

THE IMPACT OF MERGERS AND ACQUISITIONS ON ECONOMIC PERFORMANCE OF GREEK FIRMS: AN ACCOUNTING PERSPECTIVE

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Abstract

This study examines the impact of mergers and acquisitions (M&As) on the economic performance of merger-involved firms in Greece. Using financial ratios, the post-merger performance of a sample of forty Greek companies, listed on the Athens Stock Exchange that executed at least one merger or acquisition in the period from 2003 to 2005 as acquirers, is investigated. For the purpose of the study, a set of four profitability ratios (ROE and ROA, before and after taxes, respectively) is employed, in order to measure firms' economic performance and to compare pre- and post-merger economic performance for two years before and after the M&A announcements. The results revealed that none of all the examined profitability ratios did not change significantly due to the M&A event. The final conclusion that conducted is that M&As have not had any impact on economic performance of merger-involved firms and they were finally investment actions of zero value.

Keywords: Mergers; Acquisitions; Financial Ratios; Economic Performance.

1. Introduction

The strategy literature commonly argues that mergers and acquisitions (M&As) are one of the mechanisms by which firms gain access to new resources and, via resource redeployment, increase revenues and reduce cost. The main hypothesis in successful M&As activities is that potential economic benefits arising from them are changes that increase economic performance that would not have been made in the absence of a change in control (Pazarskis, 2008).

However, many researchers and business practitioners regard with scepticism this hypothesis, despite the fact that many others are confident and enthusiastic. In order to examine the economic performance of Greek firms after M&As activities, this study proceeds to an analysis of the post-merger performance of a sample of firms, listed at the Athens Stock Exchange (ASE) in Greece that executed at least one merger or acquisition in the period from 2003 to 2005, using accounting characteristics (financial ratios), and attempts to investigate the M&As effects on their economic performance.

The structure of the paper is as follows: section 2 analyse the research design of this study (related past researches with financial ratios, sample and data, selection of variables-financial ratios, research methodology and hypothesis). Section 3 presents and analyses the results, and section 4 concludes the paper.

4. Research design

Related past researches with financial ratios

Several studies on economic performance after M&As that employed accounting ratios concluded on ambiguous results (Pazarskis, 2008). Many of them supported an improvement in the economic performance after the M&As action (Cosh et al., 1980; Parrino & Harris, 1999; and others), while other researchers

claimed that there was a deterioration in the post-merger firm performance (Meeks, 1977; Salter & Weinhold, 1979; Mueller, 1980; Kusewitt, 1985; Neely & Rochester, 1987; Ravenscraft & Scherer, 1987; Dickerson et al., 1997; Sharma & Ho, 2002; and others), and others researchers concluded a “zero” result from the M&As action (Kumar, 1984; Healy et al., 1992; Chatterjee & Meeks, 1996; Ghosh, 2001; and others).

Sample and data

The final sample consists of forty acquiring firms, listed in the ASE that executed at least one M&As action as acquirers in Greece during the period from 2003 to 2005. The study proceeds to an analysis only of listed firms as their financial statements are published and it is easy to find them and evaluate from them firm economic performance.

The M&As activities of the listed Greek firms have been tracked from their announcements on the web sites of the ASE and the PricewaterhouseCoopers. The data of this study (financial ratios) are computed from the financial statements of the M&As-involved firms and the databank of the Library of the University of Macedonia (Greece).

Selection of variables (financial ratios)

The economic performance of a firm is evaluated with its performance at some profitability ratios. For the purpose of this study, four financial ratios (profitability ratios) are employed, which are the following ratios:

- Return On total Assets (ROA) Before Taxes, that is equivalent with: (Earnings Before Taxes / Total Assets) and is symbolised with the code: V1.
- Return to Owner's Equity (ROE) Before Taxes, that is equivalent with: (Earnings Before Taxes / Equity) and is symbolised with the code: V2.
- Return On total Assets (ROA) After Taxes, that is equivalent with: (Earnings After Taxes / Total Assets) and is symbolised with the code: V3.
- (Return to Owner's Equity (ROE) After Taxes, that is equivalent with: (Earnings After Taxes / Equity) and is symbolised with the code: V4.

Research methodology and hypothesis

The M&As action of each company from the sample is considered as an investment that is evaluated by the NPV criterion (if $NPV \geq 0$, the investment is accepted). Based on this viewpoint, the study proceeds to its analysis and regards the impact of an M&A action similar to the impact of any other positive NPV investment of the firm to its ratios over a specific period of time (Healy et al., 1992; Pazarskis, 2008).

