IMPACT OF MERGERS ON POST MERGER ECONOMIC VALUE ADDITION

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Abstract:

In the modern times, Mergers and Acquisition have become a major force in the financial and economic environment all over the world. Essentially an American phenomenon till1970, M&As have now become a global business theme. The subject has generated lot of interest of researchers who try to examine various aspects of successful as well as failed mergers and acquisition to draw lessons for effective management of this activity..

The research was undertaken to examine 41 cases of domestic mergers in India during the period between 1999-2009 to ascertain whether post-merger Economic Value Addition (EVA) improved or not when compared with pre-merger EVA of both target and acquiring companies' EVA put together. It was further examined as to what factors contributed to improvement in EVA. Whether it was on account of efficiencies achieved by the company due to improvement in efficiency ratios or improvement was on account of growth parameters.

In 27 cases out of 41 mergers examined (forming 66 %), it was found that EVA has improved whereas in 14 cases forming 34 %, post-merger EVA did not improve.

It was found that there was no statistically significant correlation between efficiency ratios and improvement of EVA. However there was substantial evidence that growth in EVA was strongly associated with growth in net sales and growth in total assets.

The research findings were in agreement of findings of McKinsey research as well as Sales maximization model of noted economist Boumol.

Key Words: Economic Value Addition (EVA), Mergers and Acquisitions, Efficiency Ratios, Growth parameters.

1. Introduction:

The primary objective of any corporate house is to grow with profitability. The brand creation, market share, functional specialization, beating the competition, etc. are the objectives which the companies pursue. So every company plans its business and operates with these objectives in mind. It takes different routes such as expansion and diversification. But these organic routes have time element as well as element of scale of operation which serve as limiting factors. Inorganic growth through the route of Mergers and Acquisitions is the fastest and quickest mode of growth and Modern Mantra of corporate CEO who is in a hurry to show case his / her performance.

In the modern times, Mergers and Acquisition have become a major force in the financial and economic environment all over the world. Essentially an American phenomenon till1970, M&As have now become global business theme.

2. Research Problem:

Study by KPMG:

In a study conducted by KPMG in June 1999, taking sample of 700 M&A deals their findings about the deals which succeeded in unlocking shareholder value are as under :

Deals which added value	: 17 %
Deals which produced no discernible value	: 30 %
Deals which destroyed value	: 53%
In other words deals which failed	: 83%

2.1 The question therefore, was: what is the statistics of successful M&A deals in India?

This research therefore, was conducted to answer this question.

2.2 Main Hypothesis which was tested in this research:

Mergers and Acquisitions as a corporate strategy improve Growth and Profitability of the combined corporate entity when compared to its pre M&A independent values, using Economic Value Addition (EVA) as well as ratio analysis as yardstick of measuring post-merger performance.

2.3 Other Hypothesis tested were:

a) Post-merger EVA improves on account of efficiency achieved by economies of scale measured by reduction in following expense ratios:
   1. Cost of Raw materials consumed to as % of Net Sales
   2. Cost of Employees to as % of Net Sales
   3. Cost of Power to as % of Net Sales
   4. Cost of Selling & Administrative expenses to as % of Net Sales
   5. Cost of Interest to as % of Net Sales
   6. Other Manufacturing & miscellaneous expenses to as % of Net Sales

b) Post-merger EVA improves as it is a function of Growth indicated by:
   1. Growth in Net Sales
   2. Growth in Net Worth
   3. Growth in Total Assets
   4. Growth in Capital employed

c) And these improvements were measured by profitability ratios.

2.4 Source of Data / Sample size :

The data about the listed companies were obtained from: Corporate database of Capital line, particularly Profit and Loss accounts of 41 merger cases involving 82 companies for three years prior to merger as well as three years after the merger (Total six year period), Balance sheets of these companies for three years prior to merger as well as three years after the mergers. (Total six years) were obtained.

2.5 Methodology:

From this data, following parameters were calculated for six years: 3 years pre-merger and 3 years post-merger:

- Economic Value Addition (EVA)
- Cost of Raw materials consumed to as % of Net Sales
- Cost of Employees to as % of Net Sales
- Cost of Power to as % of Net Sales
- Cost of Selling & Administrative expenses to as % of Net Sales
- Cost of Interest to as % of Net Sales
- Other Manufacturing & miscellaneous expenses to as % of Net Sales
- Growth in Net Sales

- Growth in Net Worth
- Growth in Total Assets
- Growth in Capital employed
- Return on Net Sales i.e. Profit after Tax(PAT) to as % of Net Sales
- Return on Net Worth i.e. Profit after Tax (PAT) to as % of Net Sales
- Return on Total assets i.e. Profit after Tax (PAT) to as % of Net Sales
- Return on Capital employed i.e. (PAT) to Capital employed as %
- Debt Equity Ratio.
- Current Ratio.

