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THE EFFECT OF EUROPEAN MERGER AND ACQUISITION DEALS ON FIRMS PERFORMANCE IN THE CRISIS AND PRE-CRISIS PERIOD

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Mergers and Acquisitions are considered as one of the most important corporate events for a company's growth strategy. This concept dates as far back as the early 1900s, when it began on a domestic scale.

In this study, we evaluate the effect of M&A deals on firm performance in the crisis and pre-crisis period. We intend to figure out whether the financial crisis presented a great increase to the bargaining power of business entities in the European financial market. We do this through examining the stock performance surrounding the days leading to the announcement of an M&A deal. We then turn to divide our data into two to examine the separate effect of M&A's in the crisis and pre-crisis period on the returns to both target and acquiring firms. Next we look at the role that a particular method of M&A financing and industry relatedness play in determining the CAR of acquirer and target firms around the M&A announcement.

Firstly, we find with our full sample of 181 M&A deals that in general M&A's have a positive effect on the performance of the target and acquirer firm although the positive effect is more pronounced (significant) for the target firm than for the acquirer firm. Secondly, we investigate the separate effect of a crisis and pre-crisis period on the CAR of the acquirer and target around the announcement day. We find that Acquirer firms earn positive CAR in the crisis period but they turn negative in the pre-crisis period. However, for the target firms, we find significantly positive CARs during the pre-crisis period than during the crisis period.

Thirdly, we investigate the effect that a chosen method of financing will have on the acquirer's performance during the crisis period and find more highly positive CARs for the acquirer's that use cash instead of stock as a means of financing their deals. Therefore during the crisis, cash financed deals have a more positive impact on the acquirer's performance than do stock financed deals. We finally turn to look at the effect of the direction of a firm's diversification on its performance during the financial crisis period, and find that during the crisis period acquisition made in related industries have a positive effect on the acquiring firm's performance. The CAR to the acquirer for acquiring targets in unrelated industries is negative which implies that during the crisis period acquisition made in unrelated industries have a negative effect on the acquiring firm's performance.

In a nutshell, we see that most of our results are in line with previous empirical studies. The result of this thesis is beneficial for both institutional and individual investors as they might be prone to a lot of lemon investment if they don't meticulously scan the M&A market. In accordance with the signaling theory, investors can now have an idea about the current and future condition of the acquiring firm. Investors should be on the lookout for firms that use more cash financing than equity financing since the use of cash is a signal of good new but the use of stock is a signal of bad new to investors. Also acquirers should not relent in their due diligence process especially during the crisis period when it would prove to be most valuable. By undergoing a proper due diligence process acquirer are sure to make accurate and informative decision that may have a positive impact on their overall performance.

Additional information

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1   INTRODUCTION

It is usually expected that, during bad economic times companies will be more cautious on what they spend their cash on since in such hard times cash becomes scarce and more valuable. As it might be expected, many firms cut back on their spending in all areas of their operations including areas such as research and development, and marketing. In the same manner, the field of merger and acquisition (M&A) is no exception during these bad times. In spite of the economic turmoil of 2007-2008 which is described as the worst economic disaster after the Great Depression of 1929, worldwide merger and acquisitions (M&A's) were still relatively high, reaching about $3.4 trillion in 2008, the third highest of all times. This represented only a 25 percent decline since 2007. (Capaldo, Cogman, & Suonio 2009.). In this context, it might be safe to say that the global impact of the 2008 financial crisis did not seem to have affected (to a large extent) the rate at which merger and acquisition (M&A) deals were undertaken. Could it be that Firms found security in engaging in M&A deals or that some firms were almost bankrupt and naturally had to give in to M&A in order to revive themselves.

Faelten and Vitkova (2014), find that during the financial crisis (2007-2008) most companies were struggling to settle their debt and some even went bankrupt. Therefore, acquisitions became in vogue, with the government maneuvering their way to secure deals that will save key companies in some important industries. Nevertheless, in such trying times where there is wide spread uncertainty and high stock price volatility it is left to the individual companies to decide whether acquiring a distressed firm would be profitable (either in the short or long-run) or in the case of a distressed firm whether searching for a stronger partner will boost their rate of survival. (Faelten & Vitkova 2014).

According to Jensen (1991), M&A deals are the best ways for firms to resolve their financial distress because M&A's can be contracted at any time irrespective of the status of the firms current operations (bankrupt or not). Baird and Rasmussen (2003), also find that during a major financial crisis the sale of bankrupt targets tend to increase. This is also in line with Faelten et al. (2014) findings which argues that after

a major disruption in the stock market index during an economic turmoil, acquisitions usually increase and tend to stay at a higher than average level for a period of three to four years.

Research has found that M&A activities usually tend to follow a trend, such as in a cyclical way and are mostly driven by economic expansion, regulatory changes, and the emergence of new technologies (Cretin, Dieudonné & Bouacha, 2015). More so, Martynova and Renneborg (2008) asserts that M&A comes in waves and are typically ended by either an economic crisis or by a major regulatory change. Therefore, this proves that credit crisis have a great impact on M&A activities globally. However, Malmendier and Tate (2008) have an opposing view and find that M&A activities in Romania did not actual diminish during the 2007-2009 financial crisis.

Usually the empirical studies conducted on M&A activities tend to show a positive abnormal return for targets and a negative abnormal return for acquirers close to the announcement date (Spyrou & Siougle 2010, Campa & Hernando 2006, Karceski, Ongena & Smith 2005, Yeh & Hoshino 2002, Houston & Ryngaert 1994)). Bergstrom, Sundgren and Wells (2005) also find that more mergers are conducted in good times than in bad times. However, Faccio and Sengupta (2006), notices that an industry factor may affect this claim. This is mainly because firms in industries with high bankruptcy rate find it more difficult to initiate bankruptcy proceeding in bad economic times, as a result, financially distressed firm are more likely to merge than to file for bankruptcy (more M&A's occur in some industries as compared to others). Furthermore, some other papers find an increase in stock prices prior to the announcement date, which indicates the possibility of information leaking (Siems, 1996).

From looking at various literature, it is obvious that the evidence of the level of abnormal returns reported for both the target and acquiring firm is mixed. For instance, Moeller and Faelton (2009), have an opposing view and report that since 2008 acquirers (bidder firm) record positive and significant abnormal returns close to the announcement date or the completion date. In addition, Desai and Stove (1985), Dodd (1980), Dodd and Ruback (1977) and Cornett and De (1991), among others, report that

the acquirer firm reaps positive abnormal returns. These results are contrary to the result that have been widely known concerning abnormal returns for targets and acquirers. However, the mixed results are more uncertain for the acquirer than for the target firms as most studies report a significantly positive abnormal return around the announcement period for the target firm, while for the acquiring firm some studies have reported positive abnormal returns, negative and even to some degree found insignificant abnormal returns for the acquiring firm. A comprehensive study by Jensen and Ruback (1983), examines thirteen different studies conducted on mergers and acquisitions around the mergers and takeover announcement date. In their paper, they conclude that target firms generally gain more from M&A's while the acquiring firms do not necessarily lose out of M&A deals. In this paper, we examine both target and acquiring firms in M&A deals separately to see if this view still holds true within the sample of our analysis. Note that in this study we use the term bidder and acquirer interchangeably since our analysis is conducted on only completed acquisitions.

We can see from literature that the economic crisis generally had a great impact on the operations of the whole world economy and thus it would be expected that firms' behavior towards M&A activity would also change. In times of crisis, firms' will be forced to make different M&A investment decision that will have an impact on the overall firm performance. In this paper we intend to analyze whether the effect of M&A's during the crisis period is different from the effects in a pre-crisis period, but this time round we also control for other external factors that may indirectly affect firm performance.

In this study, we evaluate the effect of M&A deals on firm performance in the crisis and pre-crisis period. We intend to figure out whether the financial crisis presented a great increase to the bargaining power of business entities in the European financial market. We do this through examining the stock performance surrounding the days leading to the announcement of an M&A deal. We then turn to divide our data into two to examine the separate effect of M&A's in the crisis and pre-crisis period on the returns of both targets and acquiring firms. Next we look at the role that a particular method of M&A financing and industry relatedness play in determining the CAR of acquirer and target firm around the M&A announcement.

This thesis is a valuable addition to existing literature as there is limited academic research on the impact of the financial crisis on the returns of M&A deal in the European financial market. Most researches done in this areas concentrate more on the US and UK market solely thus, making this particular research a more interesting area to look into.

Our main findings are as follows. Firstly, we find with our full sample of 181 M&A deals that in general M&A's have a positive effect on the performance of the target and acquirer firm although the positive effect is more pronounced (significant) for the target firm than for the acquirer firm. Secondly, we investigate the separate effect of a crisis and pre-crisis period on the CAR of the acquirer and target around the announcement day. We find that Acquirer firms earn positive CAR in the crisis period but they turn negative in the pre-crisis period. However, for the target firms, we find significantly positive CARs during the pre-crisis period than during the crisis period. Thirdly, we investigate the effect that a chosen method of financing will have on the acquirer's performance during the crisis period and find more highly positive CARs for the acquirer's that use cash instead of stock as a means of financing their deals. Therefore during the crisis, cash financed deals have a more positive impact on the acquirer's performance than do stock financed deals. We finally turn to look at the effect of the direction of a firm's diversification on its performance during the financial crisis period, and find that during the crisis period acquisition made in related industries have a positive effect on the acquiring firm's performance. The CAR to the acquirer for acquiring targets in unrelated industries is negative which implies that during the crisis period acquisition made in unrelated industries have a negative impact on the acquiring firm's performance.

The rest of the study is organized as follows. This section presents the purpose of this study and the empirical hypotheses. Section 2 provides a comprehensive review of academic literature. Section 3 describes the data and methodology used in this study. Specifically the section describes the event study methodology as well as the models that will be used in further analysis. The results of the empirical test conducted are presented in section 4. Finally, section 5 presents the conclusions

1.1   Aim of study and hypothesis

The main purpose of this study is to investigate the effect of M&A activities on firm performance in the crisis and pre-crisis period. In this paper, we look at how stock prices react to M&A announcements during pre-crisis and crisis periods.

In order to properly determine the success rate of M&A deals during crisis and pre-crisis periods we turn to use one of the most commonly applied methods of measuring the performance of M&A deals. We use the short-term stock performance of the acquirer and target around the announcement day to find out the level of performance of both the acquirer and target firms. This method is one of the most reliable and credible way to signal whether a particular M&A is creating or destroying value. It takes it roots from the efficient market hypothesis of Fama (1970).

Most entities engage in M&A's for the benefit it promises to yield. Many researchers are of the view that M&A deals create more value for the target firm than for the acquirer firm. Nonetheless, it is also important to consider the initial motive leading to a merger, because the reason behind engaging in an M&A deal is a major determining factor of the level of outcome for both acquirer and target. If the motive is to take advantage of a bankrupt target firm, then the acquirer is likely to be the one to gain in such an M&A deal. Faeltan and Vitkova (2014) find that bankrupt targets are limited by their bargaining power and thus gives room for acquirers to negotiate a better acquisition deal for themselves and creating more value for their shareholders. Moreover, if the acquisition is for managerial empire building, then the acquiring firm might be at the losing end since it will engage in some value destroying M&A's. On the other hand, if the reason for the merger is to generate better synergies by paring firm with similar valuation ratios together then there is the possibility that the M&A will yield a positive outcome for both the acquirer and the target firm. (Rhodes-Kropf & Robinson, 2008).

