# MANAGING MERGERS IN A DIFFICULT ERA: STOCK MARKET AND ACCOUNTING EVIDENCE FROM GREECE

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## Abstract

The study examines the impact of mergers on stock market and performance of companies which were involved at mergers in Greece. Thus, the study, by using a sample of twenty-three listed companies which executed at least one merger (as acquirers) during the period of economic crisis, analyses nine stock market measures and ratios using simultaneously accounting measures extracted from corresponding financial statements. More specifically, we test a company's performance by comparing a two-year span period before and after of all the merger events that took place within the period 2011-2015 (with data analysis from 2009 to 2017). The results of the study indicated that there is no statistically significant improvement or worsening for none of the examined variables in the post-merger period. In addition, we examined further merger characteristics, such as the method of payment and industry relatedness (qualitative variables). We observed statistically significant changes of a variable, in relation with the payment method, and in particular improvement of a variable when the exchange of shares is used as a payment method of a merger, instead of cash exchange.

**Keywords:** Mergers, Financial Statements, Ratios, Shares, Crisis, Greece

## 1. INTRODUCTION

One objective of companies' strategy is business growth, along with profit maximization and increasing market share at the corresponding business sector. Various strategies have been developed and implemented to accomplish this objective, such as the development and execution of business plans based on mergers and acquisitions (M&As) (Rodionov & Mikhalchuk, 2016). Through the merger of another company's assets, companies are attempting to achieve their established objectives either in their business sector or by entering different business sectors, thus expecting a higher increase of profits (Rao-Nicholson et al., 2016). An underlying thought for companies to be involved in an M&A process is that M&As might have potential economic benefits that would otherwise not have been possible without a change at the company's control. The above mentioned are faced either with skepticism and doubt by some academic researchers and business professionals or with enthusiasm by others (Ramaswamy & Waegelein, 2003; Tao et al., 2017).

Jensen & Ruback (1983) stated that we cannot be sure about the advantages of a merger. Unexpected profitability after mergers does not correspond always with the market's profitability and could lead to overestimations of future profits and accordingly changes to share prices. Increase and decrease in share prices is driven by several financial factors or the 'general' idea of synergy (Healy et al., 1992; Pantelidis et al., 2018). From another point of view, accounting classification methods or accounting system used may differ from one country to another, so implementation of

different accounting methods might cause possible disadvantages in business performance evaluation (Bhabra & Huang, 2013; Dutta et al., 2013).

In Greece, after the U.S. economic crisis in mid-2007, there was an outbreak of the economic crisis, which started in 2009. In recent years, lack of liquidity and decrease of profitability appear at the majority of every business sector in Greece. The present study aims to examine the crisis effects on companies' performance by focusing on M&As that were executed in Greece between the years 2011-2015 (with data analysis from 2009 to 2017). During this period, Greece was under the supervision of the 'troika' (EC, ECB and IMF) and incurred a shrinking of financial activity, since was influenced by economic uncertainty and instability (Pazarskis et al., 2018; Pantelidis et al., 2018).

Thus, the aim of this study is to examine both the stock market and the accounting performance of companies following mergers, by deploying several variables for all listed companies at the Athens Exchange, for the period of 2011-2015 (period of economic crisis in Greece). For the chosen sample of companies, specific merger characteristics are examined, in order to identify which parameters are associated with improvement of post-merger performance, in a period of economic crisis. The structure of the paper is as follows: Section 2 provides the literature review. Section 3 presents the research methodology and the examined data. Section 4 analyses the results of the study. The last section is the conclusions of the study.

