

# [Mergers and acquisition literature reviews examples](https://assignbuster.com/mergers-and-acquisition-literature-reviews-examples/)

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## Abstract

Business environment is increasingly changing pushing firms to adapt strategies that seek to enhance not only their competiveness but also sustainability. One such strategy is the M&A that is becoming a crucial tool for growing in both local and international markets. In that respect, this literature review sought to identify the reasons for M&A, their advantages as well as disadvantages. To achieve the objective, the review used past studies and researches on the subject seeking various authors’ views on the reasons, benefits and disadvantages. In the review, it has been identified that M&As have various benefits for all participating firms. However, there are also challenges and their success is dependent on the suitability of the strategy for a firm, the process involved as well as other factors. The study is useful for management and business stakeholders in identifying potential benefits as well as challenges should they consider M&A.

## Introduction

Different strategies are applied to expansion and growth of brand’s geographical scope and business. Thus, businesses have many ways for achieving their growth; through internal or organic development or by engaging in joint ventures and strategic alliances among other strategies. In that view, businesses are increasingly adopting the use of M&As for international and domestic growth. thus, research on M&As is becoming important for firms as a means of identifying their implications on firms’ and industry performance. With that consideration, this report presents a literature review on the purpose of M&As as well as their advantages and disadvantages.

## Note on Mergers and Acquisitions

A merger is where two or even more firms combine to become one large organization. Mergers are mainly voluntary often resulting to a new organization with a new name. On the other hand, the acquisition is where an organization is purchased by another. Actions like these can be as a result of friendly agreements or resulting from the hostility of one firm on another, where the acquirer firm retains control of the firm that is acquired. Thus, in the merger, it is one corporation that survives as it is a combination of corporations into one. In acquisition, one company that is the acquirer assumes the liabilities and assets of the firm that is formed after the transaction (Ebimobowei & Sophia, 2011).
However, it is important to state that M&As occurs in different ways forming different M&As types, which are as a result of the involved scope. Thus, M&As can be vertical, horizontal and conglomerate where horizontal M&As occurs when firms are producing similar product and having similar operations, hence the M&A involves direct competitors. On the other hand, the Vertical M&As are between organizations in different levels of the value chain, and conglomerate M&As are for companies from markets that are unrelated (Carvalho and Ferreira, 2009).

## Reasons

There are three main motives for M&As including synergy motives, agency motives and hubris motives. Every motive has got its impact in respect to the partners in an acquisition or a merger. The hypothesis for synergy has widely been documented in literature as researchers try to explain acquisition and mergers motives. This is a suggestion that acquisition and mergers happen when two organizations combine resulting to some economic gains.
Companies decide to M &As for various reasons. M & As may provide an opportunity for gaining synergies that may not be gained otherwise enjoying economies of large scale as well as been able to overcome the financial markets shortcomings. Further, the self-interest of the Managers or the insufficient evaluation of potential synergies could also result to M & As.

## Advantages

The key advanages of M&As for an organization include seing a firm in a position to have control over risks through the economies of large/mass scale, improvement of the total credit risk as well as exploitation of risk, improved product, and market initiatives. These forces have resulted in enhanced operational efficiencies as well as capitalized and larger institutions.
Mainly, M & As is only the available means of gaining skills and resources that may not be available within a market. The M&As always improves the effectiveness and efficiency of a whole industry while also positively impacting on the companies` ability to compete.
Furher, M&As offers a faster means of attaining the corporate growth objectives which evolve on continuum ranging from a very simple agreement, licensing, Alliance, to joint venture then to M & As as well as Greenfield begin-up investment. The growth via M&As have many merits in comparison to other growth models, mainly due to the fact that it offers faster and accelerated market response as well as reduced competition within the industry (Carvalho and Ferreira, 2009).