Findings by Jarrell, Brickley, and Netter (1988), shows that bidder firms are able to benefit from a modest increase in their stock price. Cornett and De (1991) also studies the reaction of the stock market to the announcement of financial M&A and finds a

positive return for both target and acquirer. They go further to investigate the unique factor that causes the bidders returns to increase relative to what is usually expected (negative returns) and find that the firms size and the means of payments are contributing factors to the firms performance. Acquisitions are generally costly so it will make no sense to make an acquisition that will potentially incur a deadweight loss. According to Buehler, Kaiser and Jaeger (2006) large firms are more likely to merge and less likely to fail, however if the firm is large and unhealthy then it will be expected that its long-run returns might not be pleasant for the acquirer, since they will have to spend a lot of their personal cash to recuperate the acquired firm. In such situations, it becomes more reasonable for the acquirer to take on smaller firms that would not have a great impact on both their short and long-term returns (even if the smaller target firms are unhealthy). Generally, smaller firms are easier to handle than larger firms are. Fullera, Nettera and Stegemollera (2001) also finds that target shareholders gain more when the target is a public firm, while bidder firm shareholders benefit more when the target firm is a private firm or a subsidiary. We can therefore say that the size and type of the target firm are some of the factors that could affect the amount of returns accrued to the acquiring firm. Moffett and Naserbakht (2013) also examine the financial impacts of 154 M&A deal in US banking industry and find that both target and acquirer banks over the (-60,+60) event window generate positive average actual returns. In this research, we intend to show that in line with Cornet and De (1991), and, Moffett, and Naserbakht (2012) M&A's are value-creating ventures for both the acquiring firm and the target firm. Both the target and acquirer reap positive abnormal returns close to the announcement date. Thus, we define out first hypothesis as follows:

H1: Mergers and Acquisitions create positive returns for both acquirer and target firms, although acquirer's returns may be insignificant

The financial crisis of 2007-2008 initially started as a banking systemic crisis in the United State (US) that later escalated into the global financial crisis. During this time, many major changes in the global acquisition landscape occurred, with banks increasing their acquisition activity, both nationally and internationally. (Rao-Nicholson & Salaber 2016).According to Te Velde et al. (2008), stock market indices dropped by as much as 50% to 75% during this time. In addition, the modes for M&A

financing became more expensive and difficult to access. A cashless economy meant that there was less cash in circulation and thus loans became difficult to contract. The use of equity to finance M&A deal also became expensive since shares were losing value. (UNCTAD, 2009)

Despite the economic distress and the sharp decline in stock market prices, some entities were able to take advantage of other undervalued entities by acquiring them at fire sale prices. Most of the acquisition contracted during this bad time of the economy were driven by the financial distress of target firms. A typical example in the banking industry was the sale of Bear Stearns to JP Morgan Chase in March 2008. (Rao-Nicholson & Salaber, 2015).

According to Nelson (1959), a stock market boom is associated with relatively more M&A activities. This is because during good economic times firms are able to issue new share as a way of raising capital so much so that even average firms become more profitability. However, on the other hand during bear market the number of distressed target firm increase in relation to bidder firms, thus creating room for the acquirer to get a good deal on an acquisition without overpaying. According to Hotchkiss and Mooradian (1998), companies in financial distress are usually bought by companies from the same industry. This is plausible because information is easier to access intra-industry as compared to inter-industry. Therefore, Firms within the same industry will have more knowledge about each other and so they will be able to know the true value of the distressed target before acquisition, thereby avoiding the risk of overpaying for the target. In this paper, we divide our data sample into two periods (crisis and pre-crisis) to analyze the separate effect of M&A deals on the target and acquirer firms. We expect the crisis period to be more advantageous than the pre-crisis period for the acquiring firm and also that target firms will benefit more during the period before the crisis that during the crisis period. We therefore construct our third hypothesis as follows:

H2a: M&A deals create more value for the acquirer in the crisis period than in the pre-crisis period

H2b: M&A's deals create more value for the target in the pre-crisis period than in the crisis period

One of the most important aspects of an acquisition is the method of payment used in financing the deal. M&A's are usually financed either by cash offers, equity offers or by a combination of both. Past researches have shown that the mode of financing has an imminent effect on the announcement returns. Fuller, Netter and Stegemoller (2002) examine the announcement of returns in merges based on the chosen method of financing and finds that acquiring firms that finance their deals with cash report higher returns than those that offer share. Huang and Walkling (1986) also finds a significant positive and large return for cash mergers than for stock financed deals. These conclusions can be linked to the fact that cash mergers present a clearer view of the actual value of an investment in a merger. According to Asquith et al. (1983), the negative effect of equity-financed deals has no direct impact on the market's reaction to cash financed M&As.

Previous researches have shown some sort of consensus concerning what could have an influence on the method of payment in an M&A deal. Jensen and Ruback (1983) identify the possibility of an information effect on the behavior of the acquirer stock price. They find that if the bidder firms inside information reveals that its stock is overvalued then they will more likely prefer a stock offer than a cash offer. However, if their stock is undervalued they will prefer a cash offer instead of a stock offer. This suggests that bidder firms will reap higher returns in cash acquisitions than in stock acquisitions. Loughran and Vijh (1997) also arrives at a similar conclusion that firms with overvalued stocks will pay with stock only. Their results indicate that cash only deals significantly outperform equity only deals. Some other studies have however found contrary results, therefore making the evidence on share financing in acquisitions inconclusive. For instance studies conducted by Moeller, Schlingemann and Stulz (2004) and Ismail (2008) reported significant gains for equity financed M&As. Since we find mixed results from past literature, we intend to investigate within our whole data sample the effect of cash and equity financing on the returns of both the acquiring firm during the financial crisis. We expect cash only payments for M&A deals during the crisis will lead to a better CAR than stock only offers during

the crisis. This is because during an economic downturn most stock are undervalued and so acquiring firms will rather pay for the target with cash than with their stocks since during normal times of the market their stock will be worth more than it was in the crisis period. This will mean a loss to the acquiring firm (when the market reverts to a more buoyant market) if they give in to using their undervalued stocks as a means of financing the target during the crisis. The fourth hypothesis is therefore constructed as follows:

H3: Acquirer that pay with only cash during the financial crisis perform better than those that pay with only stocks

Industrial related is a crucial aspect of the target selection process. During the selection process acquirers have to decide on which sort or type of industry to invest into. It has been mentioned previously that related M&A deals tend to create more value as compared to unrelated M&A deals because unit cost can be reduced when already existing distribution channels for products exist. Also, acquiring firms in the same industry increases the acquirer's market share with the industry and reduced the number of potential competitor's (Salter & Weinhold 1978, Singh & Montgomery 1987).

According to Capron (1999), if the target and bidding firm are related, it gives room for better knowledge integration, a shorter integration process and a reduction in the cost of duplicate operation functions such that operation efficiency is achieved and economies of scale and scope are realized. (Capron 1999, Ahuja & Katila 2001, Nesta & Saviotti 2005)

Research has found mixed conclusion for the relationship between industry relatedness and firm performance. While some researchers have found a positive relationship between industry relatedness and firm performance (Singh & Montgomery 1987, Homberg Rost & Osterloh 2009) other have found a negative relationship between firm relatedness and firm performance (Harrison, Hitt & Hoskisson 1991). These mixed results may be dependent on the circumstances of the research as every research may differ in some areas.

Kusewitt (1985), in using ROA as a measure of performance find that related M&A deals are positively related to firm performance. Pennings, Barkema and Douma (1994) and Miller (2006) also find similar results when they measure firm performance with return on capital, R&D intensity and ROA. In a study of a sample of worldwide M&A deals Gugler ,Mueller, Yurtoglu and Zulehner, (2003) finds that horizontal M&A deals outperform vertical or conglomerate M&A deals. On the other hand, Harrison et al. (1991) finds no positive relationship between related mergers and firm performance proxied by R&D intensity and ROA

Pangarkar and Lie (2004), find that both related and non-related M&A's create value in low market cycles, but destroy value in high market cycle. This can be due to the fact that during good market times diversification will be a key attribute to breaking the monotonous process of operation which may lead to better performance. However during the crisis it will be better and safer to swim in familiar water. Thus, by staying in the same industry when looking at the possibilities of a merger Acquirer's are able to safe cost (the cost of duplicate operation functions, integration and due diligence) reap positive returns. In developing our hypothesis, we follow Doukas & Kan, (2004) and measure industry relatedness by the SIC industry code, such that M&A's that take place between companies with the same first 2-digit level SIC code are classified as related or else they are classified as unrelated. We expect that during the crisis when there is a lot of uncertainty in the market firms that stick to the same industry are at a lower risk of bad performance than firms that try to diversify.

H4: During the crisis bidding firms that acquirer firms in the same industry perform better than those acquired in unrelated industry

2 LITERATURE REVIEW ON MERGERS AND ACQUISITIONS

There are numerous ways by which a firm can be acquired by another firm. However, in the case of a merger, the boards of directors of two firms sit down to agree on the terms of a merger and seek the approval of at least 50% of the stockholders of both the target and bidding firms. There after the target firm stops existing and becomes a part of the bidding firm. For instance, Digital Computers merged with Compaq after it was acquired in 1997. According to Weinberg and Blank 1979, mergers are agreements where the assets of two firms are combined and control is given to only one company which has all or considerably all the shareholders of the two companies. Gaughan (2002) also defines a merger as the joining of two firms, in which only one company survives the targeted company dies out, and the bidding firm's takes control of the assets and liabilities of the merged firm.

According to Leepsa and Mishra (2013), mergers and Acquisitions are considered as one of the most important corporate events for a company's growth strategy. This concept dates as far back as the early 1900s, when it began on a domestic scale such that companies bought into their own market in order to increase their market share and their operational performance. During those times, many M&A deals were signed without much hesitation and with a high expectation of success. However, now a day, both parties consider many things before a deal is signed. The reason behind this scrutiny is the increasing failure rate of most M&A's. Leepsa and Mishra (2013) assert that the profitable returns from M&A deals are only reflected in the immediate years (the event year and one year post M&A). This is an indication that the gains from M&A deals are not long lasting and can be associated with the long-term failure of M&A's. In spite of the potentially high rate of failure, it seems that firm are constantly engaging in M&A's. What could be the reason behind this occurrence? In the face of globalization, increased competition and economic diversification one should not be surprised that despite many failures, M&A activity are still very popular and vary in size from very small businesses to enterprise corporations (Grave, Vardiabasis & Yavas, 2012). In the following subheading, we discuss more specifically the motiving factors behind M&A activities.

2.1   Types of M&A's

There are many types of M&A deals but the most commonly cited in literature are horizontal M&A, vertical M&A, concentric M&A and conglomerate M&A.