## 2. LITERATURE REVIEW

### 2.1. Company performance following mergers

Many researchers are in favour of positive M&As effects, while others are more skeptical (Ramaswamy & Waegelein, 2003; Stunda, 2014; Tao et al., 2017). Diachronically, researches on M&As that deployed stock markets or accounting ratios supported either an improvement of post-merger company performance (Cosh et al., 1980; Rao-Nicholson et al., 2016), or a decline of the post-merger company performance (Sharma & Ho, 2002; Pazarskis et al., 2018). Also, there were researches that found no relationship from the M&As effect to company's post-merger performance (Healy et al., 1992; Ghosh, 2001; Bhabra & Huang, 2013; Rodionov & Mikhalchuk, 2016; Pantelidis et al., 2018). Many of the researches that examined the changes of acquiring companies' post-merger performance using accounting information, had had as main characteristic the different set of measures deployed, while, at the same time, always existed the matter of different accounting policies used (Bhabra & Huang, 2013). In order to examine M&As' results within the Greek context, during the period of economic crisis, the following first null hypothesis is formulated:

*$H_1$: The post-merger performance of the acquiring companies is not expected to have a significant change, during the period of economic crisis in Greece.*

### 2.2. Impact of payment method

Over the years, many studies examined the relationship between the payment method for M&As and their impact on the stock market and accounting performance (Faccio et al., 2006). The main payment methods used are cash payment and share-based payment. However, previous studies have shown that shared-based payments of an M&A do not always cause negative forthcoming returns for the acquiring companies (Netter et al., 2011). Myers & Majluf (1984) believed that the market is more likely to face a bid for a cash merger rather than a bid via shares. According to Jensen's (1986) free cash flow theory, the financing method is of great importance for the operating performance of the acquirers. Specifically, mergers paid via debt or cash would have lower returns due to a higher cost of debt, than those paid via equity (see also, Clark & Ofek, 1994; Manson et al., 1995). Bhabra & Huang (2013) argued that, within the Chinese market context, acquirers experience significant positive abnormal stock returns around the announcement date and over the three years after the acquisition, while their findings are partially attributed to payment with cash. Dutta et al. (2013) found similar positive results for Canadian acquirers. In Greece of economic debt crisis, companies face financial problems related to shrinkage of liquidity (Pantelidis et al., 2018). In order to examine the impact of payment method at the acquiring company's post-merger performance, the study categorizes data from selected sample companies in two groups: companies that preferred payment via shares for the M&A transaction and companies that preferred cash payment for the M&A transaction. Then, the sample is examined based on the second hypothesis:

*$H_2$: There is no significant difference in the financial performance for acquiring companies using different payment methods (cash or share) for mergers, in the period of economic crisis in Greece.*

### 2.3. Industry relatedness of merged companies (conglomerate merger or not)

Pantelidis et al. (2018) stated that preservation of a wider economic base, achievement of greater profit and development of better organizational strategy is better accomplished when two or more companies from different business sectors are involved in a conglomerate merger. Conglomerate mergers promote better organizational structure through the creation of an additional layer of management that undertakes coordinating duties among several divisions. Thus, a well-implemented strategy of diversification could result in the creation of a multi-segment company with efficient decision-making processes and improved performance (Pantelidis et al., 2018). From this point of view, the step of effective identification of target companies could lead to successful M&As that hide synergies in domestic or cross-border mergers (Jensen & Ruback, 1983; Rao-Nicholson & Salaber, 2013). As far as the Greek market is concerned, Pazarskis et al. (2017) found that different industry types have different financial performances, as their study indicated that construction companies have better financial performance compared with other companies from their sample. In order to examine whether

conglomerate mergers hide potential synergies, the study analyses the relationship between the sample acquirer companies' performance and their industry relatedness, in conjunction with their past managerial decision to acquire a company in their industry (horizontal or vertical merger) or not (conglomerate merger). This helps us to develop another hypothesis, which is:

*$H_3$: Merger effects are likely to be similar for companies with conglomerate mergers or not during the period of economic crisis in Greece.*