## Disadvantages

Hubris Hypothesis of the acquisition and mergers suggest that managers may opt to overpay for the targets owing to valuation errors. There could be a mistake in believe by the acquirer that valuation of the target is greater than the actual value of a market. Due to that, bidders tend to overpay and get negative gains while the shareholder of targets gets to profit. Then hypothesis of agency also shows another disadvantage as managers tend to do it for their personal benefit at the very expense of the shareholders. Therefore, the managers could pursue their personal interest and increase the size of the company. They may also raise the perquisite consumption that could damage the value of a firm(Ebimobowei & Sophia, 2011). Finally, when a company gets an international M & As, it gains complete control over the foreign unit. However, once it has been established, the transactions are very hard to change because they usually have a long-run consequence for the company (Carvalho and Ferreira, 2009).
Study’s relevance: he increasing adoption of growth and development strategies by businesses should be marked by increased evaluation of various strategies effectiveness. In that respect, a study on the reasons businesses considers M&As, identification of is benefits as well as disadvantages is crucial for management and stakeholders as it would help them make the right decision considering the potential gains and challenges as well as potential influences on its success.

## Literature review

Because of its very high relevance, several empirical studies as well as theoretical articles. have handled the issue of M&A. In that respect, the following is a summary of various articles’ views and their relevance to the study on reasons for M&As, t heir benefits as well as disadvantages.
Croson, Gomes, McGinn and Nöth (2004) conclude that M&A improves market’s efficiency through the capture of synergies among the transacting firms. However, they also note that takeovers impose externalities on remaining industry firms in both negative and positive terms.
Relevance: The article’s importance in this analysis is in demonstrating the benefits of the M&As in a market not only for individual firms but also the industry considering both positive and negative effects.
Bernile, Lyandres and Zhdanov (2012) examined businesses strategic incentives for engaging in the horizontal mergers. In their findings, they conclude that strategic reasons could explain the high takeover activities in periods of negative and positive demand shocks. They explain that the pattern results solely from businesses strategic interaction through output markets.
Relevance: The paper is crucial in demonstrating how firms strategic reasons results in choices for varying mergers’ types. In the analysis, the paper describes the nature of the markets that leads to varying mergers adoption. Finally, the analysis application of regression analysis that confirms the market behavior enhances the findings validity.
Phillips (2013) provides empirical tests and a model that shows how active acquisition in a market affects companies’ incentives for innovation as well as conducting R&D. In their model, they show that small businesses optimally decide to be more innovative when they are capable of selling out to the larger companies.
Relevance: The article is crucial for this analysis as it shows how the M&A process and benefits are dependent on the nature of companies involved as it finds large firms to be disadvantaged in engaging “ R&D war with the small firms given that they can access innovation through the acquisition.
Lodh and Battaggion (2015) analyzed 202 US firms in biotechnology between the year 1990 and the year 2009, investigating the extent of effect knowledge benefit in M&As involving different partners. The analysis addressed potentially endogeneity issues concluding that acquisitions between related firms usually increase the depth of business knowledge whereas the acquisitions involving unrelated companies’ results to increased knowledge breadth.
Relevance: The study provided a reliable and valid analysis given that it applied explorative research with data collected from sources including journals, conference papers textbooks, as well as the internet hence can be confirmed. Also, the paper is crucial in showing how the M&A process can affect the outcomes hence its benefits
Adebayo and Olalekan (2012) notes that M&As are increasingly becoming important in the corporate world, especially with intense globalization. That is identified from the large magnitude as well as growth in deal values as well as resulting mega-mergers that have been transacted recently.
Relevance: In addition to seeking an explanation of the reasons for M&As, the study also seeks goes ahead to analyze the effect of the transactions on involved firms as well as the industry in terms of profitability among other performance measures.
Ebimobowei and Sophia (2011) conducted a study focusing on the effects of M&A regarding the Nigerian banking sector. The analysis is used data collected from financial statements of the sampled banks. The analysis compared the financial institutions’ performance prior to the transactions and after the transactions. In their findings, there was no difference in performance.
Relevance: The study is relevant to his analysis as it sought to identify the effectiveness on M&A activities. Also, it is a crucial source given that the researchers applied t-test in the descriptive statistics study hence enhancing the findings’ validity.
Fapohunda (2012) examined the HR challenges of M&A regarding the Nigerian Banking industry. The study noted that human resources are essential for M&As and need to be emphasized throughout the mergers.
Relevance: The paper sheds light that, it is imperative that talks, as well as negotiations, should be beyond the balance sheet to in-depth understanding of compatibility that is capable of promoting the objectives realization.
Stunda (2014) analysis finding are that when comparing acquiring firms to firms that are not involved in M&A, the acquiring company’s’ share price to be significantly negative, but that of the M&A firms’ stock price effect is significantly positive. When the acquiring firms are evaluated by industry membership, findings suggest that firms engaged in M&A activities in all industries evaluated exert a significantly negative effect on stock prices, with the exception of the oil and gas industry along with the banking and financial services industry. These two industries were found to have a significantly positive effect on stock prices. However, there was a conclusion that firms operating in some industries could be more impacted in a positive way from the stock price view compared o firms in some other industries.
Relevance: The article is crucial given added approach in M&A analysis. That is because previous studies examined the acquiring companies’ that sought to undergo mergers as well as acquisitions also o the study on the impact that the activities have on the companies’ security’s prices.  Also, the previous studies provided mixed findings with some indicating negative while others indicated positive effect. Finally, the study is an advance of the previous studies as it expands the sample used as well as the period under consideration. These study’s findings are crucial as well as important as they provide managers and investors with more insight into effects of M&A, from acquiring company’s perspective.
Gomes, Weber, Angwin and Yedidia (2013) notes that knowledge of the M&A research is fragmented hence a need for establishing links in current approaches to the M&A as well as the success factors ha they promote. The article indicates that the dynamic relationships existing between the different perspectives about M&A as well as the success factors are significant.