The parameters, mentioned above, were calculated for six years on the basis of historical data obtained from Profit and Loss as well as Balance sheets for both pre-merger as well as post-merger period. While this data of six years did indicate trend but evaluation of performance required two comparable figures.

The research process therefore, reduced six years data into two comparable figures:

- Average of three year Pre-merger data and
- Average of three year post- merger data.

Figures of these two averages presented comparable data amenable for Statistical software SPSS.

3. Research Gap: Having considered the analysis of research studies, we have arrived at the research gap as under:

There is a clear research gap as none of these studies have examined EVA – economic value addition as a parameter of success of M&A deals. The focus of this study has been to examine EVA as a parameter of success of M&A deal. Pre-merger combined EVA of target as well as acquiring company is compared to post merger EVA of combined entity, with a guideline that if post-merger EVA improves, M&A deal is successful. Further, ratio analysis has been made to understand what the factors are contributing to improvement or destruction of EVA so as to provide broad guidelines to the managers organizing M&A deals to effective implement the M&A process to endure its success by keeping objective of improving post M&A economic value addition.

3.1 The above research gap was been identified on the basis of literature review, the gist of which is as under:

Basically, there are two approaches that deal with returns to shareholder on account of M&A deals:

- Event Study
- Financial Performance Studies of M&A

3.2 Event Studies:

Event studies examine the abnormal returns to the shareholders in the period surrounding the announcement of a transaction. The return on stock is the change in share price divided by the closing share price on the day before. The abnormal or excess return is the actual return less a benchmark return –what the investors would expect that day which typically would be the return on a market index, or bench mark specified by the capital asset pricing model. The difference between return on a particular stock and return on market index is called abnormal gain or loss. And this method of analysis is known as Market Return Method.

3.3 Financial Performance Studies of M& A:

The accounting studies examined the reported financial results of acquirers before and after the acquisition to see how financial performance changed. The focus of these studies has been on variables such as net income, return on equity or assets, EPS, leverage or liquidity. Gist of these studies is given below:

B.Lev and G. Mandlekar (1970) examined the profitability of mergers along with such aspects as risk, growth, capital structure, income tax savings, earnings per share, etc. and concluded that long term profitability of acquiring companies is somewhat higher than that of non-merging firms.

Krishna Palepu (1985) found that there is no significant cross sectional difference between the profitability of firms with predominantly related and unrelated diversification and profitability of firms with high and low total diversification. Moreover, the study found that the superior profitability growth was significantly greater than that of unrelated diversifiers.

A 1987 study of 471 acquirers between 1950 and 1977, by **Ravenscraft** concluded that buyers' profitability was one or two percentage lower than that for a group of control firms.

The study by **Paul M. Healy and Krishna Palepu (1992)** examined the post-merger cash flow performance of acquiring and target firms and examined the sources of cash flow performance based on 50 target companies in US mergers between 1979 and mid-1984. The study found that merged firms show significant improvement in asset productivity relative to their industries, leading to higher operating cash flow returns. The study further suggested that post-merger cash flow improvements did not come at the expense of long term performance. The sample firms maintained their capital expenditure and R&D rates relative to their industries after the merger. The study also found strong positive relation between post-merger increases in operating cash flows and abnormal stock returns at merger announcements, indicating that expectations of economic improvements explained a significant portion of the equity revaluations of the merging firms.

Cornett and Tehranian(1992) examined the post-acquisition performance of large bank mergers between 1982 and 1987. The results of their study indicated better performance of merged banks due to improvements in their ability to attract loans and deposits, in employee productivity and in profitable assets growth. Further, the study found a significant correlation between announcement period abnormal returns and various performance measures, indicating that market participants were able to identify in advance improved performance associated with bank acquisitions.

Switzer (1996) examined the change in operating performance of merged firms using a sample of 324 transactions between 1967 and1987. The results were not sensitive to factors such as offer size, industry relatedness, bidders and targets' businesses or bidders' leverages. The study, however, found positive association between the abnormal revaluation of the firms involved in the merger and changes in operating performance.