Horizontal M&A's are mergers that occur when a company merges or takes over another company in the same line of business producing similar products. In other words this means that both companies are in the same industry and at the same stage of production. Most companies that engage in horizontal M&A's are usually in direct competition with each other. An advantage of this type of measure is that it tries to reduce competition and help companies increase their market share, revenues and profits. It also helps to make effective use and resources in order to cut down cost by cutting out all redundant and wasteful activities from the production process. (Martin, 2015). According to Capron (1999), Horizontal M&A's can understood by explaining the value-maximizing theory which is based on the economies of scope and scale, and the exploitation of the firm's core capabilities and resources. In this regard value can be created from Horizontal M&A's that take advantage of the existing operational synergies and makes sure to gain the most out of it.

Vertical M&A's are merger that occur when a company mergers with another company (suppliers or customers) within the same line of production and are producing the same end product but differ in the stage of production of their operations. An advantage of this kind of merger is that it helps to secure a continuous supply of essential goods by controlling the supply of input materials and products without a break in service. (Souder, 1984). It can also be a good way to limit supply to competitors, therefore providing greater market share, revenues and profits for the firm.

Concentric M&A's are merger that occur when a company mergers with another company serving similar of customers in a specific industry, but offering different products and services. It is very common in this type of merger that the companies may be producing complementary good, which go together but in principle aren't the same product are to find. The two companies in this case are in some way related.

Typically both companies will have similar production process, business market or technological know-how. These types of M&A's are usually carry out to encourage consumption since one product will be needed to complement the other product, and it will be much easily sold together. It facilitates the expansion of certain product lines. These M&A's would help the company venture into another area of production which will eventually yield higher profits. The bidding company will earn more revenues as any increase in the sale of one product will also lead to sales increase in the other product. These type of M&A's are undertaken in order to provide a convenient way of shopping for customers, whereby they can buy both items together in one shop (one-stop shopping). These kinds of mergers also give room for business diversification into other areas of the industry in an attempt to lower risk and gain direct access to resources and markets that were initially unavailable. (Martin, 2015). According to Souder (2003), concentric M&A's are very common in the financial sector and is useful to companies that want to improve their knowledge and venture into a new area of the industry. Some sometime such M&A's are formed in order to gather outside knowledge that would be needed to better inform and serve their existing customers.

Conglomerate M&A's are merger that occur when a company irrespective of it stage of production mergers with another company operating in a totally different industry. An advantage of this type of M&A is that it helps companies to diversify into other industries so as to reduce industry specific risk (Martin, 2015). For instance the banking business of NMB Postbank and the insurance business of Nationale-Nederlanden were merged into the newly created ING Group in order allow the merged companies to lower industry specific risk. Beitel and Schiereck (2001) find that diversified deals are more lucrative than the usual inter-bank M&A deals.

2.2   Reasons for M&A activity

In every M&A transaction, there are two sets of people involved. Namely, the acquiring firm (prospective buyer) and the target firm (seller). Both parties have their individual reasons for engaging in an M&A deals and may benefit differently from the deal. Kirkpatrick and Locke (1991) mentions that a private owner who wants to sell his business after a successful career is only concerned with turning equity into cash.

Individual owners are often motivated to sell their business when they are faced with attractive deals, want to go on retirement, want to control their personal risks, need credit or are facing a decline in the market. (ENR, 1995). On the other hand, multinational companies are motivated to sell a whole or part of their business for the purpose of divesting. (Porter 1987, Kaplan & Weisbach, 1992). Generally, each M&A deal is based on different motives since an M&A transaction only constitutes a fraction of a corporation's strategy and thus, may compete with other projects being undertaken within the firm. (Kreitl & Oberndorfer, 2004)

H. Donald Hopkins (1999) groups the motives for M&A into four groups: strategic motive, market motive, economic motive, and personal motives. The strategic motive is concerned with creating synergies that will improve the firm's strength and make it more proficient in all areas. This will in turn increase its overall market share and possibly make it a leader in the industry in which it operates. The market motive on the other hand involves looking for opportunities in new markets in different countries. This motive originates from globalization and the easiest way one can enter into new market without following bureaucratic measures and incurring unnecessary cost is to acquire an already existing firm that has a good understanding of the market. An important aspect of this motive is that it does not add to the already existing pressure of competition. The economic motive entails, creating an economy of scale that reduces the average cost of goods by increasing the amount of good sold. In addition to the economy of scale, there is also economy of scope, which helps to save resources and prevent the target and acquirer firms from spending on similar activities. Personal motive has to do with the issues surrounding agency theory (information asymmetry) and empire building. Basically, there are two main theories that seek to explain the drivers of M&A activities. The first one is the value creating theory, which takes its roots from other theories such as the efficiency theory. It involves recognizing and chasing after potential synergies that will create more value for all shareholders because it is believed that the value from a merger should be greater than the sum of the target and bidder alone. (Berkovitch & Narayanan 1993, Vijgen 2007). Thereby, the combined firm is able to become more profitable and cost-efficient than the two firm would have fared individually.

The second main theory underlining M&A motives is the redistribution theory, which involves other theories like the agency theory and the hubris theory. The hubris theory stipulates that managers often overestimate and are overconfident in their ability of run a company and even though they have the interest of shareholders at heart, the value of the synergy they create is not as high as what they would have naturally expected. Many studies have found a direct relationship between overconfidence and value destroying M&A's. According to Malmendiera and Tate (2008), overconfident CEOs tend to overestimate their ability to generate returns and thus may undertake some value destroying mergers. Roll (1986) finds hubris driven M&A's to have a surplus value which is still lower than the acquisition premium.

The agency theory explains that there exist information asymmetry between managers and shareholders such that unlike the shareholders, managers are able to have access to information that is not yet publicly available. In addition, since the management and the control of the firm are in different hand there is the possibility of clashing interests. Managers are therefore more interested in maximizing their own interest rather than shareholders interest.

The free cash flow hypothesis introduced Jensen (1986) also explains the motive behind M&A's. It explains that manages with excess cash flow are more likely to waste it on negative net present value projects instead of distributing it as dividends to shareholders. Managers with free cash flow tend to use the cash to acquiring other firm, which does not create value but rather destroy the firm's value. An extension of the free cash flow problem is empire building, because when a manager engages in too many acquisitions it begins to take the form of empire building. According to Mueller (1989), empire building is another reason why some management engage in M&A's. Managers are often interested in acquiring more firms in order to build an empire even at the detriment of shareholders. They do this to gain more status and to have a higher take home salary. Hence, they tend to seek their own interests and neglect the interest of the owners of the company. According to Jensen and Meckling (1976), the valuation of stocks reflects that managers may not consider the best interest of shareholders in their decision-making. This is possible mostly because compensation schemes, control systems and monitoring tend to vary with the interest of shareholders.

Apart from the above-mentioned internal motives behind M&A, there are some other external factors that can lead to mergers and acquisition. According to Jensen (1993), mergers can occur due to technological and supply shocks, which often results in excess volume of production in many industries. A good solution to this kind of overproduction is to engage in M&A's so that there will be economies of scale and promote the use of full production facilities. In addition to technological and supply shock, there are other major shocks like deregulation, increased foreign competition, financial innovations and oil price shocks that can cause an M&A (Mitchell & Mulherin 1996, Harford 2005).

2.3   Success and failures of M&A deals

Synergy is the most commonly stated motive for M&A's. Nevertheless, what is the real end result of engaging in such synergies. According to (Aswath Damodaran 2005), several tax benefits can be derived from mergers. For instance, if one of the companies in the merge has tax deductions that it otherwise cannot use because it is making losses and the other company is paying significant tax on its revenue, then merging the two companies can yield tax benefits that can be divided between both firms. The product of this kind of synergy is the present value of the tax savings that resulted from the merger. In addition, the merging of two firms with imperfectly correlated cash flow can lead to less variability in the cash flow of the combined firm as compared with the cash flow of the firms as separately entities. The decline in variability can lead to an increased debt capacity and an increased firm value. (Aswath Damodaran 2005)

According to Picardo (2014), M&A's seem to have a longer lasting effect for the bidding firm or the firm that holds the largest shares in a merger, than it does for the target firm. The shareholders of the target firm gain from an M&A transaction because it gives them the opportunity to cash out their premium in an all cash transaction or hold a stake in the future success of the merged firm in the case of a mixed mode of payment (equity and cash). In assessing the impact of an M&A, deal the acquiring firm usually compares the size of the deal with the size of the company, because when the potential target it a large firm it increasing the risk of the acquirer as the failure of huge purchase may have a huge repercussion on its future success. In addition, Picardo

(2014) explains that the bidding firm's capital structure will change depending on the size of the deal and the design of the M&A. For instance, an all-cash deal will mean that the cash holdings of the acquiring firm will be reduced but to prevent this most companies settle the target firms through debt financing. Although this extra debt causes the company to be more indebted, the acquiring firm sees it as an ends to a means since the higher debt can be justified by the extra cash the target firm will contribute. An M&A transaction financed through the acquirer stock will mean that the acquirer's shares have to be premium-priced and must be able to convince the target firm that equity will pay-off better than cash.

McKinsey and Co. studied 58 M&A deals between 1972 and 1983 to answer two questions. The first one was to find out if the return on investment from the acquisition exceeds the cost of capital. The second test was to find out if the merger helped the parent company to beat competition. In conclusion, they find that 28 out of the 58 mergers failed both tests, while six failed at least one test of two. They also find in a related study of 12 out of 115 mergers in the U.K. and U.S. that only 40 % of the M&A deals transacted in 1990 earned a return on investment higher than the cost of capital, with only 23% of them earning excess returns. With this, they infer that the failure rate for M&A is generally high. According to Massoudi (2014), the failure of M&A deals has reached its peak since the 2008 financial crisis and one may think of the many reason that cause mergers to fail. The following are a few reasons explaining the downfall of M&A's.

Aswath Damodaran (2005) reports that most merger seem to lack a concrete post-merger plan to make good use of the synergy and control that comes with a merger. He states that most companies involved in mergers are of the notion that the benefits from synergies and control occur automatically. However, the truth of the matter is that firms have to work toward a concrete plan and follow an implementation process that will create these benefits. Although the estimations are likely to be inaccurate, it is important that firm are able to estimate and value the potential synergy prior to completing a deal.

Another reason why M&A's fail is due to cultural shock. When two different companies merge, they come with their individual work culture and most often than not after the merger these cultures might clash. If care is not taken, employees will begin fighting among each other and little or no work will be accomplished. Managerial ego also has a role to play in the failures of M&A's. A merger involves the coming together of two different management, so this obviously means that top managers form both firm will have to learn to co-habit and share power. Yet, the issue of power struggle is very common in mergers, especially between top executives, and the effect of this power tussle often flows throughout the organization; thereby causing the original focus and motive of the merger to be lost. Aswath Damodaran (2005), also mention overpayment as another reason for M&A failures. He explains that privately acquired firms have a higher success rate than publicly acquired firm because with the public firms there are possible chances of overpaying for the target since the acquirer will have to pay the market price plus a premium, which is often driven up by other firms bidding for the target. At the end, the winner of the never-ending auction is likely to overpay for the target.

