

MERGERS AND ACQUISITIONS: A SYNTHESIS OF THEORIES AND DIRECTIONS FOR FUTURE RESEARCH

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Abstract

The purpose of this paper is to review a synthesis of theories and empirical studies dealing with the mergers and acquisitions in the recent decay in an attempt to provide directions for future research. The review focuses on four main streams including: first, the motives for mergers-acquisitions; which are the strategic profits, the overconfidence of managers and the desire to create a big empire resulting from merger. From second, corporate characteristics of firms that did merger or acquisition; third, the economic consequences of the operation of merger and acquisition and finally; fourth, the implication on the market with the impact of merger on the value of the firm. We think that this article can give another idea about the information disclosed by any company choosing to merge and can be analyzed by practitioners by giving them the theoretical background of the merger and acquisition problem.

Keywords: Merger, Acquisition, Literature Review, Synergy, Information-Asymmetry, Stock Returns

JEL Classification: G34, D82

DOI: 10.22495/rgcv7i1art9

1. INTRODUCTION

The operations of mergers-acquisitions are accompanied with several financial flows because of the changes in the capital structure and are also much mediatized. In this article, we are going to focus on the general concepts of mergers and the determinants of success or failures of these operations. Besides the motivations and the factors, we are going to describe the process of finalization of the mergers-acquisitions which are generally very slow. The merger is by definition the operation of pooling of the assets of two companies which decided to merge their activities. Our research question is how merger and acquisition transaction can be performing.

So, our topic in this article is to respond to the following question: what are performed mergers and acquisitions? By the way, we will review a synthesis of theories and empirical studies dealing with the mergers and acquisitions in the recent decay in an attempt to provide directions for future research.

This paper is organized as follows: first, we present the theories and literature review that examined the implementation of merger and acquisition transactions. Then we present the research done on developed countries and explaining M & A waves and their determinants and stock returns around announcements of mergers and after that date. Thereafter, we will present the information asymmetry around mergers and acquisitions. Finally, we will conclude this paper and suggest future research directions.

2. MERGER AND ACQUISITION: LITERATURE REVIEW

The merger is by definition the pooling operation of assets of two companies decided to merge their activities. We talk about acquisition, when one of the companies bought another. There are three main reasons that explain the mergers and acquisitions: financial, strategic and managerial incentives. For Majumdar (2012), the merger creates value since the synergy between the acquirer and the target will increase revenue while reducing costs. This is explained by the synergy of the purchases and better inventory management. Kedia et al (2011) also state that the merger can control the channels of production and distribution in order to avoid external flows. This vertical integration work also helps to stabilize incomes. Fusion can also be realized by the absorption of a competitor, which allows the company to increase its profitability and increase its market share. This is very common in the pharmaceutical field and sometimes allows monopolizing the market. Sometimes an investor buys a company in difficulty to improve its management and sell, allowing it to acquire a good reputation and do good business.

Implementation of mergers and Acquisitions: The merger between an acquiring company and the target company usually materializes through four stages. First, it should define the resources to acquire the target company. Then, it should choose the target, evaluate and calculate premiums control and synergy. After setting the mode of financing, it is necessary to proceed with the merger. This step is materialized by writing the letter of intent "letter of intent". The latter will focus on the selling price and

the payment method selected while specifying the market capitalization of the acquiring market (shareholder value). At this stage, it should pass the accounting entries relating to the registration of the merger and acquisition in the financial statements of the acquiring company. It is customary to proceed at this level in the audit of the target to verify the data presented in the letter of intent. Finally, the operation is concluded by the signing of the contract "agreement of purchase" which focuses on the guarantees given by the seller and specifies the terms of the merger.

Mergers and acquisitions are by waves: The transactions of mergers and acquisitions were made by wave. Harford (2005) defines it as the set of mergers that took place in the last ten years. Jovanovic and Braguinsky (2004) argue that these waves have reorganized business sectors. But Duchin and Schmidt (2013), mergers and acquisitions are due to the agency conflicts. Shleifer and Vishny (2003) found that mergers and acquisitions are rather triggered by the overvaluation of the shares of some companies market. But Jovanovic and Rousseau (2002) explained that merger waves can be explained by Tobin's Q as companies with significant Tobin Q are most interested in consolidation activities.