The study by **Healy (1997)** found that strategic takeovers which are generally friendly transactions involving stock and firms in overlapping businesses, are more profitable than financial deals which are usually hostile transactions involving cash and unrelated businesses. The results of this study also showed that the acquiring companies did not generate any additional cash flows beyond those needed to recover the premium paid.

Alok Ghosh (2001) compared the post and pre acquisition performance of merging firms relative to matched firms to determine whether operating cash flow improved following acquisitions. The study indicated that cash flows increased significantly following acquisitions that were made with cash, but declined for stock acquisitions.

Rovit and Lemire (2003) examined the performance (actual minus cost of equity) of 742 large US companies that made 7575 acquisitions between 1986 to 2001. They found that acquirers carrying out more than 20 deals in 15 years outperformed the firms that had made 1 to4 deals by a factor of 1.7 and non-buyers by a factor of 2.

The study by **Pawaskar (2001)** compared the pre-merger and post-merger operating performance of Indian companies involved in merger by identifying their financial characteristics. With a sample of 36 cases of mergers between 1991 and 1995, the study found that mergers seem to lead to financial synergies and a onetime growth.

The study by **B. Rajesh Kumar (2007)** examined the post-merger operating performance of merged firms using a sample of 57 large mergers during 1995-2002. The pre and post-acquisition operating cash flow performance of merging firms relative to matched firms, compared to determine whether operating performance improved following mergers. The merging firms were matched on the basis of pre-acquisition performance and size. Three alternate methodologies were utilized for the study in which cash flow was deflated by market value of assets, book value of assets and the sales value. The results based on book value of assets and sales value model provided some evidence to suggest that corporate performance improved due to mergers. The model based on market value of assets did not support the the hypothesis that operating performance improved after mergers.

In another study by **B.Rajesh Kumar (2007)** focused on the characteristics that make the firm acquirer and on identifying those characteristics of a firm, which could have significant impact on the probability that the firm would be acquired. The ratios involved in the study were reflective of the financial and product market characteristics. The sample firms comprising of 227 acquirers and 215 targets were used to examine the likelihood that a given firm would be target of an acquisition attempt. The size of target firms was much smaller, compared to the acquiring firms. The acquirer firms had higher cash flows, higher PE ratios, higher book value, higher liquid assets and lower debt to total assets ratio, which were statistically significant when compared to the target firms. Some evidence pointed out higher leverage of target firms. The lesser the liquidity position of a firm, greater the probability of a firm becoming a target. The larger firms were less likely to become acquisition target.

In yet another study, **B.Rajesh Kumar (2007)** examined the financial characteristics of firms that have engaged in multiple mergers. In this context multiple firms were defined as mergers of three or more mergers in which acquiring firms were engaged. The study attempted to determine the characteristics of acquiring firms and observe whether multiple merger firms showed superior corporate performance as compared to matched control group. The results have shown that for acquirer firms, which had undergone multiple mergers, the average sales, profit and cash flows for a period of ten years were higher as compared to a control group matched by industry and size. The mean of average of the sales of control firms was only 40.5% of the sales average for the merger firms. Also, the multiple merger firms' mean of profits was about 200% higher than that of control firms. The study also found evidence consistent with the market power and size hypothesis of merger theories. The negative relationship between solvency and interest coverage ratio, found by the study, suggested that firms with the capacity to increase debt, or service debt, were more likely to engage in multiple mergers. Also, the higher the ratio of sales to assets, the lower is the probability of acquisition. In other words, an important factor affecting the firm's probability of gong for multiple mergers was the inability of the incumbent management to generate more sales per unit of assets. The results of regression also indicated that the main shareholder power variable was negatively related to the probability of multiple mergers. The results indicated that lower financial leverage and unused debt capacity would be a motive for firms to use multiple mergers as a strategic business tool. Thus, a firm's capital structure appeared as an especially important variable in the decision to go in for multiple mergers.

K. Ramakrishna (2008) analysed cash flow accounting measures to study whether firm performance improved in the long term post-merger. His research on 87 domestic merger indicated that in the long term, mergers appear to have been financially beneficial for the firms in the Indian industry. (Vikalpa April-June2008 Volume 33 Issue No-2)

Raj Kumar (2009) in his study of 30 domestic mergers, found that the post-merger profitability, assets turnover and solvency of acquiring companies, on average, did not show any improvement when compared to pre-merger values. (Management Research News, Vol 32, No: 2, 2009 Emerald).

