

Preface

Globalization and liberalization have led firms from emerging markets like India to gain access to new resources and new markets. Two of the strategies of this access are mergers and acquisitions as they increase revenues, reduce costs and make the firms globally competitive. Of late, mergers and acquisitions (M&A) have grown at a rapid pace, which calls for an in-depth research as to what drives firms towards these phenomena and how it affects them financially.

The present monograph presents a research work relating to the impact of mergers and acquisitions on the returns in short and long terms. For the purpose, well-established research techniques, namely, event study methodology and two experimental designs, viz., ‘before-and-after design’ and ‘after-only design’ have been used. Besides these techniques, two surveys have also been conducted for top-level Indian corporate managers of the organizations that adopted the strategy of M&A. The surveys aim to gauge the managerial views about the corporate governance practices and the motives of mergers and acquisitions respectively. The findings of the survey are corroborated with the secondary data analysis.

The notable finding of the research is that market starts reacting prior to the announcement. The moment the information is made public; investors start reacting and the stock price jumps high, providing positive abnormal returns to the investors. Cross-border as well as domestic acquisitions have created value for shareholders of the acquirer company on the announcement. The results indicate that value creation is higher for cross-border acquisitions vis-a-vis domestic acquisitions. The acquisitions financed with cash experience higher returns than the acquisitions financed with stock. The acquirers of unlisted target firms experience higher returns than the acquirers of listed target firms. The acquirers earn when target remains as a wholly owned subsidiary. In contrast, the shareholders of acquirer lose when the target firm is absorbed with the operations of the acquiring firm. The acquisitions of targets from non-US developed market outperform the return from the acquisition of US targets.

Survey findings reveal that the primary motive of mergers in India during 2003–2015 has been to take advantage of synergies. Operating economies, increased market share and financial economies (lower risk leading to lower cost of capital) have been indicated in order of importance as the desired synergies to be gained through corporate mergers and acquisitions in India.

M&As appear to have been financially beneficial for the acquiring companies. Practice of corporate governance has progressed in a big way in Indian companies as revealed by their mean score; mean corporate governance score has also improved over time. There are several companies which proactively took initiatives and introduced good governance norms and standards even before these became mandatory. Companies in service sector have better corporate governance score than others. There is a positive association between corporate governance score and shareholders' wealth due to announcements of mergers and acquisitions. Companies with better corporate governance create higher shareholders wealth in short term. Companies having higher corporate governance score show better financial performance on the basis of all measures of rate of return. Companies with higher corporate governance score show better valuations.

Based on the findings of the research study, the following recommendations have been made for the investors: (i) *Earlier he sells, more he gains in case he wants to earn abnormal short-term returns.* (ii) An investor can also earn substantial returns if the shares of the acquiring company are purchased two days prior to the announcement day and sold two days after the announcement day. (iii) The announcement of cross-border acquisitions provides much higher returns than that for domestic acquisitions. In addition, the cumulative abnormal returns in the case of cross-border acquisitions are relatively more lasting while they are temporary in the case of domestic acquisitions. (iv) The announcement of complete acquisitions of target firm as a wholly owned subsidiary provides much higher returns than that for partial/ majority control acquisitions. Besides, the cumulative abnormal returns in the case of complete acquisitions are relatively more lasting while they are temporary in the case of partial/majority control acquisitions. (v) The announcement of acquisitions financed with cash payment provides substantial returns. (vi) As far as agency costs are concerned, investments in companies with better corporate governance score are more profitable.

Based on the findings of the research study, the following recommendations have been made for the corporate managers and policy makers: (i) The study suggests that the Indian managers adopt mergers and acquisitions as effective strategy for corporate growth. It brings attention of the managers to consider cross-border as well as domestic acquisitions as an option to strengthen their competitiveness as the effects of these announcements appear to be a good indicator of longer term success. (ii) Managers should think of cash as a mode of payment to finance mergers. (iii) The management may acquire the target firm as a subsidiary and may absorb it with its own operations later on. (iv) The management should be aware of the need for efficient corporate governance structure and mechanism to

control information asymmetry. (v) The findings that firm performance is significantly influenced by effective corporate governance could serve to justify regulatory measures towards enforcing healthy corporate governance regime and initiatives to encourage companies to adopt and adhere to these measures.

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