## 3. RESEARCH DESIGN

### 3.1. Sample selection and merger characteristics (qualitative variables)

The preliminary sample of the study consists of all listed companies with mergers for the period from 2011 to 2015, the period of Greek economic crisis. This sample could be examined for two years before and after every merger event, i.e. with stock data and annual financial statements analysis from the year 2009 (the beginning of the economic crisis in Greece) up to the year 2017 (the latest annual financial statements available). However, companies that engaged in more than one merger during previous two and next two years (of the selected reporting period), and companies that were in the process of bankruptcy, as well as companies that primarily provide financial services (for example, banks) were excluded from our sample. Thus, the final sample of our study consists of twenty-three (23) companies listed at the Athens Exchange, which merged with others listed or non-listed companies during the period 2011-2015. The various financial data for the selected sample of companies were retrieved from Athens Exchange website, and the companies' websites. The percentage of participation in the sample per year from 2011-2015 is shown at the table below.

**Table 1.** Number of mergers per year and their merger characteristics

| *Year* | *Conglomerate deals* | *Non-conglomerate deals* | *Deals with cash* | *Deals via stock exchange* | *Total number of Deals* | *Percentage per year* |
|---|---|---|---|---|---|---|
| 2011 | 1 | 5 | 1 | 5 | 6 | 26% |
| 2012 | 2 | 1 | 0 | 3 | 3 | 14% |
| 2013 | 2 | 2 | 2 | 2 | 4 | 17% |
| 2014 | 2 | 2 | 0 | 4 | 4 | 17% |
| 2015 | 0 | 6 | 0 | 6 | 6 | 26% |
| *Total* | *7* | *16* | *3* | *20* | *23* | *100%* |

### 3.2. Stock market and accounting ratios/measures (quantitative variables)

As analysis with stock market or accounting ratios and measures is one of the most common methods of financial analysis, our selected sample of companies will be analysed using nine variables. The purpose of using these ratios is to gain a better understanding of the real value of merger events since stock market analysis and accounting ratios/measures could lead us to useful conclusions. The variables selected for the analysis of the sample are presented and analysed in Table 2.

**Table 2.** Stock market and accounting ratios/measures (quantitative variables)

| *Variable* | *Abbreviation* | *Description* |
|---|---|---|
| $VAR_{01}$ | P | Price |
| $VAR_{02}$ | MV | Market Value |
| $VAR_{03}$ | DY | Dividend Yield Ratio |
| $VAR_{04}$ | PE | Price-Earnings Ratio |
| $VAR_{05}$ | EPS | Earnings Per Share Ratio |
| $VAR_{06}$ | DPS | Dividend Per Share Ratio |
| $VAR_{07}$ | DPS/EPS | Dividend Payout Ratio |
| $VAR_{08}$ | PTBV | Price To Book Value Ratio |
| $VAR_{09}$ | PC | Price-To-Cash Flow Ratio |

### 3.3. Methodology

The main purpose of the study is to examine the relationship between business performance and an M&A. We deploy a 'change model' that compares post- and pre-acquisition operating performances (Ghosh, 2001; Moeller & Schlingemann, 2005). Nine stock market measures and accounting ratios retrieved from financial statements are calculated for all sample companies, two years before the merger took place and two years after the merger took place, in order to find out whether this action proved to be beneficial to the company. The calculation of the ratios concerns all the companies in the sample two years before ($t$ - 2) and two years after ($t$ + 2) the merger took place during the period 2011-2015. Also, the average of the sum of each variable for the year ($t$ - 2) and year ($t$ + 2) and the corresponding comparison is calculated. In this study, for more accurate research results, we calculate the mean from the sum of each ratio instead of the median. This option has been used by many other researchers diachronically (Cornett & Tehnarian, 1992; Sharma & Ho, 2002). The reference year for each merger is the year of its realization and is defined as ($t$ = 0). For this reference year, reference numerals are not calculated, as important economic events affect the economic outcome of the year of the merger, such as the cost of financing the implementation of the merger, the cost of implementing synergies such as integration of information systems etc. (Healy et al., 1992; Pantelidis et al., 2018). Furthermore, two independent sample mean t-tests for unequal

variances are conducted, in order to test the above hypothesis.