5. Analysis of data and Findings:

Taking EVA and ratio analysis as yard stick, the data was analysed and it was found as under:

5.1 Results of Research study with regards to successful and unsuccessful cases:

Economic Value Addition: EVA:

It has been the central theme of the research study that the management of the companies takes up M&A transactions for growth and profitability resulting in improvement of EVA. We have found the change in EVA for post-merger period when compared to EVA in pre-merger period as under:

5.1 Table showing change in EVA:

	Frequency	Percent	Valid Percent	Cumulative Percent
Unfavourable	14	34.15	34.15	34.15
Favourable	27	65.85	65.85	65.85
Total	41	100.0	100.0	

It was observed that out of 41 cases under examination, EVA improved in 27 cases constituting 66.85% of the total sample size, whereas it declined in 14 cases constituting 34.15% of the sample size.

Improvement in EVA refers to post-merger EVA when compared to its premerger EVA, calculated on the basis of average 3 year EVA of post-merger period and compared with average of 3 years of pre-merger period.

5.2 The improvement in EVA was checked with its relationship of ratio analysis. The findings

Sr. No	Ration	Fav. EVA	Fav. EVA	Un fav. EVA	Un fav. EVA	Total
		Fav. Ratio	Unfav. Ratio	Fav. Ration	Un Fav. Ration	
1	**Raw Material Cost**	11	7	4	7	29
		(61.1%)	(38.9%)	(36.4)	(63.6)	
2	**Employee Cost**	16	8	9	8	41
		(66.7%)	(33.3%)	(52.9%)	(47.1%)	
3	**Power Cost**	16	5	8	6	35
		(76.2%)	(23.8%)	(57.1%)	(57.1%)	
4	**Selling & Admin. Cost**	11	13	9	8	41
		(44.0%)	(56%)	(53%)	(47%)	
5	**Interest Cost**	15	9	12	5	41
		(62.5%)	(37.5%)	(70.6%)	(29.4%)	
6	**Other Mfg. Cost**	14	8	6	5	33
		(63.6)	(36.4%)	(54.5%)	(45.5%)	

- Observations on Ratio analysis and EVA:
- Improvement in Ratio of Power Cost to Net Sales was associated with highest number post-merger entities where EVA improved: 76.2%.
- Improvement in Ratio of Employees cost was associated with 66.7% of cases of post-merger entities where EVA improved.
- Improvement in Ratio of other manufacturing cost to sales was associated with 63.6% of post-merger entities in which EVA improved.
- Improvement in Interest cost was associated with 62.5% of post-merger entities with improvement in EVA.
- Improvement in Raw material cost ranked fifth in association with 61.1% of post-merger entities where EVA improved.
- Selling and administration cost ranked last and was associated with 44% of post-merger entities where EVA has improved.

5.3 Thereafter, the correlation of Ratio analysis and improvement in EVA was worked out and Chi Square test was conducted:

Post-Merger Performance Correlation of Ratios with EVA and Chi Square Tests

Sr. No.	Ratios	Correlation with EVA	Pearson Chi Square Test
1.	Raw Material Cost	+ .240	.196
2.	Employee Cost	+.139	.375
3.	Power Cost	+ .201	-334
4.	Selling & Admin Cost	-.088	.669
5.	Interest Cost	-.084	.591
6.	Other Mfg. Cost	+.088	.614

- It was observed that:
- Change in EVA was positively correlated with Raw Material, Power, Employee as well as other manufacturing cost but negatively correlated with Interest Cost.
- The correlation was not statistically significant as observed by Chi Square Test.