Another popular factor of failure or success of M&A deal is the culture factor. The cultural difference that may exist between bidder and target firm may pose a threat to the success of an M&A deal. The cultural differences hypothesis suggest that the more two individual companies are drifted apart culturally the more costly, difficult and risky it will be to engage in cross cultural mergers (Hofstede, 1980). According to Stahl and Voigt (2004), M&A will be successful provided that the cultures of the merging companies are compatible, otherwise they are bound to fail. For instance, in Islamic nations banks do not receive or pay interest, this is a religious and cultural belief that has been incorporated into their banking sector. Therefore banks from other countries who do not share the same cultural view will likely fail at an attempt of a merger.

Some researchers have studied the influence of previous experience in M&A contracting on M&A performance. For instance, Haleblian and Finkelstein (1999) investigate M&A performance the learning theory perspective and find the previous experience in M&A deal contracting and M&A performance are related in a U-curve

such that the more similar the new M&A transaction is to the pervious accomplished deals the better the outcome of the transaction. However a contrasting view by Hayward (2002), proves that although previous experience is essential, it is not enough for one to be sure of it being applicable in other new transactions and thus there is a possibility of failure when one tries to apply previous experience to totally different deals.

2.4   Financial consequences of M&A's

2.4.1   The economic consequence of M&A waves

According to Cretin et al. (2015), M&A activities usually follow a trend and are cyclical in nature. These trend-like cycles are often driven by economic expansion, regulatory changes, and the emergence of new technologies. Martynova and Renneborg (2008) also stresses that M&A comes in waves and are typically brought to an end either by an economic crisis or by a major regulatory change. It is therefore obvious that credit crisis have a great impact on M&A activities globally.

Cretin, Dieudonné and Bouacha (2015), make mention of six waves over the course of 1895-2007. The first wave which is known as the Great Merger Wave occurred in the 19th century and was ended by the 1903-1905 capital market disruption. The second wave began at the end of World War I and was spiked by the improved implementation of an antitrust legislation (regulatory change) and was ended by the stock market crash of 1929. The third wave occurred after the Great Depression and World War II in the mid 1950's, it lasted for over 20 years and ended in the early 1970's when the oil shock launched the whole world into a recession. The fourth wave began in the 1980's and was ended by the stock market crash of 1987. The fifth wave started in 1993 and lead to the beginning of M&A diversification in the sense that M&A deals began to spread across border, where deals were not only being contracted between firms in the same countries but also with firm overseas. This wave ended with the burst of the dot com bubble in 2000. The sixth and the most recent waves began in 2003 and was cut short by the financial crisis of 2008.

These M&A waves vary in terms of their duration, nature and intensity although the underlining factor behind their existence may be similar in nature. The figure below shows how varied each wave is in terms of intensity and duration. It shows that the first wave was the most pronounced wave in a shortest amount of time while the third wave was the longest wave lasting over a decade.

Our studies includes periods from 2001-2014, which includes years during the sixth wave and years during the recent financial crisis. The financial crisis began in the late summer 2007 following the subprime mortgage market in the USA, and in September 2008 after the collapse of the Lehman Brothers, it escalated into a full-blown global banking crisis. (Williams Mark, 2010)

During the global financial crisis, Gaughan (2009) found that it became harder for companies to gain easy access to loans and credits to finance M&A's consequently the cost of M&A financing increased and this led to an overall decline in the volume of M&A activity. During bad economic times, it is obvious that company suffer from a decline sales and profits and therefore makes it even more unattractive for a prospective buyer. Additionally, Ang and Mauck (2011) found that distressed companies are more of a liability than an asset to the acquiring firm and thus the effect of acquiring firms at fire sale prices during economic downtimes do not bring as much benefit as would be expected. Therefore, M&A transactions made during economic bad times is not as easy and attractive as it would be in a bull market conditions.

Many other studies have examined the general effect of M&A's on corporate financial performance. Some studies conducted using accounting measures to weigh the profitability of merged firms have reached inconsistent conclusions. (Altiok-Yilmaz & Akben-Selcuk 2011). While some studies reported improved performance after the merger, others have shown bad performance after merger events.

For instance, Ismail, Abdou and Annis (2010) using profitability (ROE and ROA) as a proxy for corporate performance finds statistically significant gains in the years post

M&A. Gugler, Mueller, Yurtoglu and Zulehner (2003) also find in some specific countries that profitability is significantly positive five years post-merger. Lau, Proimos and Wright (2008), find in their comparison of pre and post-merger performance that merges actually improve post-merger operating performance. Ramaswamy and Waegelein (2003) also examines the Hong Kong market for post-merger financial performance and finds a significantly positive increase in performance post M&A. However, contrariwise some studies have shown that mergers have had a negative impact on firm performance post M&A. Unlike the abovementioned studies Pazarskis, Vogiatzoglou, Christodoulou and Drogalas (2006) finds that firms' profitability decreased as a result of engaging in M&A's. According to Yeh and Hoshino (2002), overall mergers have a negative effect on firm performance. They find a negative and insignificant change in firm productivity, a significantly negative drift in profitability, as well as a negative but significant effect on sales growth and a reduction in the firms' staff members. Altiol-Yilmaz & Akben-Selcuk (2011), examine accounting data and finds the value of Return on Asset (ROA), Return on Equity (ROE) and Return on Sales (ROS) to be considerably lower in comparison to its value pre-merger.

Some other studies have also reached mixed conclusion. For instance, Kumar (2009) compares the pre and post-merger values of the acquiring firms' profitability, assets turnover and solvency and finds no improvement in the values. King, Dalton, Daily, Covin (2004) assert that M&A's on average have a negative impact on the future financial performance of the acquiring firm and thus do not yield any superior performance. According to Cabanda and Pajara-Pascual (2007), some accounting measure report positive performance while others report negative performance. Their findings report that accounting measurement variables such as total asset turnover suggest statistically significant gains post M&A, while other performance variables like ROA, ROS, capital expenditure, capital expenditure/sales (CESA) and capital expenditure/total asset (CETA) did not indicate an improvement in the firms' post-merger performance.

2.4.2   Determinants of market reaction to M&A announcements

The impact of M&A activities on firm performance can be determined by calculating the abnormal returns of both target and bidder firms through an event study methodology. Fama, Fisher, Jensen, and Roll, (1969) first conducted an event study to investigate some companies' abnormal returns surrounding stock splits. Abnormal return is often defined as the fractions of a security's (company's stock) return not explained by the rate of return of the market. It is the return in excess of the expected rate of return.

Previous literatures have provided some evidence of some factors that influences abnormal return such as cash flow, type of acquisition and firm's structural factors. However, the most commonly recognized determinants are target size, target type, form of payment and industrial relatedness, (Smith and Kim, 1994; Wansley, Lane and Yang 1983; Limmack and McGregor, 1995; Fuller, et al., 2002).

According to Eckbo, Maksimovic and Williams (1990) the relative size of target to bidder firm is very crucial in determining how the bidder will perform. They state that an acquisition of a firm relatively smaller than the parent will only add a little value to the acquiring firm (parent) which in most cases will be insignificant. Jensen and Ruback (1983) are also of the view that the abnormal returns of the acquirer is not independent of the size of the target. They find that the Acquirers CAR is higher when it acquires a healthy firm that is relative larger. Thus, it can be said that with the size effect the gains to the bidder is highly dependent on the size of the acquisition.

In addition, Fuller et al. (2002) study the effect on shareholders returns of firms acquiring five or more public, private and/or subsidiary target firms. They finds that target shareholders gain more when the target is a public firm, while bidder firm shareholders benefit more when the target firm is a private firm or a subsidiary. They attribute the difference in returns to the liquidity effect of private firms that cannot be sold or bought easily. Ang and Kohers (2001) also affirms that acquirer's potential return is higher for bids on private target than for bids on public targets.

Franks, Harris, and Mayer (1988) examine how the means of payment affect the returns of US target and acquiring firm and find that bidder firms reap more from using cash as the means of payment. Huang and Walkling (1986) also find that bidder firms enjoy significantly larger positive abnormal returns when payments are made through cash than with equity financed deals because it gives a good signal to the market concerning the M&A deal.

Research has also shown that industrial relatedness is a key determinant of abnormal returns, because when two companies form a related industry merger it is expected that the benefits of creating a synergy will reflect in the abnormal returns of the merged company. (Datta, Pinches and Narayanan 1992, Healy, Palepu and Ruback 1992, Berkovitch & Narayanan, 1993). Fan and Goyal (2004) in their research show that when the bidder and target from related industries the merger should yield significantly positive returns as compared to diversified mergers. Likewise, Sherman and Pettway (1987) and Scanlon, Trifts, and Pettway (1989) find significantly positive abnormal returns for bidders in the similar industries.

Furthermore, Berger and Ofek (1995) uses the Standard Industry Classification (SIC) codes to determine the difference in shareholders' wealth creation. They find that when the firms have different two-digit Standard Industry Classification (SIC) codes the firm suffers losses and recorder a lower abnormal return.

2.5   M&A due diligence

The high level of market variability and uncertainty has created the need to be extra careful and thorough when making big decisions such as M&A's. Due diligence still remains a crucial part of the M&A process and even though some real challenges may arise when trying to access and evaluate certain merger deals, it is still very important to access the cost and benefit tradeoff before engaging in an M&A deal. The process of due diligence may vary from industry to industry and from country to country yet it is an effective tool to help mangers in evaluating a prospective target company. (Zorana Kostic, 2013)

Diligence means to be careful and meticulous, this criteria is even more important in the crisis period where uncertainty is at its highest peak. Beltratti and Paladino (2011) assert that bank assets are opaque and uncertain during economic downturns and therefore the acquiring banks due diligence process will be valuable. Generally, the due diligence process enables companies to continue in their expansion and growth without fear of investing in lemons. According to Zorana Kostic (2013), diligence involves more than just the financial aspect but also includes other areas such as insurance, operations, and benefits as well as the commercial aspect where bidder companies look into whether the target's growth is sustainability or not. It helps the bidder firms make strong confident decisions which may have involved several back and forth movements in validating the transaction even before closing the deal.

To execute a due diligence process during the crisis will require more time, skill and know-how. Usually it takes a couple of weeks to gather a comprehensive analyses of the target that would be needed for the due diligence analysis process. However, the condition of the market and business during the crisis period tends to extend the time needed to gather all the necessary information. (Zorana Kostic, 2013)

According to the Financer Worldwide (2012) the due diligence process is a tasking, demanding and time consuming process. Therefore it would be much better to do a mini due diligence analysis by solely focusing the material elements of the buyer's business plan so as to ascertain whether the target is a possible fit before delving into a more comprehensive analysis.

Being able to identify value creating M&A is one of the most important but difficult challenge most bidder firms face. This is due to the increasing globalization and internationalization of firms as well evolving regulations. With this challenge it is obvious that diligence involves more than just things that companies have control over like finances. It also involves other external factors that are not in the control of the company such as regulation. Financial diligence is important but it does not completely unearth all the wide range of risk associated with transactions. For instance in a cross boarder deal which involves foreign jurisdiction, culture, labor, transfer pricing, foreign market conditions and financial reporting, it would be almost impossible to

uncover all risks that would be involved in such a transaction. (Financer Worldwide 2008, 129)

Apart from the commercial diligence which criticizes the targets growth prospects. Total performance diligence also involves the evaluation of financial statements, accounting and tax, operations, systems, governance, vendor relations, internal controls, management integrity, human resources and insurance. Zorana Kostic (2013) asserts that in order to maximize shareholder value bidder firms should be aware of and be able to predict M&A deal risks as well as construct a plan to deal with those identified risks. By so doing bidder firms will be in a good position to make informed M&A decisions. According to Zorana Kostic (2013), an early identification of potential deal risks will lead to more informed decision and better financial planning. Commercial due diligence is the most appropriate due diligence process for buyers who have some doubts about key business activities of the target.

