, Manuscript No. AEJ-23-13088(R); **Published:** 25-Feb-2023