5.4 Next we studied relationship of Growth parameters and EVA .Results are as under:

Post-Merger Performance of Growth Parameters

Sr. No.	Growth Parameters	Favourable	Unfavourable	Total
1.	Growth in Net Sales	38	03	41
		(92.7%)	(7.3%)	
2.	Growth in Net Worth	35	06	41
		(85.4%)	(14.6%)	
3.	Growth in Total Assets	35	06	41
		(85.4%)	(14.6%)	
4.	Growth in Capital Employed		06	41
		(85.4%)	(14%)	

5.5 Post Merger Performance Relationship of Growth parameters with EVA

Sr. No	Ration	Fav. EVA	Fav. EVA	Un fav. EVA	Un fav. EVA	Total
		Fav. Growth	Unfav. Growth	Fav. Growth	Un Fav. Growth	
1	**Growth in Net Sales**	26	1	12	2	41
		(96.3%)	(3.7%)	(85.7%)	(14.3%)	
2	**Growth in Net worth**	23	4	12	2	41
		(85.2%)	(14.8%)	(85.8%)	(14.2%)	
3	**Growth in Total Assets**	24	3	11	3	41
		(89%)	(11%)	(78.6%)	(21.4%)	
4	**Growth in Capital Employed**	22	5	13	1	41
		(81.5%)	(18.5%)	(93%)	(7%)	

5.6 Post Merger Performance: Correlation of Growth Parameters with EVA & Chi Square Test

Sr. No.	Growth Parameter	Correlation with EVA	Chi Square Test
1.	Growth in Net Sales	+.144	.357
2.	Growth in Net Worth	-.068	.662
3.	Growth in Total Assets	+.072	.646
4.	Growth in Capital Employed	-.208	.182

- It was observed that:
- Change in EVA was positively correlated to Growth in Net Sales and Total Assets but it was negatively correlated with other growth parameters such as Net worth and capital employed.
- In other words, for improving EVA, one must improve Net Sales and Investment in Total assets.

5.7 Next, we studied Profitability parameters and their relationship with EVA:

Post-Merger Performance: Profitability Parameters

Sr. No.	Profitability Parameters	Favourable	Unfavourable	Total
1.	**PAT to Net Sales**	30	11	41
		(73.2%)	(26.8%)	
2.	**PAT to Net Worth**	27	14	41
		(65.9%)	(34.1%)	
3.	**PAT to Total Assets**	26	15	41
		(63.4%)	(36.6%)	
4.	**PAT to Capital Employed**	35	06	41
		(85.4%)	(13.6%)	

5.8 Post Merger Performance: Relationship of Profitability Parameters with EVA

Sr. No	Profitability Parameters	Fav. EVA	Fav. EVA	Un fav. EVA	Un fav. EVA	Total
		Fav. Return	Unfav. Return	Fav. Return	Un Fav. Return	
1	PAT to Net Sales	19	08	11	3	41
		(70.4%)	(29.6%)	(78.6%)	(21.4%)	
2	PAT to Net Worth	17	10	10	4	41
		(62.9%)	(37.3%)	(71.5%)	(28.5%)	
3	PAT to Total Assets	18	9	8	6	41
		(66.7%)	(33.3%)	(57.2)	(42.8%)	
4	PAT to Capital Employed	23	4	12	2	41
		(85.2%)	(14.8%)	(85.7%)	(14.3%)	

5.9 Post Merger Performance: Profitability Parameters and Correlation with EVA/ Chi Square Test

Sr. No.	Profitability Parameter	Correlation with EVA	Chi Square Test
1.	PAT to Net Sales	-.063	.688
2.	PAT to Net Worth	-.188	.228
3.	PAT to Total Assets	-.023	.885
4.	PAT to Capital Employed	-.068	.662

- It was observed that:
- Change in EVA was negatively correlated with all the return parameters, i.e. PAT to Net Sales, PAT to Net Worth, PAT to Total Assets and PAT to Capital Employed.
- While each of these return parameters were positively correlated with each other but when it came to EVA, all these parameters (PAT to Net Sales , PAT to Net Worth, PAT to Total assets and PAT to Capital employed) were negatively correlated to change in EVA.
- Hence, to improve EVA, it would be appropriate to concentrate on growth parameters particularly, Net Sales and Total Assets but not on parameters of returns.

5.10 Now out of 27 cases in which EVA has improved association of cases where Net Sales and Total Assets have increased in number of cases as under

Sr. No.	Particulars	Number of favourable cases	Total No of Cases Where EVA improved	%
1.	Increase in Net Sales associated with increase in EVA	26	27	96
2.	Increase in Total Assets associated with Increase in EVA	24	27	89

- It was therefore, established that improvement in EVA was a function of growth in Sales and growth in Total Assets. This proved Growth aspect of our main hypothesis that Mergers and Acquisitions as corporate strategy improve growth. But our hypothesis that post-merger EVA improved profitability was not established, when compared to its pre M&A independent values, using EVA as well as ratio analysis as yard stick of measuring post-merger performance.
- Second hypothesis that Post Merger EVA improved on account of efficiency achieved by economies of scale measured by various expense ratios was not established.
- The cause and effect relationship between EVA and various expenses were statistically not significant.
- Third hypotheses that Post Merger EVA improved as a function of growth indicated by Growth in Net Sales, Growth in Net Worth , Growth in Total Assets and Growth in Capital employed was partly established .
- There was positive correlation between Growth in EVA and Growth in Net Sales as well as Total Assets.
- But Growth in EVA was negatively correlated with Growth in Net worth as well as Growth in capital employed.