Another aspect of the due diligence process is the tax diligence process. This process includes all areas of taxations that may have an influence on deals such as proposed restructurings and valuation of goodwill, know-how and other intangibles. Additional, cross border deals should also undergo tax diligence since different counties have their individual tax regime so it is very important for bidding firms to properly understand the tax regime and regulations of all countries where M&A's will be contracted in order to be able to employ the correct tax structure and move cash to the appropriate territory to pay off debt as well as provide investors with tax efficient returns.

According to Zorana Kostic (2013), bidder firms should also expand their traditional diligence to access the level of insurance the target firm has. Given the fact that companies are faced with many foreseen and unforeseen risk it is very crucial to ensure that the target has enough self-insurance reserves and coverage prior to the closing of a deal.

In conclusion, the due diligence process helps the bidder firm to authenticate the current business of the potential target company in order to minimize any additional risk that may rise in the M&A process. The due diligence process is most important

for the acquiring firm to save it from lemon target companies. It helps to monitor all aspects of the target company, as well as assess the cost, benefits, obligations and responsibilities related to retrieval. Generally, inadequacy in the due diligence process leads to a higher level of risk and may further lead to unsuccessful acquisitions.

2.6   M&A method of financing

Companies can finance their M&A transactions through many means. However, the most commonly accepted means of payment is either by cash, equity or a combination of cash and equity. An extensive amount of literature has shown substantial evidence that different type of payment methods used in M&A tractions have different effects on the announced returns and can give an insight into the possible performance of the entity. (Travlos & Papaioannou 1991, Draper & Paudyal 1999, Faccio & Masulis 2005). Moreover, Carleton, Guilkey, Harris and J.F. Stewart (1983) argues that there is the need to differentiate cash acquisitions from non-cash acquisitions because each method of payment has its unique financial characteristic and failure to do so may lead incorrect generalizations. Fishman M. (1989) explains that the main difference between a cash offer and non-cash (equity) offer is that with the equity offer the value of the equity is dependent on the profitability of the acquisition while the value of the cash does not depend on the profitability of the acquisition.

There are different benefits to the acquiring and target firms when different payment methods are used to finance an M&A deal. For acquiring firms, Asquith P., Bruner R. F., and Mullins D.W. (1983) find in their research that cash offers provide positive returns while equity offers yield negative and significantly small returns. According to Martynova and Renneboog (2008) and Ismail (2008), the signaling effect of cash acquisitions leads to a higher return for cash bids in relation to share offers. This is because cash acquisition is a hint that the bidding firm believes that their shares are presently undervalued.

Although there is strong evidence on the effect of cash acquisitions, there are mixed conclusions on the impact of equity offers on the bidding firm. For instance, Travlos (1987) studies the returns from equity-financed acquisitions over a two-day period and

finds significantly negative abnormal returns of 1.47%. Wansley, Lane and Yang (1987) also records insignificant negative abnormal returns for the bidder firm. Isa (1994) studies the Malaysian market and reports a positive return of 0.12% for cash bids while equity bids recorder a return of -0.65% over a three-day event period. However, on the other hand, Moeller, Schlingemann and Stulz (2004) find that over the period of -1 to day 1 the acquiring firm reaps significantly positive abnormal returns in both cash and equity bids.

According to the signaling model of Leland and Pyle (1977), and Myers, and Majluf (1984) the chosen method of financing gives a good signal about the value of the bidding firms stock. In the light of information asymmetry, managers will rather accept cash offer if they suspects that the bidding firm's shares are underpriced. So generally, in an investor's opinion cash offers are a signal of good news while equity offers are bad news signals. In this regard, it is expected that cash acquisitions will have a more positive effect on abnormal returns while equity offers will have a negative effect on returns.

In line with the signaling model, Franks and Harris (1989) study the US and UK market and find that cash offers yield larger bid premia in relation to equity offers, such that bidding firms that make cash acquisitions report better post M&A performance than equity financed acquisitions. However, they find separately that UK acquirers that finance with equity do not necessary suffer significant losses at the time of the M&A announcement. In comparing, the impact of all three modes of financing, Antoniou, Arbour and Zhao (2005), found that using a mixture of cash and stock for the financing of M&A's yielded the highest abnormal return, and that equity financing was the worst performing.

Just like in the case of the acquiring firm, other studies have also reported positive returns for target firms that engage in all-cash acquisition in relation to stock acquisition. (Huang and Walking, 1987; Eckbo and Langohr, 1989;). However, evidence presented by Travlos (1987) and Moeller et al. (2004) shows that the benefit of using cash offers for acquisitions is more pronounced for the bidding firm than for the target firm.

2.7 Industry relatedness in acquisition framework

Industry relatedness, as the name implies refer to acquisitions done within related or same industry or sector. According to Ahuja and Katila 2001, Industry related is a very important factor to consider when companies decide to grow by means of acquisitions. (Ahuja & Katila, 200, Boschma & Ellwanger 2012). The whole idea behind industry relatedness in target selection is to be able to transfer the knowledge from an old business to a newly acquired one such that the existing knowledge is able to facilitate the identification of useful operational synergies. With related industries, the transfer process is relatively easy because both firms are active in the same market and share similar technological experiences, knowledge bases and products (Teece, Rumelt, Dosi & Sidney 1994, Knoben & Oerlemans 2006). According to Teece et al. (1994) relatedness gives an indication of the presence of a cost saving functions or 'economies of scope.

M&A literature has identified a horizontal merger as a merger where the acquirer and targets operate within the same industry and conglomerates mergers as mergers with both acquirer and target operating in unrelated industries. With this in mind, there is absolutely no doubt that one of the most central part to any company's growth strategy is to decide on what sorts of industries to diversify into (Barney 1991, Piscitello 2000). Every firm has it individual target selection criteria and although this list cannot be exhausted it is often common to find firms expanding into areas where its resources will provide the utmost advantage (Penrose 1959, Bryce & Winter 2009). These may include areas where unit cost is reduced as a result of using existing distribution channels for products, areas were risk is reduced and areas where the number of potential competitor's is reduced and the market power of both the target and acquiring firm (combined) is increased (Salter & Weinhold 1978, Montgomery & Singh 1987)

Some authors have identified important reasons why firms expanding their businesses should stay close to their existing capabilities or in other words stay within their industry (Penrose 1959, Chatterjee, Lubatkin, Schweiger & Weber 1992). Chatterjee et al. (1992) asserts that, the managers of both firm are more likely to know each other if both firms actively operate within the same industry. This would automatically mean

that both manager would be able to exchange information which would drastically reduce the time spend during the identification phase of an M&A deal. Another advantage of M&A's between firms in related industries is that they share operations and thus the time spent on due diligence phase is reduced since the value of the target is much easier to determine (Zahra and George, 2002). According to Capron (1999), if the target and bidding firm are related, it gives room for better knowledge integration, it helps reduce the cost of duplicate operation functions such that operation efficiency is achieved and economies of scale and scope are realized. (Capron 1999, Ahuja & Katila 2001, Nesta & Saviotti 2005)

In terms of post M&A integration, high relatedness plays a key role in ensuring that the integration process is smooth since the acquirer already possess all the necessary skills needed to understand and absorb the acquired capabilities (Cohen & Levinthal, 1990, Mowery, Oxley & Silverman 1996, Duysters & Hagedoorn 2000). On the other hand, realizing operational synergies from M&A deals in unrelated industries may prove to be more difficult. Also, when it comes to integration, more efforts will be needed to integrate two unrelated businesses together and thus this may lead to more spending and less benefits making it an expensive venture. For this reasons, it seems that investing in related M&A's is more valuable and attractive than unrelated ones. In this regard, Eunjoo Yi (2016) finds that M&A's within the same industry leads to a positive market reaction to the M&A announcement since investor are more prone to buy into the deal. This goes to prove that firms in same market seem to be more attractive targets and are more able to increase firm value (Martin & Sayrak 2003, Capron & Shen, 2007).

According to Teece (1982), firms often do not diversify randomly across different industries but rather they tend to invest in activities or firms that are in some way related to an aspect of their existing line of business (Teece 1982, Winter 1987, Teece et al., 1994, Breschi, Lissoni & Malerba 2003). In literature this kind of behavior is termed corporate coherence, which according to Teece et al. (1994), refers to the generating and exploitation of all possible synergies especially under the concept of relatedness.

Research has many and mixed conclusions on the profitability of industry related M&A deals. However on a larger scale, studies have found that related M&A deals create more value as compared to unrelated M&A deals. Traditionally, unrelated M&A deals are associated with a discount since they are seen as being motivated by empire building attempts and are value destroying ventures in nature. Parama Barai and Pitabas Mohanty (2014) study the role of industry relatedness in performance of Indian acquirers and find that in both long and short run related acquisitions create value, however they find an insignificant effects in the short run for unrelated acquisitions and in the long run they find that unrelated acquisitions destroy value. According to Singh & Montgomery (1987) M&A's in related industries generate better abnormal return than unrelated mergers. On the other hand, Chatterjee (1986) finds that unrelated M&A's are more profitable for both the acquiring and target firm shareholders.

3   DATA & METHODOLOGY

3.1   Data

In this study, we use data from two main sources. The Thomson Financial SDC Platinum database and DataStream. SDC Platinum is a huge database containing a collection of financial databases that provide information on M&A transactions, corporate restricting, Global public finance and Global new issues from all over the world. The second database utilized which is DataStream, is a huge database of financial report and stock market information for non-US companies and it is deemed appropriate for this particular study.

In this respect, the daily stock return data and accounting variables in our sample is gotten from DataStream while our data sample of M&A deals is taken from the SDC Platinum platform. The M&A sample data includes only completed deals where both acquirers and targets are publicly listed companies and both the acquirers and targets are located in European financial industry (within SIC 60-67). Our initial M&A sample contained 236 observation but after removing all missing deal values together with those deals values below 1million euros, our sample reduced to 194 observations. We also include only deal where that percentage of share owned after the transaction is greater 50% (majority ownership) and exclude all M&A announcement of firms with less than 1 million euros in total asset. With this last specification, our final sample is reduced to 181 observations.