Furthermore, we test the relationship between the changes in the performance of the acquiring companies in examined variables at the post-merger selected period. This is done by applying a modified methodology of Ramaswamy & Waegelein (2003) and Francis & Martin (2010). In particular, the change in performance of the acquiring company is measured as the change in a ratio (ΔVAR) from the post-merger value minus the pre-merger value. Specifically, if $\overline{VAR_1}$ is the pre-merger average of a specific measure i (ratios $VAR_{01}$-$VAR_{09}$) for an acquiring company and $\overline{VAR_2}$ is the post-merger average for the same company, then the change in accounting performance is calculated by the equation: $\Delta VAR_i = \overline{VAR_{2i}} - \overline{VAR_{1i}}$. Next, we analyze the merger characteristics under investigation by categorizing them in two or more sets. Because these sets have not a normal distribution, we use the Kruskal-Wallis test for the analysis of the hypotheses. (Pantelidis et al., 2018).

## 4. RESULTS

### 4.1. Results of companies' stock market-accounting performance following mergers

Companies under research are listed in the Athens Exchange and had participated and completed a merger between years 2011 and 2015. The nine measurable variables for stock market-accounting performance were calculated for two years before and two years after the merger, for a final sample of 23 mergers. Firstly, the variables selected with their descriptive statistics of our sample are presented at the following tables:

**Table 3.** Descriptive statistics of ratios (pre-merger)

| *Ratios* | *Mean* | *Median* | *SD* | *Minimum* | *Maximum* |
|---|---|---|---|---|---|
| $VAR_{01}$ | 2,16 | 1,41 | 2,412 | 0,03 | 9,76 |
| $VAR_{02}$ | 299 | 23 | 867 | 1 | 4740 |
| $VAR_{03}$ | 2,783 | 0,0 | 6,096 | 0,0 | 28,85 |
| $VAR_{04}$ | 16,05 | 9,6 | 15,44 | 0,5 | 59,0 |
| $VAR_{05}$ | 0,09 | 0,0 | 0,189 | 0,0 | 0,78 |
| $VAR_{06}$ | 0,1057 | 0,0 | 0,2263 | 0,0 | 0,94 |
| $VAR_{07}$ | 4,96 | 0,0 | 16,88 | 0,0 | 78,95 |
| $VAR_{08}$ | 1,21 | 0,57 | 2,37 | -1,64 | 15,0 |
| $VAR_{09}$ | 1,95 | 2,73 | 15,33 | -62,77 | 56,29 |

**Table 4.** Descriptive statistics of ratios (post-merger)

| *Ratios* | *Mean* | *Median* | *SD* | *Minimum* | *Maximum* |
|---|---|---|---|---|---|
| $VAR_{01}$ | 1,958 | 0,8 | 2,572 | 0,08 | 9,79 |
| $VAR_{02}$ | 338 | 13 | 993 | 1 | 4529 |
| $VAR_{03}$ | 1,561 | 0,0 | 6,289 | 0,0 | 40,98 |
| $VAR_{04}$ | 14,7 | 9,2 | 23,33 | 0,1 | 113,3 |
| $VAR_{05}$ | 0,1343 | 0,0 | 0,4023 | 0,0 | 1,86 |
| $VAR_{06}$ | 0,1226 | 0,0 | 0,207 | 0,0 | 0,78 |
| $VAR_{07}$ | 3,76 | 0,0 | 12,22 | 0,0 | 55,86 |
| $VAR_{08}$ | 1,0 | 0,188 | 2,234 | -0,3 | 14,92 |
| $VAR_{09}$ | 3,12 | 0,17 | 9,89 | -19,61 | 33,99 |