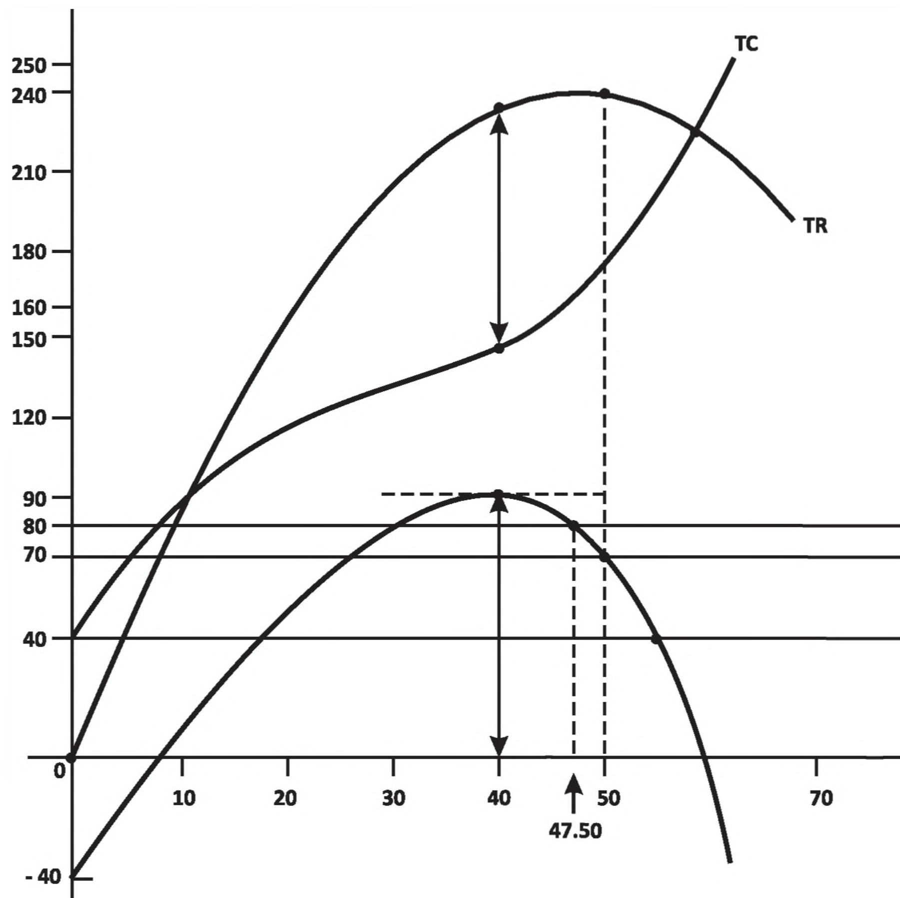
6. The research findings also validated the findings of McKinsey.

- In McKinsey Quarterly 2001, Number 4 Issue, (McKinseyquarterly.com) Authors Mathias M. Bekier, Anna J.Bogardius and Tim Oldham, in their Article, "Why mergers fail" point out that revenue deserves more attention in mergers; indeed, a failure to focus on this important factor may explain why so many mergers don't pay off. Too many companies lose their revenue momentum as they concentrate on cost synergies or fail to focus on post-merger growth in a systematic manner. Yet in the end, halted growth hurts the market performance of a company far more than does a failure to nail costs. Some balance may have to be restored. They examined more than 160 acquisitions by 157 public listed companies across 11 industry sectors in 1995 and 1996 , only 12 percent of these companies managed to accelerate their growth significantly over the next three years Success is determined above all by the ability to protect revenue and to generate growth just after a merger. Those acquirers that get this balance wrong, plunging headlong into cost savings- may soon see their peers outstrip them in growth.