## Relevance: Identifying the relationships is useful for further understanding of M&A’s performance outcomes.

Weber and Tarba (2012) concluded that the paradox of M&A failure vs. their growing activity may be a result of failure to synchronize activities at all involved merger stages.
Relevance: They present frameworks as well as managerial tools useful for researchers as well as practitioners in conducting better culture assessment for all stages in M&As including planning, screening as well as negotiation o enhance pos merger integration’s effectiveness.
McDonald, Coulthard and De Lange (2005) notes ha M&As are increasingly becoming dominant across the globe owing o pressure by stakeholders in their quest for increased value. The study also found out that there is clear alignment between firms as well as M&A objectives, but each firm has different emphasis and individual criterion.
Relevance: The paper is crucial as it analyzes mixed evidence relating to value as well as using flexible frameworks in the assessment
Ebimobowei and Sophia (2011) designed a study to examine M&A in Nigeria’s banking industry. The need for the study was informed by the fact that the Nigerian Banks were facing challenges despite a reduction of the banks in number from 89 to 25 by December 2005. These challenges that faced he banks resulted in researchers questioning the efficacy in banks consolidation in the country. In their findings, they revealed that the consolidation involving M&As in Nigeria failed to meet desired and set objectives among them liquidity, corporate governance, and capital adequacy. However, the failure in the M&A activities were associated with the process considering the involvement in fraud, corruption as well as insider abuses.
Croson, Gomes, McGinn and Nöth (2012) notes that M&As improves market efficiency with its capture of synergies among firms but also notes ha takeovers impose some externalities on the other firms within the industry.
Relevance: The paper provides a new concept of equilibrium designed for explaining as well as predicting takeovers’ setting. Also, its results support predictions on the equilibrium concept providing implications for future empirical tests.
Ebimobowei and Sophia (2011) sought to examine M&As in Nigeria banking industry noting that the M&A process is subject to various factors that could hinder their success. In that respect, they recommend that corruption, insiders’ abuses as well as frauds should be minimized for a market to drive M&A benefits.
Relevance: The authors’ study on M&A’s has a vast literature that span over half century while also drawing upon various and multiple perspectives.
Margherita and Paola (2008) describe the dividend valuation in evaluating the performance effect of the M&A transactions. The authors note that he synergy benefits can be measured using non-linear as well as stochastic frameworks.
Relevance: It provides critical viewpoint for considering the classical models also o evaluation technique for firms’ future dividends that could be applied in calculating the synergy index.
Mehmet Sinan G. (2013) analysis of the M&A’s benefits accumulation noted that it is highly likely that all parties have positive gains although more gains significantly shift and accumulate to the target firm.
Relevance: The results are crucial as they suggest that all parties bargaining for synergy gains but target firms are more capable of negotiating a larger portion of synergy gains given a predictable value.
Vilma and Mirja (2014) conducted a study on mergers effect on reputation. The researchers found out that mergers could fail to change the established reputations. Hence, desired improvements may be unnoticeable for the various stakeholders.
Relevance: The study is relevant as merging companies must be prepared for stakeholders’ increased expectations while previous organizational traits could remain in the stakeholders' assessments regardless of achieved improvements.
Ramakrishnan (2010) study found that merged companies demonstrate relatively better performance in comparison with their industries as well as their performance before the merger.
Relevance: The study is useful as it points towards advanced research with the use of longer periods that could help understand he longitudinal variations for merged companies’ performance. Also, it encourages finer‐grained research on all factors impacting the merged companies’ performance.
Weber and Shlomo (2012) case covers the processes affecting M&A’s performance elucidating the significance of integration approach in post‐merger period implemented for cross‐border transactions.
Relevance: The study is useful in understanding the pre‐ as well as post M&A processes providing new insights on both.
Piana (2005) notes that mergers are key for big as well as small business firms. In that respect, he authors indicate ha M&As are beneficial for the size of companies although he actual benefits accumulation could vary depending on other factors.
Relevance: The research is crucial for this study as it determines factors resulting in M&As failures also to considering the involved Strategic Change.
Sverdlove (2015) found out that acquiring companies fail to move rapidly toward suitable debt structure after a transaction involving acquiring of senior debt.
Relevance: The study results shows consistency with several studies on the capital structure that indicates changes in the structure as tending to persist as firms slowly revert to their previous structures.
Ehsan, Sungsoo and Ray (2005) conducted an individual firm year‐on‐year firm’s analysis showing that the managerial performance of merged firms improved.