In Table 5 we present the results for years 2011-2015 based on t-test. A conclusion is that on the basis of two independent samples mean t-tests, there is no significant change of the number variables for the selected sample of twenty-three listed in the Athens Exchange companies. Thus, we accept the first hypothesis of the study. Similar conclusions have been drawn earlier studies based on stock market or accounting performance measures: Healy et al. (1992), Gosh (2001), Bhabra & Huang (2013), Rodionov & Mikhalchuk (2016), Pantelidis et al. (2018). On the other hand, different conclusions that there is an improvement in performance were found by: Cosh et al. (1980), Rao-Nicholson et al. (2016). Finally, some other researchers concluded that there is a worsening in performance: Sharma & Ho (2002), Bhabra & Huang (2013), Pazarskis et al. (2018).

**Table 5.** Comparison results (t-tests) of ratios from pre- and post-merger period

| *Variable* | *Mean Pre-Merger* | *Mean Post-Merger* | *t-value* | *p-value* | *95% CI* |
|---|---|---|---|---|---|
| $VAR_{01}$ | 2,16 | 1,96 | -0,39 | 0,699 | (-1,235; 0,831) |
| $VAR_{02}$ | 299 | 338 | 0,20 | 0,842 | (-347; 425) |
| $VAR_{03}$ | 2,78 | 1,56 | -0,95 | 0,347 | (-3,79; 1,34) |
| $VAR_{04}$ | 16,0 | 14,7 | -0,23 | 0,823 | (-13,42; 10,73) |
| $VAR_{05}$ | 0,090 | 0,134 | 0,68 | 0,501 | (-0,0866; 0,1753) |
| $VAR_{06}$ | 0,106 | 0,123 | 0,37 | 0,709 | (-0,0729; 0,1068) |
| $VAR_{07}$ | 5,0 | 3,8 | -0,39 | 0,701 | (-7,35; 4,97) |
| $VAR_{08}$ | 1,21 | 1,00 | -0,44 | 0,663 | (-1,164; 0,745) |
| $VAR_{09}$ | 2,0 | 3,12 | 0,43 | 0,665 | (-4,19; 6,53) |

*Note: ***, **, * indicate rejection of the null hypothesis at a significance level of 0.01, 0.05, 0.1, respectively.*

### 4.2. Results for the different merger characteristics

At the next step, the selected companies, tested in regard to the two business strategic choices, as identified, related to merger characteristics (qualitative variables of our study): first, the method of financing the merger, i.e. whether the merger was paid via cash or via shares, and second, the relatedness of industries for the acquiring and the acquiree company (conglomerate or non-conglomerate merger).

Firstly, when considering the criterion whether the payment of the merger transaction was made by cash or by share exchange, the results showed that a ratio, the dividend yield ratio (ΔVAR03) has a statistically significant change (see Table 6). More analytically, the relationship from the ΔVAR03, which shows a statistically significant change ($p <$ 0.1), indicates that the dividend yield ratio of the company was affected by the merger and more specifically of whether the payment of the merger was made by cash or by shares exchange. So, a conclusion is that mergers paid by exchange of shares had had better results on the specific ratio than mergers paid by cash. Thus, we reject the second hypothesis of the study. This result tends to be different with that of other researchers (Jensen, 1986; Clark & Ofek, 1994; Manson et al., 1995; Bhabra & Huang, 2013).

Secondly, we observe at Table 7 that there is no statistically significant change, at none of the nine variables examined, at the correlation between the activities of the merged companies, in terms of whether they produce similar products or provide similar services or not (conglomerate or non-conglomerate merger). So, we accept the third hypothesis of the study. Our results are aligned with these of Rao-Nicholson & Salaber (2013) who argue that only the detailed identification of target companies leads to successful mergers that possess value through synergies for the acquiring company.

