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Review of Literature Relating to Impact of Stock Return Behaviour on Mergers and Acquisitions

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Abstract

The present study has intended to analysis various literature relating to stock return behaviour towards the impact of mergers and acquisitions. Mergers and Acquisitions are an integral part which is much essential for the growing economy without much of finance required to rebuild a new a firm.

Keywords: Stock, Acquisitions, Mergers

Introduction

The purpose of review of literature is to inspect different approaches, concepts and results discussed in previous studies. It assists to learn various concepts covered in earlier studies and used to discover the research gap, which is not covered in earlier studies. Careful examination of earlier studies finds theoretical ideas and formulation of research in empirical way. In this way, the study scrutinizes review of literature regarding merger and acquisition activities both in India and abroad. Furthermore, the review collects different aspects of merger and acquisition and it is presented below.

Research Objective

The study has been carried out with the following objective

- To give an overview of mergers and acquisitions

Impact of Merger on Stock Return Behaviour

Li *et al*. (2019) intended to assess the cross-border mergers and acquisition and corporate social responsibility. The study showed that merger and acquisition activities experience a growth in the effectiveness of corporate social responsibility after the merger. Findings of the study revealed that merger and acquisition of firms had better investment performance due to acquisition cooperation based on corporate social responsibility. The findings also divulged that cross-border mergers do better to drive corporate social practices. In addition, investment costs can be considerably responsive to opportunities for Chinese firms with high corporate social responsibility. To sum up, it can be concluded that cross-border linking can serve as an effective channel through which they join greater corporate social responsibility activities.

Naveen and Vidhya (2019) examined the impact of pre and post bank merger announcement on stock price movements. The merger announcement sends a variety of information to market participants. The study also analyzed the connection between the day of the event and its impact on prices. The merger significantly boosts the value of the acquiring companies, which are eventually reflected in the share prices. Interested parties would expect a price increase due to the merger. Results showed that at the time of the merger announcement, he was more likely to have extraordinary income than normal. Findings showed that the merger announcement did not have a significant effect on share prices. It can be concluded that there were no signs to outperform based on the news in the market.

Huang and Ye (2018) scrutinized the merger and acquisitions motivation and post performance of internet corporations in China. The study showed that cumulative abnormal gain is generally considered a sign of performance. The study found that traditional merger-and-acquisition theory will continue to show the various problems associated with the merger of internet firms. Results found that the objectives of the merger are synergies, increasing the value of the company and strengthening the competitiveness of the market. It was also discovered that the merger and acquisition behaviour could have a positive impact on the company's performance in the short term. Findings indicated that the net profit, total return on assets and return on equity have increased because of the merger. It was concluded that merger and acquisition would provide consistent return in the short term.

Zakaria and Kamaludin (2018) investigated the short and long-run performance of mergers and acquisitions in Saudi Arabia. The study also considered at market adjusted initial returns with abnormal gains on buy-and-hold strategies used to assess short- and long-term performance. Results showed that investors could get significant market adjusted abnormal returns around event date. Additionally, investors may gain positive and significant adjusted market gain in the announcement period. The shareholder can use the abnormal gain potential during the holding period after the merger and acquisition news. Findings exposed that the market was inefficient. Therefore, it is very difficult to get good returns in terms of merger and acquisition. It was concluded that the merger could not offer adequate performance in the short and long term.

Geekiyanage and Jahger (2017) attempted to investigate stock price reaction to merger and acquisition announcement in Sri Lanka. The merger and acquisition will be very useful to manage the expansion, survival and fierce competition of the external market. To grow profitably and remain competitive, companies actively seek to develop new capabilities and capabilities through mergers and acquisitions. Findings revealed that a negative effect for the target company was found in the post-merger announcement. The study confirmed the significant benefit of the merger and acquisition. The results showed that after the merger announcements, acquiring company reveals a positive effect. It can be concluded that the merger would have a negative impact on the company's performance and a positive impact on the acquiring company.

Sylvani and Yunita (2017) endeavoured to check market reactions towards mergers and acquisitions announcement. The study aimed to estimate abnormal return in 10 days prior and after to the merger and acquisition announcements. Furthermore, it covered a period of 100 days to estimate abnormal return. The study intended to calculate share price volatility, trade volume and impact of announcement stock returns. Results indicated that there is not significant variation in before and after merger and acquisition announcement concerning price volatility, trade volume and announcement impact. In addition to those firm specific characteristics such as, profitability, leverage and age of the firm didn't influence the on cumulative abnormal return. It was concluded that there is no significant return found in both pre and post merger and acquisition announcement.

Butt and Qamar (2016) intended to measure the merger and acquisition announcement and its impact on stock return in Pakistan. The study showed that merger announcement have positive return in the whole event window. It was found that estimation of abnormal return will give perfect indication to make decisions. It was found that abnormal returns for the firms involved in merger have positive return in 31 days window time. In addition to that estimation of abnormal returns in 11 days and 21 days period found positive and it also enhanced abnormal return in post announcement. Further, there are more abnormal returns found in pre announcement than post announcement. Findings revealed that merger announcement offer no

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significant influence on rising shareholder wealth. It was concluded that merger announcement have positive return in stocks.