The table below gives a sample description of all M&A transaction between the period of 2001 and 2009. The table shows the full, pre-crisis and crisis sample composition by country and industry. We group the industries into 6 categories by identifying the first two numbers of the acquirer and targets SIC code within the financial industry. We also show the full sample composition by the time-period of our analysis. From the table we see that in all market seasons the United Kingdom (UK) and France account for the majority of transaction in the sample followed by Italy and Germany. On the whole we see that the crisis period (23) saw less M&A activities as compared

Table 1. Sample description of Number of M&A transactions

	Full sample		Pre-Crisis		Crisis	
	Target	Acquirer	Target	Acquirer	Target	Acquirer
Panel A: Breakdown by country						
Austria	4	2	3	1	1	1
Belgium	3	4	3	4	0	0
Cyprus	0	2	0	2	0	0
Bulgaria	2	0	2	0	0	0
Czech Republic	1	0	1	0	0	0
Denmark	6	4	3	2	3	2
Estonia	1	0	1	0	0	0
Finland	6	0	6	0	0	0
France	30	38	28	35	2	3
Germany	19	21	18	20	1	1
Greece	9	8	9	8	0	0
Iceland	2	10	2	10	0	0
Ireland-Rep	2	0	2	0	0	0
Italy	25	28	21	24	4	4
Liechtenstein	0	1	0	1	0	0
Netherlands	3	1	3	1	0	0
Norway	5	3	4	2	1	1
Poland	5	3	5	3	0	0
Portugal	1	0	1	0	0	0
Russian Fed	2	2	1	1	1	1
Slovenia	1	0	1	0	0	0
Spain	10	15	6	10	4	5
Sweden	8	11	8	10	1	1
Switzerland	7	3	6	3	0	0
Turkey	3	0	3	0	0	0
United Kingdom	26	25	21	21	5	4
	181	181	158	158	23	23
Panel B: Breakdown by industry sector						
Depository Institutions	72	78	59	65	13	13
Non-Depository Credit Institutions	5	5	5	5	0	0
Security and Commodity Brokers, Dealers, Exchanges, and Services	15	20	13	18	2	2
Insurance Carriers	20	18	18	15	2	3
Real Estate	30	25	25	24	5	1
Holding and other Investment Offices	39	35	38	31	1	4
	181	181	158	158	23	23
Panel C: Breakdown by year						
2001	27					
2002	21					
2003	21					
2004	15					
2005	21					
2006	23					
2007	33					
2008	16					
2009	4					
	181					

This table presents the sample description of 181 M&A's from 2001—2009. The crisis period is identified as the time period from 01/10/07—31/03/09 and the pre-crisis period is identified as 01/01/01 to 31/09/07.

with the pre-crisis (158) period.

We can also observe that the sample varies significantly by industry sector. We see that on average the Depository Institutions sector accounts (72 for target and 78 for acquirer) for the majority of M&A transaction in our sample in all market seasons, followed by Holding and other Investment Offices (39 for target and 35 for acquirer). Panel C of table 1 also present similar conclusions as panel A and B, we see that the number of M&A's peak in 2007 after a year of relatively few M&A's in 2006. In the following year (2008) the number of M&A's drops again, from 33 to 16 and continues to drop until 2009. This a good indication of the crisis period and gives us the basis to investigate how the financial crisis impacted on the value creation of M&A activity for both acquirer and target firms. To do we divide our final sample (181) into two different subsamples. The first subsample consists of all M&A's starting 01/01/2001 and ending 31/09/2007 which is an indication of the period before the crisis. The other subsample consists of all M&A's starting from 01/10/2007– 31/03/2009, which represent the crisis period. Our sample during the financial crisis then consists of 23 M&A's while the pre-crisis period covers 158 M&A transactions.

Table 2 below represents the summary statistics of the deal characteristics of the Acquiring and target firm. From the table we can see that the acquirer's total assets is always higher than the target company in all market season. This is due to the fact that acquirer are generally known to more wealthy and bigger than their target (otherwise they would not have the resources needed to acquire other firms) and so it is expected that they will have more total assets than their targets. In terms of deal values, during the crisis the value of the deal is much lower than before the crisis, which is reasonable since the economy is not thriving well during this time.

Table 2. Deal characteristics

Characteristics	Full sample		Pre-crisis		Crisis	
	Acquirers	Targets	Acquirers	Targets	Acquirers	Targets
Total asset in million Euros						
Mean	156 561	106 047	162 101	131 855	118 503	16 513
Standard deviation	261 813	267 835	268 815.5	347 892	20 359	7 275
Minimum	11.1	11.593	11.1	11.59	33.8	11.76
Maximum	125 709	1 121	1 257.09	1 121.32	907 445.6	24.89
Deal value in millions Euros						
Mean		1 731		1 825.21		1 090.82
Standard deviation		4 323		4 388.26		3 878.31
Minimum		1.49		1.49		2.38
Maximum		29 492.9		29 492.9		18 710.72

This table presents the total asset of both acquirer and targets in millions of euro and the deal value in millions of euros. It is divided into three section; full sample, pre-crisis and crisis.

3.2 Methodology approach

Literature highlights two main methodologies used to examine the profitability of M&A's, and they are the stock market-based approach commonly known as the event study methodology and the accounting-based approach. As mentioned earlier the stock market based approach involves using an event study to examine the financial gains or loss of M&A deals in a set period. A major drawback of this approach is that changes in the behavior of stock prices surrounding the time of an announcement may have been influenced by other external factor such as overvaluation by the bidder firm or undervaluation due to investors overlooking the stock. Thus since stock prices may include random estimated error it means that undervaluation and overvaluations are commonplace in share price evaluations. (Shiller 1989).

The second methodology that is commonly applied is the accounting based approach. Unlike the event study methodology, this approach attempts to look at the M&A's performance by comparing pre-M&A profitability measures with post-M&A profitability measures through parametric or non-parametric testing. Different studies

have adopted different measures of profitability but Pilloff (1996) measures profitability through five accounting ratios. Namely, Return on Equity (ROE), Return on Assets (ROA), Return on Assets plus Off-Balance Sheet Items, Net Profit Margin (NPM) and Net interest rate margin (NIM). According to Akben-Selcuk and Altiok-Yilmaz (2011), some other studies measure profitability with pre-tax cash flows and net income, and adjust for the differences in firm size by dividing these measures by asset, sale and equity. However, the results from the use of the accounting based approach to measure firm operational performance has yield inconsistent conclusions.

Although some researchers have reported gain in their studies, some other studies have recorded losses and even mixed or insignificant results. (Healy, Krishna, & Ruback 1992, Ghosh 2001, Sharma & Ho 2002, Yeh & Hoshino, 2002,). DeLong and DeYoung (2007) finds some major limitations to the use of this accounting methodology. They find that the financial statement that are used to estimate performance are reflective of the past instead of the present performance. In other words, accounting data may not reflect current market values as they are mostly based on historical events. In spite of the limitations of the event study methodology, it was still chosen for this research. Because we believe that irrespective of the methodology chosen one still has to think outside the box to consider all other factors that might affect the result of the study. That is why we also try to examine the stock price behavior during an economic crisis.

3.2.1 Event study

The event study methodology has been extensively applied by many researchers to study the changes in the behaviour of the target and acquirer stock price surrounding an announcement day (Cybo-Ottone & Murgia 2000, Scholtens & De-Wit 2004, Campa & Hernando 2006). Mylonidis and Kelnikola (2005) assert that stock markets are efficient in nature such that the abnormal returns, the aggregate risk of the company and controlling for movement in the market truly depicts the impact of an M&A activity on the economy.

The most common instrument used to measure the value creating ability of M&A's is the capital asset pricing model (CAPM) and central to this is the calculation of abnormal returns (Sudanrsanam & Mahate 2003, MacKinlay, 1997). According to Warren-Boulton & Dalkir (2001), the event study methodology seems to provide all the necessary things needed to figure out if a particular M&A is value creating or values destroying. The value creating ability of the M&A's in our sample will be measured by the cumulative abnormal returns (CARs) during the event window. A positive CAR will mean that the M&A's have a positive effect on the firms performance and a negative CAR gives the indication that M&A's have a negative effect on the firms performance.

Mckinlay (1997) asserts that although there is no specific structure to follow when conducting event studies, it is still useful to discuss the structure the event study will take from the onset of the study. The first step is it identify the event window that would be used for the analyses of the event of interest (which in this case is the M&A announcement). It is typical to define the event window beyond the actual period of interest so that it gives room to analyze the days leading to the event and after the event. According to Mckinlay (1997) extending the period of interest a few days beyond the announcement day helps to capture the price effects of the announcements on the subsequent days following the closing of the stock market on the announcement day. The second step is to choose the securities to be included in the study and then select a good benchmark model to determine abnormal stock returns. After calculating the CAR for each security, we then test the statistical significance of CAR for all securities within the sample period.

In this study, our event of interest is the M&A announcement during the time period of 2001-2014. This sample covers both the pre-crisis and crisis periods, which is very crucial to our research. We compare multiple event windows (21-days 11-days, 7-days, 6-days, 5-days, 3-days, 2-days) with the event day and find that the smaller the event window the more reliable the results of the effect of M&A on firm performance is. This is in line with Andrade et al. 2001 findings that smaller event windows provide more statistically reliable implication of the value creating ability of M&A's.

3.2.2   Event study biases

Mckinlay (1997) makes mention of a number of biases that can arise while conducting an event study. The author states that a non-trading (Nonsynchronous trading) bias can be introduced into the sample when conducting an event study. The non-trading bias is characterized by the inaccurate and untimely recording of prices. Especially, in the case daily prices used in event study one may notice that although closing prices[1] are used these prices do not necessarily take place at the same time daily. Thus, by referring to them as daily prices one is incorrectly implying that they occur at the same time each day. According to Mckinlay (1997), the Nonsynchronous trading effect introduces biases into the variations in individual stocks and portfolios returns, this then further affect the Ordinary Least Square market model beta estimates. Scholes and Williams (1977) in their research provide evidence that adjusting beta estimates of thinly traded securities for the non-trading bias are 20 times higher as compared to the unadjusted beta estimates. Yet, they find that for actively traded securities these adjustments are insignificantly low (our data only includes listed companies).

According to Mckinlay (1997), another very import bias in event studies is the methodology employed in the calculation of the cumulative abnormal returns. Some methods may actually introduce an upward bias into the study which bias "arises from the observation by observation rebalancing to equal weights implicit in the calculation of the aggregate cumulative abnormal return combined with the use of transaction prices, which can represent both the bid and the offer side of the market" (Mckinlay 1997 p 36). Marshall and Stambaugh (1983) investigate this bias and finds that researches using firms that have wide bid offer spreads can remove this bias by taking into account cumulative abnormal returns, which embodies both buy and hold tactics.

3.3   Market model

The market model is the most commonly used model to calculate expected return while adjusting for the risk of the market. This model measures the normal return of the

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[1]closing prices are the prices at which the last transaction of any securities occurred during the trading day

stocks prior to the event period. It is a statistical model that matches the return of any given firm with the market portfolio return. The market model is developed from the assumption of joint asset return normality (Mckinlay, 1997). We estimate normal return for each event window by the simplest method, it is computed as follows:

$$R = Sum\ (Inret) \tag{1}$$

$$M = Sum\ (Inmktret) \tag{2}$$

Where R is the normal return Sum (*Inret*) is the sum of the log of returns over the event window. M is the market return and Sum (*Inmktret*) is the log of the market return over the event window. According to Mckinlay (1997), the market model is an improvement over the constant mean model and helps to increase the rate at which event effects are detected. In application, a good benchmark model should be used to determine the abnormal stock returns while controlling for the market wide stock price movement. In this study we use the Stoxx Europe 600 as our benchmarked since we focus on European M&A deals.