**Table 6.** Results (Kruskal-Wallis test) for cash or equity payment

| *ΔVariable* | *Median* | | *p-value* |
|---|---|---|---|
| | *Cash* | *Stock exchange* | |
| $\Delta VAR_{01}$ | 0,115 | -0,37 | 0,103 |
| $\Delta VAR_{02}$ | 0,825 | -3,285 | 0,215 |
| $\Delta VAR_{03}$ | -3,335 | 0,0 | 0,063* |
| $\Delta VAR_{04}$ | 0,0 | 0,0 | 0,543 |
| $\Delta VAR_{05}$ | 0,0 | 0,0 | 0,635 |
| $\Delta VAR_{06}$ | -1,0 | 0,0 | 0,143 |
| $\Delta VAR_{07}$ | 0,0 | 0,0 | 0,639 |
| $\Delta VAR_{08}$ | 0,03 | -0,065 | 0,546 |
| $\Delta VAR_{09}$ | -1,845 | 0,43 | 0,625 |

*Note: ***, **, * indicate rejection of the null hypothesis at a significance level of 0.01, 0.05, 0.1, respectively.*

**Table 7.** Results (Kruskal-Wallis test) for conglomerate merger or not

| *ΔVariable* | *Median* | | *p-value* |
|---|---|---|---|
| | *Conglomerate* | *Non-conglomerate* | |
| $\Delta VAR_{01}$ | -0,12 | -0,165 | 0,774 |
| $\Delta VAR_{02}$ | -0,63 | -1,81 | 0,924 |
| $\Delta VAR_{03}$ | 0,0 | 0,0 | 0,244 |
| $\Delta VAR_{04}$ | 0,0 | 0,0 | 0,276 |
| $\Delta VAR_{05}$ | 0,0 | 0,0 | 0,593 |
| $\Delta VAR_{0}6$ | 0,0 | 0,0 | 0,592 |
| $\Delta VAR_{07}$ | 0,0 | 0,0 | 1,000 |
| $\Delta VAR_{08}$ | -0,08 | -0,06 | 0,633 |
| $\Delta VAR_{09}$ | -0,385 | 0,68 | 0,504 |

*Note: ***, **, * indicate rejection of the null hypothesis at a significance level of 0.01, 0.05, 0.1, respectively.*

## 5. CONCLUSIONS

Greece, after the U.S. economic crisis in mid-2007, falt in an economic crisis started in 2009 and lead to the supervision of Greek state from 'troika' (EC, ECB, and IMF). Inevitably, a shrinking of financial activity established during the last years in the Greek economy caused as a result of economic uncertainty and instability. This study aims to examine the crisis effects on companies' performance by focusing on mergers that were executed in Greece in the above referred period of crisis (years 2011-2015).

Thus, the present study examined both the stock market and the accounting performance of companies following mergers, by deploying several variables for all listed companies at the Athens Exchange. We examine all merger events during the years 2011-2015 based on stock market and accounting performance using nine variables (for two years prior to the merger and two years after the merger). The results indicate that there is no statistically significant improvement or worsening for none of the examined ratios in the post-merger period, but the whole general image of the Greek economy is not leading to business losses after mergers take place.

The study deployed the use of a non-parametric test, where the sample was tested based on two strategic business choices (qualitative variables): the payment method and the activity relativity between the acquirer and the acquiree, and in particular, if they fall under the same business sector. Industry relatedness did not present a statistically significant change. Finally, the payment method affected one ratio, the dividend yield ratio, and the conclusion is that mergers that were made by exchange of shares had had better results than mergers made by cash. Last, these research results could be proven useful to business executives,

consultants, official authorities or potential investors who express interest to invest in Greece.

As a future research of the study is proposed an analysis of a sample of non-listed (or mixed with listed) companies in Greece during the pre- and post-economic crisis period in order to reveal from different aspects the impact of economic crisis on companies at Greece. Also, a comparison of companies from different European countries could be useful, in order to compare the effects of the economic crisis of that period among different countries. Last, if another research could be applied to our selected sample (such as neural networks, or multi-criteria analysis) could lead us to different or more interesting results.

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