In America, merger and acquisitions are five waves: they started at the beginning of the 20th century when several large industrial companies have sought to become leaders to monopolize markets and this has been initiated by the boom in the automotive industry and technological and IT innovations and stock booms. The second wave took place in 1920 when several companies have sought new markets and wanted to diversify. The third wave is between the 60 and 70 where the big companies have become conglomerates and the fourth wave is to the 80 where large companies have sought to restructure. This wave also had hostile takeovers. The fifth wave preceded the Internet bubble has emerged and the giants of mobile telephony and aerospace and energy and has attracted a lot of liquidity.

2.1. Explanatory Theories of Mergers and Acquisitions

2.1.1. M & A and overvalued market theory

According to the theory of market timing, mergers acquisitions occur when the securities of the target company are undervalued and that those of the initiating company is overvalued. According to Shleifer and Vishny (2003), the overvaluation may cause long-term gains, allowing to benefit long-term shareholders. Besides, Rhodes-Kropf et al. (2005) state that the market overvalued theory explains better than Tobin's Q the merger and acquisition transactions and this result was also found by Gang Bi and Gregory (2011) according to which the purchasers are overvalued by the target.

2.1.2. Mergers and Acquisitions And Value Creation: Theoretical Foundation

Mergers and acquisitions are classified performing if they are accompanied by value creation. Devos et al. (2009) studied the performance of mergers and acquisitions in three theories: the theory of efficient markets, the free cash flow theory and control market theory. According to the theory of efficient capital markets Fama and French (1969), stock prices adjust to announcements of public events, and this is the form of semi-strong efficiency, however, this theory is disputed by other researchers (Thomas Charest 1978 and 1990) who advocate that the stocks do not reflect all available information.

To study the performance of reconciliations, according to the free cash flow theory, Jensen (1986) explains the convergence of business by the impact of funding on control transactions. Thus, the debt limits the discretion of management and would create value (Jensen 1989). And according to this theory, acquisitions financed by cash or debt are better than those funded by actions.

According to the theory of control of market, leaders compete on the market and some may be replaced if they are incompetent (Lehn and Zhao 2006). Some companies may also be targets of acquisitions and incompetent leaders can then be replaced (Lehn and Zhao 2006). We will study the following characteristics of firms that could explain the mergers and acquisitions.

2.2. Characteristics of Firms Merging

The success of a merger is conditioned by the size of the acquiring company and according to Chen (1991) and Fama and French (1993), the larger the target, the lower yields measured around the announcement will be positive. Moreover, the failure of mergers is especially notorious for firms of similar size. According Betton and Eckbo (2000), the success of the merger is also seen after the purchase of 5% of the shares of the target as a precursor to the finalization of the merger transaction. Balmer and Dinnie (1999) found that the failure of mergers is the lack of collaboration of short-term leaders financially. They are then faced leadership problems, hindering communication between them. For Gadiesh and Ormiston (2002), the lack of strategic vision hinders the post-merger collaboration. Poor post-merger coordination was also raised by Lynch and Lind (2002). The literature shows that leaders who align their strategies are successful post-merger and merger among the tools for measuring the effectiveness of the merger is the due diligence that is defined by Sinickas (2004) as the process where each party informs at best the other in order to "eliminate the discrepancy and determine the appropriate price." This was also confirmed by Perry and Herd (2004). Moreover, Harford (1999) shows that if the company is in a growth phase, it prefers to resolve its merger by securities, although its cash is abundant, it will keep it for future growth.

2.3. Stock Returns around Mergers and Acquisitions Announcements

By definition, the abnormal return of a share is the difference between the observed performance and normal yield, calculated according to a definite pattern. Much research has focused on the returns

of the target, receiving large bonuses paid during the takeover. As against the returns of the acquiring are usually zero or negative. For Eckbo and Thorburn (2000), the 1846 merger announcements made in Canada between 1964 and 1983, the performances

by Canadian businesses are better than those made by American firms. They explain this difference by a size effect.