Next we calculate the cumulative abnormal returns for the market model for the different event windows. It is calculated as the difference between the sum of the log of returns over the event window and the log of the market return over the same event window. It thus represents the impact of firm specific event (M&A announcements in this study) on shareholder wealth, net of market effects and it is represented as:

$$CAR_{(t1,t2)} = \sum_{t=1}^{t2} R_t - M_t \tag{3}$$

Where CAR_i is the cumulative returns from day t_1 to t_2. R_t is the sum of the log of returns over the event window. M_t is the log of the market return over the event window.

4   EMPIRICAL RESULTS

This section highlights the results of the empirical analyses conducted based on an event study around the announcement dates of M&A deals in the European financial industry. In this analyses we consider multiple event studies to have a broader view of how M&A deals affects firm returns in the pre-crisis and crisis periods. We analysis our hypothesis by means of the univariate approach. We excluded all multivariate analyses because merging accounting variables with our main data caused us to lose significant amount of observation and thus led to many biased results. Our results are more accurate when analyzed with our main data since the accounting data was missing a lot of observations especially for the target firms.

4.1   The relationship between M&A announcements and abnormal returns

In this section, we analyze the effect of the relationship between M&A announcement and the performance of the acquirer and target firm. The results and analysis presented in this section takes into account the full sample data covering M&A's deal during the time period of 01/01/2001—31/03/2009. We expect that according to our first hypothesis that both the target firm and the acquirer firm will reap positive CAR around the announcement date which implies that M&A's have a positive effect on the acquiring and target firms performance.

Contrary to popular belief that bidder firms reap negative abnormal returns around the announcement date (Spyrou & Siougle 2010, Campa & Hernando 2006, Karceski, Ongena & Smith 2005, Banerjee & Cooperman 1998), we find in our analyses that acquiring firms actually reap positive abnormal returns around the announcement days although not statistically significant. This finding is in line with Cornett and De (1989); Moffett and Naserbakht, (2012) who find positive returns for bidder firms around the announcement date. They explain that this find can be possibly explained by the method of financing used in an acquisition. Since research has shown a high level of correlated between cash only financing and firm performance (Cornett & De 1989, Moffett & Naserbakht, 2012). It is therefore, reasonable to find positive returns for acquiring firms that use cash only to finance their deals than those that use stock only

in financing their deals. In table 3 present below we consider all 181 M&A deals and do not specifically identify which deals are cash financed or equity financed but because we find a positive CAR for acquire we are of the view that majority of the M&A deals in our sample mostly likely use cash to finance their transaction. As we go further in our analysis we will identify the actual impact that a chosen mode of deal financing will have on a firm's performance.

Table 3. Acquirers CAR for the full sample data

Event Window	CAR	T-value	P-Value
[-10;0]	0.864	0.81	0.416
[-5;0]	0.083	0.1	0.918
[-2;0]	0.517	0.80	0.425
[-1;0]	0.320	0.72	0.473
[0]	0.406	1.24	0.215
[-1;+1]	0.463	0.83	0.406
[-2;+2]	0.455	0.72	0.473
[-3;+3]	0.181	0.23	0.822
[-10;+10]	0.450	0.37	0.715

This table shows the results for an event study analyzing acquirer returns over 181 M&A deals within the European financial industry. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level

Table 4 below reports the CAR for the target firms in our full M&A sample. We find that, in line with most empirical analysis on target returns the targets in our sample are

able to reap significantly positive CAR around the announcement day for the multiple event windows reported in our table. Banerjee and Cooperman (1998) applies the event study methodology to analyze the returns to targets and acquirers firms in the banking industry and finds a huge and positively significant abnormal return of 13.11% for target firms in a single day event window. They conduct the analyses for multiple eve windows and still find a significant CARs for the target in all event windows from [-50, 0] to [-1, 0]. This finding is comparable to our result in table 4 which shows a positively significant CAR for target firms in all eleven event windows.

Generally, when comparing our results with previous research done in this field, we find similar and comparable conclusions for the target across literature. On the other hand, with the acquiring firm we find a contrasting view to what has been previously popularly reported in literature. Nevertheless, we find that our conclusion on both target and acquirers returns are closely related to Beitel and Schiereck (2001). They find that in any event window the CARs for the target firms are significantly positive, while the CARs for the acquiring firms are positive but insignificant. This finding is consistent with our first hypothesis which states that "mergers and acquisitions create positive returns for both acquirer and target firms, although acquirer's returns may be insignificant".

Banerjee and Cooperman (1998), highlights four hypotheses to explain the reason behind the conclusions on the returns for both acquirer and target firms. These hypotheses are the efficiency hypothesis, the capital quality hypothesis, the risk-reduction hypothesis, and the profitability hypothesis. Using the capital quality hypothesis to explain target and acquirer returns it was found that bidder firms are able to reap positive abnormal returns if their capital ratio is high. While target are able to reap positive abnormal returns when their capital ratio is higher in relation to the acquiring firm. Also it was found that the more profitable, less risky and less efficient the acquirer is the greater is the returns to the target.

In conclusion we can see from both table 3 and 4 that the positive CAR gives an indication that M&A's have a positive effect on the performance of the target and

acquirer firm although the positive effect is more pronounced (significant) for the target firm than for the acquirer firm.

Table 4. Targets CAR for the full sample data

Event Window	CAR	T-value	P-Value
[-10; 0]	5.929***	4.32	<.0001
[-5; 0]	4.957***	3.82	0.0002
[-2; 0]	4.806***	3.75	0.0003
[-1; 0]	4.553***	3.69	0.0003
[0]	4.400***	3.63	0.0004
[-1;+1]	5.876***	4.42	<.0001
[-2;+2]	6.183***	4.44	<.0001
[-3;+3]	6.131***	4.44	<.0001
[-10;+10]	5.999***	3.13	0.0021

This table displays the results for an event study analyzing acquirer returns over 181 M&A deals within European financial industry. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level

4.2   Financial crisis and the Value creating ability of M&A's

In this section we seek to examine the effect of the financial crisis on the returns and performance of both bidder and target firm. To do this we divide our same into two subsamples and test them with multiple event windows. The first subsample consists of all M&A's starting 01/01/2001 and ending 31/09/2007 which is an indication of the

period before the crisis. The other subsample consists of all M&A's starting from 01/10/2007– 31/03/2009, which represent the crisis period. Our sample during the financial crisis then consists of 23 M&A's while the pre-crisis period covers 158 M&A transactions. The main results for our analysis is presented in tables 5, 6, 7 and 8. We report a separate table (9) which represents the correlation matrix between CAR [-1; +] and some other explanatory variables. The correlation matrix gives some support to the results in table 7 and 8 as well as hypothesis 3 and 4.We use the dummy variable 1 if the announcement occurs in the crisis period or else we use 0.

Table 5. Acquirers CAR during the financial crisis

Event Window	CAR	T-value	P-Value
[-10; 0]	2.348	0.42	0.682
[-5; 0]	1.904	0.54	0.593
[-2; 0]	3.745	1.54	0.139
[-1; 0]	2.491	1.4	0.176
[0]	1.316	0.73	0.474
[-1;+1]	3.538	1.02	0.321
[-2;+2]	3.735	1.56	0.136
[-3;+3]	2.290	1.32	0.204
[-10;+10]	5.054	0.65	0.521

This table shows the results for an event study analyses of acquirer returns over 23 M&A deals during the financial crisis between 01/10/07 and 31/03/09. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level

Several authors have examined the separate effect of a crisis and pre-crisis period on the CAR of the acquirer and target around the announcement day. Like several other researchers, Nelson (1959) investigates the effects of an economic crisis on the acquirer's performance and argues that the differences in acquisition activity is closely related to the different business cycle stages. A stock market boom is often associated with a flooding of M&A activities because, during the crisis firms are able to easily issue new share in order to raise capital. According to Aguiar and Gopinath 2005, firms in non-crisis zone will try to benefit from fire sale acquisitions by acquiring targets in crisis areas where the number of potential bidders has reduced and the number of potential targets has increased. This is a typical situation during the crisis that allows stock prices to reflect a clearer advantage for the acquirer (James and Wier, 1987). Therefore the positive return to the acquirer during the crisis period can in some way be explained by the buying of targets from crisis zone at fire sale prices. However, in times of global economic crisis where most countries are experiencing financial difficulties at the same time, this fact may not hold true since there will be no opened market to take advantage of.

From table 5 we see that the acquirers earns positive CAR during the financial crisis which implies that M&A's have a positive effect on the acquirers CAR even during the crisis period. The positive CAR can be explain as a positive reaction from the market as a result of the bidder firms ability to properly value the target firm. As established in pervious chapters, the process of due diligence is even more valuable in the crisis period than in the pre-crisis period. Therefore, during this time of high volatility and uncertainty in the market, acquirers take their time to gather all the necessary information that would be needed in the evaluation process in order to make accurately informed acquisition decision.

Berger and Bouwman (2010), claim that the crisis period can be a good time for acquiring firm, especially those that are strong and healthy because it is during an economic downturn that they can easily increase their market share and profitability at a very low cost by acquiring distressed competitors at very low prices. Therefore during financial crisis it is possible for acquirers to reap positive CAR since they are in the right position to achieve portfolio diversification (Emmons, Gilbert & Yeager

2004), geographic diversification, activity diversification and market power (Hughes, Lang & Mester 1999, Hankir, Rauch & Umber 2011, Van Lelyveld & Knot 2009) at a small price.

Table 6. Acquirers CAR before the financial crisis

Event window	CAR	T-value	P-Value
[-10; 0]	0.655518	1.03	0.3058
[-5; 0]	-0.41669	-0.91	0.3634
[-2; 0]	-0.42565	-1.21	0.2281
[-1; 0]	-0.50628	-1.53	0.1276
[0]	-0.18176	-0.51	0.6092
[-1;+1]	-0.57081	-1.32	0.1894
[-2;+2]	-0.40216	-0.79	0.43
[-3;+3]	-0.63724	-1.09	0.2762
[-10;+10]	-0.16734	-0.19	0.8471

This table shows the results for an event study analyses of acquirer returns over 158 M&A deals before the financial crisis between 01/01/07 and 31/09/07. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level.

Table 6 above reports the acquirers CAR before the financial crisis. The first thing we notice is that all CARs are negative except for the CAR of window [-10; 0]. This is an indication that during the period before the crisis, M&A's have a negative effect on the acquirer's performance. A comparison of table 5 and 6 reveals that in general,

acquirers perform much better during the crisis period than in the period before the crisis.

Through analyzing these results it can be seen that the financial crisis created room for better acquirer performance by putting more giveaways deals on the market for acquirers to take advantage of. According to Hotchkiss and Mooradian (1998), companies in financial distress are usually bought by companies from the same industry. This is sensible because by acquiring a company in the same industry, bidders are saved the cost of buying lemons as they will have some form of relation and knowledge about the target beforehand which will eventually help in make informed decisions. Overall, acquiring firms seem to do better during the economic crisis than before.