## Relevance: The study confirmed the findings documented in earlier studies on M&As.

Rasha and Narayanan (2014) investigated he behavior of institutional investors surrounding mergers. Their findings shows that institutional investors tend to be attracted to mergers and acquisitions that have abnormally high returns mainly disregarding he market’s response to the MA’s announcements.
Relevance: The paper shows the marke behavior in response to the M&A activities hence a good description of the markets view on benefits of the transactions.
Gerry, Mike and Jeff (2005) examined the effect and nature of bargaining power in M&A transactions. In their findings, they identify that even the small unions to have significant power to determine the suitability of the transactions and choose the merger partners.

## Relevance: The articles usefulness is suggestion on importance of considering even he small partners power in the M&A negotiations.

Grace and. Howe (2010) examined the stakeholders’ perspectives on mergers effects. In their findings, they note that two step mergers are a general application that is suitable for even cased involving the one step.
Relevance: The paper have an advanced study comparing one and two step mergers hence filling a gap that missed in literature in regard to the minority shareholders. Hence the results are useful for corporate managers, regulators as well as policy makers and M&A advisors
Timothy, Mark and Manfredo (2010) used the case of agricultural cooperatives to analyze the performance of mergers as well as acquisitions. The analysis identified the key motive for the corporations to merge was the need to circumvent the capital constraint.
Relevance: The paper uses 2 sage econometric framework and tests in the analysis hence enhancing the results validity. In addition, the use of the agricultural sectors is an indication of diverse firms’ application of the strategy.
Camara Don and Punit Renjen (2004) analyzed the success factors for M&A and outlined them to include synergies making merged firms better in revenues as well as market share, detailed and early planning, focus on existing business growth, communicating early to customers, partners and employees as well as investors. Finally, envisioning desired culture is also a crucial factor.
Relevance: The paper goes beyond he benefits to determine the factors that could enhance or hinder their attainment hence outlining what management and stakeholders should pay attention to.

## Conclusion

Given the literature review, M&A are increasingly becoming crucial strategic management tools for firms given the dynamic business environment. In that respect, firms consider M&A as strategic moves to enhance their performance through synergy creation. However, it has been identified that although the strategy has several benefits it equally has challenges and is a success depends on on the nature of the firms involved as well as the suitability of the conditions and process applied.

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