Israil and Khan (2016) intended to observe the impact of merger and acquisition on KSE of Pakistan. The study tests the semi-strong form of the efficient market hypothesis. EMH's semi-strong form confirms the market reaction to news of specific company announcements. Such an announcement has an impact on the share price and, eventually, on the wealth of the shareholders and the company. Results of the merger announcement offer are consistent with the acquisition efforts. The study showed that there was a significant positive share price in the previous announcement. Results also showed very few negative abnormal returns in the post-merger announcement. The results concluded a significant difference in the image of the target company of the bidders in the pre and post-merger announcement.

Ramya and Vanithamani (2016) examined the stock price behaviour with respect to merger and acquisition. The study revealed that banking sector renders significant role in growth of economy. Results revealed merger and acquisition is the key strategy executed by the Kotak Mahindra Bank in order to widen its market base and more geographical coverage. Findings stated that merger and acquisition is the major event, it is planned to increase customer base, capturing more market share and determine cost effectiveness in operation. Results of the study showed that abnormal return can increased in announcement day along with next day. It can be concluded that merger doesn't reveal any positive income in short-run. However, abnormal return existed in both pre and post event days.

Tang and Xu (2016) examined the target stock price run-up prior to merger and acquisitions announcement. The study showed that target firm mainly seek high level of price fluctuations in post merger. The study revealed that target company stock price goes up in pre merger announces. However, it makes acquisition lead high expensive and considerable portion of cost to the market. It was found that target company price increase in pre merger period is associated with insider trading information. However, insider trading destroys market efficiency and it overrule on certain aspects of corporate governance. Findings of the study confirmed that expectation on firm's growth in post merger is a real cause that driven the price increase with respect to announcements. It can be concluded that merger creates considerable income to the acquiring companies.

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Adnan and Hossain (2015) examined the merger and acquisition announcement and its impact on acquiring and target firm's stock price. The study showed that cumulative average abnormal return fluctuate to zero, if the no uniform price fluctuation in pre event window. The availability of insider information in pre announcement could reflect in stock prices instantly. The study showed that both target and acquiring firms return shows upward trend in pre announcement period. On the other hand, cumulative abnormal returns are found at normal in event day and no variation is found in both target and acquirer firms. Furthermore, in post announcement period, cumulative average abnormal return has been decreased considerably for the acquirer firm. It was concluded that stock price trend is varied to both target and acquirer firm in the announcement period.

Barsa (2015) aimed to measure the impact of merger and acquisition announcements on share prices of companies in Kenya. The study showed that there are changes in stock prices in accordance with the post merger announcement. The price of share has been decreased in post announcement in some companies and price of share increased in some companies. It was found that abnormal return is found in many merger and acquisition announcements. Likewise, the announcement of merger and acquisition has considerable impact on cumulative abnormal return in prior and post events. However, the price of share has been increased in post merger and acquisition announcement. The study showed that merger has significant effect on developing shareholder wealth after it merger impact. To sum up, it was found that merger announcement have significant effect on stock price valuations.

Parimala and Kalaiselvi (2015) attempted to assess the stock price volatility estimators in merger announcement. The study showed that different factors have influenced the stock price along with merger. Merger directly assists to attain consolidation of business activities, widening market and attain economies of scale in operation. The study revealed that merger failed to have effect on liquidity of stock trading and efficiency of price. It was found that return volatility had reduced significantly in post announcement. Findings showed that investors can generate handsome gains based on such announcement news. Results revealed that price volatility is more, if the event fulfils the investor expectation. However, low fluctuation failed to meet investor expectation. It can be concluded that merger create high volatility in pre-event than post event period.

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Liang (2013) analyzed the impact of merger and acquisition announcement on firms' stock performance. The study showed that merger and acquisition facilitated to achieve synergy, cost reduction, expansion of operation and economies of scale. The study adopted event study technique to predict abnormal gains generated in merger and acquisition announcement. It was found that acquirer get considerable positive return in two days prior and post announcement period. Considering such information, investors can earn significant abnormal return 2 days prior to and after the merger announcement. It was found that abnormal return is found more in short window period than long window. In summary, it was found that merger announcement re mainly depend on market expectation.

Moffett and Naserbakht (2013) examined the stock price behaviour of acquirers and targets due to announcements of merger and acquisition banking sector of USA. The study deals the merger with three ways, such as domestic versus cross border merger, acquirer versus target banks and means of payment. The classification paves the way for unique opportunity to measure stock price behaviour in various circumstances. The study showed that merger and acquisition announcement has generated positive gains in pre and post announcement period. The actual return of acquiring firm shareholder in merger and acquisition announcement of cash offer is higher than stock offers. Findings disclosed that average actual return in target firms in merger and acquisition announcement of cash offer is less than stock offers. It was concluded that stock return movement are differed to acquiring and target firms.

Soongswang (2013) attempted to focus on acquisition activities involved in Thailand. The study intended to measure acquisition activities and its effect on acquiring and target companies. The study deployed suitable method to estimate abnormal return for buy and hold, cumulative abnormal return, and returns in bid period. The study showed that cumulative average abnormal return prior to the twelve months and event month is found positive. Findings disclosed that buy and hold period return is also existing positive in such period. However, it was found that merger announcement produce significant and positive abnormal return to both target and acquiring firms. It can be concluded that merger and acquisition activities generates positive and significant gains to shareholders.

Conclusion

The analysis of the study on impact of stock return behavior on mergers and acquisitions showed that the M&A had a significant improvement on the shareholders wealth, stock prices were increased on the merger announcement, had a good number of increased customers and there was good reputation of the merging firms. Mergers and Acquisitions is a paradigm shift towards an economy as a whole

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