Below is a table on the abnormal returns to the announcement of mergers and acquisitions:

Table 1. Study of abnormal returns around announcements of mergers and acquisitions

Study	Period of study	Sample	Event window	Abnormal returns of the purchaser	Abnormal returns of the target
Asquith and al. (1987)	1975-1983	343	(-1, 0)	-0,85%	+18 ,04%
Bradley and al. (1988)	1963-1984	236	(-5, +5)	+0,97%	+31,77%
Jarrell and Poulsen (1988)	1963-1986	462	(-20,+10)	+1,29%	+28,99%
Servaes (1991)	1972-1987	704	(-1,+1)	-1,07%	+23,64%
Boone and Mulherin (2000)	1990-1999	281	(-1,+1)	-0,37%	+20,2%
Andrade and al. (2001)	1973-1998	3688	(-1,+1)	-0,70%	+16%
Moeller and al. (2004)	1980-2001	12023	(-1,+1)	-1,1%	-
Betton and al. (2008)	1980-2005	4803	(-1,+1)	-0 ,01%	14 ,61%

2.4. Stock Returns Post the Merger and Acquisition Announcements

Few researches have focused on the study of post-merger stock returns although this issue remains important. But it should be noted that the negative results achieved in the long term need to be explained. Loderer and Martin (1992) show that the

results remain negative until five years after the mergers. Healy et al. (1992) also studied the performance of the post-merger companies on the following five years and found better performance when productivity improves. These results are also best when firms are merging in the same industry.

Table 2 summarizes the main studies that have focused on the post-merger stock returns.

Table 2. Studies of abnormal returns post-merger

Study	Period of study	Sample	Number of months after merger	Abnormal returns of the purchaser
Langetieg (1978)	1929-1969	149	(1-70)	-
Malatesta (1983)	1969-1974	256	(1-6) et (7-12)	-5 ,4% et -2,2%
Agrawal et al. (1992)	1955-1987	1164	(25,36)	-7,38%
Loughran et Vihj (1997)	1970-1989	947	(1,60)	-15,9%
Mitchell et Stafford (2000)	1961-1993	2767	(1,36)	-
Agrawal et al. (2012)	1993-2002	1300	(1,36)	-0,54%

3. INFORMATION ASYMMETRY AROUND MERGERS & ACQUISITIONS

The problem: One of the important fundamental applications of agency theory to the M&A problem is the real financial strengthen of the firm merged. In fact, mergers and acquisition flow most of the time in an environment characterized by high information asymmetry between investors and managers of the target and those of the acquiring. This asymmetry can unfortunately lead to failure of some mergers. Chen and Boeh (2011) suggest that many companies proceed strategically to reduce the asymmetry of information about this, even if these processes are expensive. And according to Reuer (2005), it is for investors to decipher all decisions incurred to measure the true value of the merged firm. It then occurs to decipher the merged company's disclosure policies such as the information content of its dividend policy in order to have a better idea about the value of his action. The presence of asymmetric information between managers and managers refers to moral hazard problem. This situation illustrates the conflict between manager (of the target) and managers (of the buyer) despite we used to study the principal-agent conflict in classical agency theory and empirical modeling.

The cause of the moral hazard models of the agency theory may be the principal-agent model. In these models, the agent has much private information about the real financial situation of the firm that the shareholders ignore. So, the performance of the group merged can be done in accordance to agent plan.

The solution: this problem is related to the disclosure of staff decision's field of research in which, the agent will make a decision and the principal has no assurance about the information that will be disclosed. This is a real ex-post moral-hazard problem.

4. CONCLUSION

This paper provides a theoretical analysis conducted on the merger and acquisition field of research. The major objective of this study is to reveal what can be conducted performing merger and acquisition. Overall, the literature agrees that mergers and acquisitions are successful when there is good coordination between the leaders, moreover, the existence of strategic planning will help managers to overcome performance periods minimal post-merger.

It is up to investors to consider all decisions incurred to measure the true value of the shares of the amalgamated company.

It must then decipher such information content of its dividend policy in order to have a better idea about the value of his action. However, to our knowledge, there is no research on the effect of the dividend policy on the status of the acquiring or the information content of dividends and stock returns around mergers and acquisitions, it which could open up future avenues of research on these issues.

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