6.1 Theoretical support in favour of the research findings : Sales Maximisation model of William Boumol :

- The assumption that the firm would maximise profits or value of the firm by mergers and acquisitions by controlling or reducing expenses. This assumption was criticized as being too narrow and unrealistic. In its place, broader theories of the firm were proposed.
- The most prominent among these was the sales maximization model proposed by William Baumol, which postulated that managers of Modern Corporation seek to maximize sales. Baumol argued that a larger firms felt more secure, and were able to get better deals in the purchase of inputs, lower rates in borrowing money, and better image with consumers, employees, and suppliers.
- Furthermore, some early empirical studies found that a strong correlation existed between executives' salaries and sales, but not between sales and profits. The sales maximization model was particularly relevant to this research findings that EVA of combined firms improved with increase in sales as well as total assets. However, increase profitability was not at the same rate. Hence, Baumol's sales maximization model supported research findings that Mergers and acquisitions result in growth of EVA, Net Sales and Total Assets but did not result in increase in profitability.

6.1.2 William Baumol's Sales Maximization Model:



In the figure given above, TR refers to the total revenue, TC to the total costs, and ð to the total profits of the firm. ð =TR –TC and is maximized at $90 at Q = 40 units where the positive difference between TR and TC is greatest (i.e., where the TR and TC curves are parallel). On the other hand, TR is maximum at $250 where Q=50, at which the slope of the TR curve or MR is zero and ð=$70 (see the figure). If the firm had to earn a profit of at least $70 to satisfy the minimum profit constraint, the firm would produce 50 units of output and maximize TR at $250 with ð=70. The same would be true as long as the minimum profit requirement of the firm was equal to or smaller than $70.

With a minimum profit requirement between $70 and $90, however, the profit constraint would be binding. For example, to earn a profit of at least $80, the firm would have to produce an output of about 47.50 units (see figure). Finally, if the minimum profit requirement were higher than $90, all that the firm could do would be to produce Q=40 and maximize ð at $90 with TR =$240. In other words firm would go for increasing the revenue even at less than maximum profit.

6.3 Contribution of the Research

6.3.1 The research clearly established that improvement in EVA was function of growth in Sales and growth in Total Assets as we found positive correlation between Growth in EVA and Growth in Net Sales as well as Total Assets.

6.3.2 It was further emphasized that as explained Baumol's Sales maximization model, M&A have resulted into growth in the form of EVA, Total Sales and Total Assets but not in increase in profitability.

6.2.3 The research findings were supported by research study by McKinsey& Co as well as Sales maximization model of William Boumol as explained earlier.

6.3.4 The research laid down the following guidelines for those managing M&A transactions:

a) Pursue goals of growth in sales and investment to improve shareholder value or EVA

b) Too much concentration on cost reduction (efficiency ratios), may result in loss of revenue and consequently loss in EVA.

7: Future scope for research:

Mergers and Acquisitions as corporate strategy, have multi-dimensional aspects open for research. We examined only Economic value addition, cause and effect relationship with efficiency ratios, profitability and growth parameters. However, following areas can be taken up for further research:

i) Cases of cross border acquisitions:
   a) Inbound: Where foreign companies take over Indian companies.
   b) Outbound: Where Indian companies acquire foreign companies.

ii) Improvement in value of companies undergoing M&A deals on the basis of synergy realization using discounted cash flow techniques.

iii) Significance of taxation benefits available to companies including transfer pricing issues in M&A transactions and consequent impact on shareholders' value.

iv) Market Value Addition (MVA) meaning increase in market capitalization over book value of capital, on account of M&A transactions as against EVA examined by us.

v) Organisation structural issues and Human resource issues in companies under M&A transactions.

vi) Legal Compliance issues in domestic and cross border transactions.

The researchers will always find the subject of M&A interesting enough, to examine the above topics and associated issues in future.

RERERENCES:

While we have gone through 214 research articles, around 33 books and scanning of various sites on the internet, we have presented below select list of references:

	Author	Title of Research Paper	Publication details
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3.	**B. Rajesh Kumar and Prabina Rajib (2007)**	Characteristics of Merging Firms in India : An Empirical Examination	Vikalpa Vol.32 January – March 2007
4.	**Manoj Anand and Jagandeep Singh (2008)**	Impact of Merger Announcements on Shareholders' Wealth : Evidence from Indian Private SECTOR banks	Vikalpa Vol. 33 January March 2008

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