In order to evaluate the relative change with ratio analysis of the sample of the Greek firms that executed M&As actions, the general form of the hypothesis that is examined for each financial ratio separately (ratios from V1 to V4) is the following:

H_{0i} : There is expected **no** relative change of the financial ratio i from the M&As event.

H_{1i} : There is expected relative change of the financial ratio i from the M&As event.

where,

$$i = \{V1, V2, V3, V4\}$$

The crucial research question that is investigated by examining the above mentioned ratios is the following: “Economic performance in the post-merger period is greater than it is in the pre-merger period?” (Pazarskis, 2008).

The selected financial ratios for each company of the sample over a two-year period before (year T-2, T-1) or after (year T+1, T+2) the M&As event are calculated, and the mean from the sum of each financial ratio for the years T-2 and T-1 is compared with the equivalent mean from the years T+1 and T+2, respectively¹.

The study does not include in the comparisons the year of M&A event (Year 0) because this usually includes a number of events which influence firm economic performance in this period (as one-time M&As transaction costs, necessary for the deal, etc.) (Healy et al., 1992; Pazarskis et al, 2008; Pazarskis, 2008).

¹ In this study, the mean from the sum of each financial ratio is computed than the median, as this could lead to more accurate research results (Pazarskis, 2008). This argument is consistent with many other researchers diachronically (Philippatos et al., 1985; Neely & Rochester, 1987; Cornett & Tehnarian, 1992; Sharma & Ho, 2002; Pazarskis et al, 2008; Pramod Mantravadi & A. Vidyadhar Reddy, 2008; and others).

Last, to test this hypothesis two independent sample mean t-tests are applied. The results are presented in the next section.

5. Results

From a set of four profitability ratios (Return On total Assets / ROA before taxes, Return to Owner's Equity / ROE before taxes, Return On total Assets / ROA after taxes, Return to Owner's Equity / ROE after taxes) that is examined, the results revealed that none of all the examined profitability ratios did not change significantly due to the M&A event (see V1-V4, Table 1).

Table 1. Results of sample firms

<i>Variable</i>	<i>Pre- or post-merger performance</i>	<i>Mean</i>	<i>T-statistic (Two-tail)</i>	<i>P-Value</i>	<i>Confidence Interval 95%</i>
<i>V1</i>	pre-merger	0,087	-0,65	0,520	(-0,0643 , 0,0327)
	post-merger	0,071			
<i>V2</i>	pre-merger	0,242	-0,61	0,545	(-0,2362 , 0,1252)
	post-merger	0,186			
<i>V3</i>	pre-merger	0,064	-0,81	0,418	(-0,0519 , 0,0217)
	post-merger	0,049			
<i>V4</i>	pre-merger	0,173	-0,70	0,483	(-0,1877 , 0,0891)
	post-merger	0,123			

These results are not consistent with the results of some others studies that found a decline of the profitability ratios in the post-merger period: Meeks (1977), Salter & Weinhold (1979), Mueller (1980), Kusewitt (1985), Neely & Rochester (1987), Ravenscraft & Scherer (1987), Dickerson et al. (1997), Sharma & Ho (2002), and others.

Also, this result is consistent with the results of some other past studies that there is no relative change of economic performance from any examined profitability ratios due to M&As activities: Kumar (1984), Healy et al. (1992), Chatterjee & Meeks (1996), Ghosh (2001), and others.

Furthermore, the results of this study revealed that as M&As have not had any impact on economic performance of merger-involved firms, they were finally investment actions of zero value for the sample firms, even two years after the M&A transaction, and they do not lead to enhanced economic performance.

6. Conclusions

This study have been chosen the accounting studies in order to examine the impact of mergers and acquisitions (M&As) on the economic performance of merger-involved firms in Greece. Using four financial ratios (profitability ratios), the post-merger performance of a sample of forty Greek companies, listed on the Athens Stock Exchange that executed at least one merger or acquisition in the period from 2003 to 2005 as acquirers, is investigated. For the purpose of the study, a set of four profitability ratios (ROA before taxes, ROE before taxes, ROA after taxes, ROE after taxes) is employed, in order to measure firms' economic performance and to compare pre- and post-merger economic performance for two years before and after the M&A announcements. The results revealed that none of all the examined profitability ratios did not change significantly due to the M&A event. The final conclusion that conducted is that M&As have not had any impact on economic performance of merger-involved firms and they were finally investment actions of zero value, even two years after the M&A transaction.

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