Table 7. Targets CAR during the financial crisis

Event window	CAR	T-value	P-Value
[-10; 0]	5.893	0.79	0.4411
[-5; 0]	5.140	0.47	0.6466
[-2; 0]	4.867	0.52	0.6108
[-1; 0]	4.405	0.76	0.4625
[0]	3.904	1.22	0.2458
[-1;+1]	5.332	1.4	0.1864
[-2;+2]	5.663	1.37	0.1948
[-3;+3]	5.581	1.44	0.1739
[-10;+10]	6.284	0.27	0.7941

This table shows the results for an event study analyses of Targets returns over 23 M&A deals during the financial crisis between 01/10/07 and 31/03/09. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level.

We now take a look at the target returns for the same sample of deals and analyze the differences between M&A performance before and during the financial crisis. Tables 7 reports positive but insignificant CAR for target firm during the crisis, but in comparison to table 8 we see that the CAR values are significantly (at the 1%, 5% and 10% level) higher for the pre-crisis period than the crisis period. During economic boom (pre-crisis) where there is stiff competition among acquirers for targets firms, we find that targets will be well positioned to come out of an M&A negotiation with a better price or deal. Thereby transferring gains or value creation from the acquirer to the target

Overall we see a better performance for target M&A's during the pre-crisis period than during the crisis period. This is illustrated by the positive and significant CAR in almost all event windows. The results from tables 5 through to table 8 is in the line with our second hypothesis which states that, "M&A deals create more value for the acquirer in the crisis period than in the pre-crisis period" an also that, "M&A's deals create more value for the target in the pre-crisis period than in the crisis period".

Table 8. Targets CAR before the financial crisis

Event window	CAR	T-value	P-Value
[-10; 0]	6.228***	4.80	<.0001
[-5; 0]	3.466***	4.41	<.0001
[-2; 0]	4.313***	4.63	<.0001
[-1; 0]	5.758***	4.19	<.0001
[0]	8.439***	3.64	0.0004
[-1;+1]	10.314***	4.45	<.0001
[-2;+2]	10.414***	4.65	<.0001
[-3;+3]	10.608***	4.39	<.0001
[-10;+10]	3.681***	4.53	<.0001

This table shows the results for an event study analyses of target returns over 158 M&A deals before the financial crisis between 01/01/07 and 31/09/07. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level.

Table 9 below presents the correlation matrix between CAR and some explanatory variables. We choose a window of 3 days ([-1: +1]). We chose this window because literature has proven that the proximity of the event window to the event day is very crucial since it provides more accurate and reliable results. A small event window automatically reduces the chances of other external influence on the stock price.

The interpretation from the table shows that the crisis is positively correlated with the acquirers CAR although not statistically significant. This takes us back to the A part of our second hypothesis where we find that the crisis period is associated with positive but insignificant CAR for the acquirer. This solidifies the results from the hypothesis 2a and give us first hand proof of the acquirer's returns in the crisis period.

When we do not differentiate a crisis period from a pre-crisis period we find no strong stance for the use of either stock or cash only financing since the values are insignificantly negative and positive respectively. For industry related we find similarly that when we do not differentiate a crisis period from a pre-crisis period the acquirers CAR a negative and insignificant.

We include 3 interaction variables in the correlation matrix. By including an interaction variable we are able to see the joint effect of two variables on the acquirers CAR. The interaction variable between crisis and stock only financing is negative and insignificantly correlated with the acquirers CAR. However the interaction variable between crisis and cash only financing is positive and significantly related to the acquirers CAR. This means that during the crisis cash only payments have a positive influence of the performance of the acquiring firm. In the same manner we find the interaction variable between crisis and industry relatedness to be positive and significantly correlated to the acquirers CAR. This means that during the crisis Acquisitions done within the same or related industry sector tend to have a positive influence on the performance of the acquiring firm. We discuss the last two finding in details in the subsequent sections.

Table 9. Correlation matrix between CAR [-1; +1] and explanatory variables for acquirer firms

	CAR	Crisis	Stockonly	Cashonly	Ind_Related	Crisis_Stockonly	Crisis_Cashonly	Crisis_Indrelated
CAR	1							
Crisis	0.10672	1						
	(0.2305)							
Stockonly	-0.01994	0.07337	1					
	(0.8232)	(0.336)						
Cashonly	0.04188	-0.13117*	-0.77182***	1				
	(0.6388)	(0.0845)	(<.0001)					
Ind_Related	-0.03511	0.11082	-0.01519	-0.00207	1			
	(0.694)	(0.1455)	(0.8423)	(0.9783)				
Crisis_Stockonly	-0.02082	0.84314***	0.24177***	-0.20602***	0.04955	1		
	(0.8156)	(<.0001)	(0.0013)	(0.0064)	(0.5161)			
Crisis_Cashonly	0.3175***	0.33938***	-0.18028**	0.21155***	0.08766	-0.04359	1	
	(0.0003)	(<.0001)	(0.0173)	(0.0051)	(0.2501)	(0.568)		
Crisis_Indrelated	0.13685**	0.89709***	0.02552	-0.0963	0.23172***	0.69161***	0.37831***	1
	(0.0124)	(<.0001)	(0.7381)	(0.2062)	(0.0021)	(<.0001)	(<.0001)	

This table represents a correlation matrix between CAR [-1; +1] and explanatory variables for acquirer firm. We create 4 dummy variables and 3 interaction variables. Crisis is identified by a dummy variable of value 1 if the announcement is done within the crisis period of October 2007— March 2009, or takes a value of 0 if otherwise. Interrelated takes the value of 1 if both the targets and acquirers are in the same industry sector, or else it takes a value of 0. Stock takes the value of 1 if only stock financing is used in an M&A deal, or else it takes a value of 0. Cash takes the value of 1 if only cash financing is used in an M&A deal, or else it takes a value of 0. The interaction variables are computed by multiplying two variables. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level.

4.3   Cash versus stock financing

The two most common method of M&A financing is the use of either cash or equity or a combination of both. In this section we consider individually all cash and equity financed M&A's during the financial crisis in order to know their distinct effect on the firm's performance. We conduct this analysis from the point of view of the acquirer because evidence presented by Travlos (1987) and Moeller et al. (2004) shows that results are more pronounced for the bidding firm than for the target firm.

Loughran and Vijh (1997), proposes a way by which to determine the most appropriate method of financing. They suggest that when the stocks of the bidder firm is overvalued they should finance M&A's with stocks and finance it by cash when their stocks are undervalued. During the financial crisis when there is a high level of volatility and uncertainty in the market, stock become undervalued and so in these time and according to Loughran and Vijh (1997), Bidders should finance their M&A deals with cash.

According to Martynova and Renneboog (2008) and Ismail (2008), the signaling effect of cash acquisitions leads to a higher return for cash bids in relation to share offers in an M&A transaction. This is because cash acquisition gives a hint that the bidding firm believes that their shares are presently undervalued. Huang and Walkling (1986) also find that bidder firms enjoy significantly larger positive abnormal returns when payments are made through cash than with equity financed deals because it gives a good signal to the market concerning the M&A deal and the present and future condition of the firm. From an investor's point of view cash offers are a signal of good news while equity offers are bad news signals. Therefore it is expected that the bad new signal will have a negative effect on the acquirers CAR while the good news signal will have a positive effect on the acquirers CAR.

In line with Literature, We find that acquirer that finance their M&A deals with cash perform better than those deal that are finance their Deal with stocks. We find that all the acquirer's CAR is higher for cash payment than for stock payment although not all are statistically significant. However, we find a more positive and significant CAR for

deal payment made in cash on the announcement day. Therefore cash financed deals have a more positive impact on acquirer performance that stock financed M&A. The details of our results are illustrated in tables 10 and 11 below.

Table 10. Acquirers CAR for cash only deals during Financial Crisis

Event window	CAR	T-value	P-Value
[-10;0]	-2.468	-0.29	0.797
[-5;0]	3.860**	4.94	0.0387
[-2;0]	8.662	1.24	0.3398
[-1;0]	4.115	1.81	0.2116
[0]	2.372**	2.23	0.0455
[-1;+1]	0.789	0.27	0.8131
[-2;+2]	4.680	1.25	0.3366
[-3;+3]	7.242	1.27	0.3307
[-10;+10]	10.387**	5.11	0.0363

This table shows the results of the acquirers CAR for cash only deals during the financial crisis of 01/10/07 — 31/03/09. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level

Table 11. Acquirers CAR for stock only deals during Financial Crisis

Event window	CAR	T-value	P-Value
[-10;0]	1.761	0.23	0.8236
[-5;0]	-0.049	-0.01	0.9917
[-2;0]	2.375	0.78	0.452
[-1;0]	1.547	0.66	0.5238
[0]	-0.055	-0.02	0.9805
[-1;+1]	3.786	0.77	0.4523
[-2;+2]	3.445	1.04	0.318
[-3;+3]	0.814	0.40	0.699
[-10;+10]	2.150	0.20	0.8462

This table shows the results of the acquirers CAR for stock only deals during the financial crisis of 01/10/07 — 31/03/09. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level

4.4 Industry relatedness versus industry un-relatedness

M&A's are seen as instrument of growth, because when a firm decides to acquire another independent firm it is can gain access to knowledge and resources that it naturally would not have had access to. It is able to benefit from the capabilities and resources brought in by the target firm and hence is able to utilize it in making informed decisions for further growth. However, a crucial and central area of growth is to determine the direction in which the firm choses to diversify. Whether to enter unknown territories by investing in unrelated industries or sticking to their known capabilities by merging with firms in the same industry. (Teece 1982, Teece et al., 1994, Piscitello 2000)

In this section we turn to look at the effect of the direction of a firm's diversification on its performance during the financial crisis period. We report our results in table 12 and 13 for only the acquiring firm. We find that during the crisis period, when there is a high level of volatility and uncertainty in the market acquirer firms are better off biding for targets in the same industry since they generate more positive CAR for the acquirer firm. We even find significant CAR for event windows [-2; 0] and [-1; 0]. This indicates that during the crisis period acquisition made in related industries have a positive effect on the acquiring firm's performance. The CAR to the acquirer for acquiring target in unrelated industries is negative which implies that during the crisis period acquisition made in unrelated industries have a negative effect on the acquiring firm's performance.

Table 12. Acquirers CAR for industry related deals during Financial Crisis

Event window	CAR	T-value	P-Value
[-10; 0]	4.133	0.61	0.5478
[-5; 0]	3.421	0.8	0.4356
[-2; 0]	5.410*	1.9	0.0766
[-1; 0]	3.887*	1.93	0.0727
[0]	2.486	1.19	0.2544
[-1;+1]	4.893	1.14	0.2706
[-2;+2]	4.911	1.7	0.1107
[-3;+3]	3.166	1.49	0.1563
[-10;+10]	6.231	0.66	0.5173

This table shows the results of the acquirers CAR for industry related deals during the financial crisis of 01/10/07 — 31/03/09. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level

According to Chatterjee et al. (1992) it is possible to see these kinds of results in the crisis period because an acquisition between two firms from the same industry would automatically mean that both manager would be able to exchange information which would drastically reduce the time spend during the identification phase of an M&A deal.

Zahra and George, (2002) assert that firms in related industries may share operations and thus during the M&A process the time spent on the due diligence phase will be reduced drastically since the value of the target will much easier to determine. Being able to easily determine the value of the target especially in the crisis period is very important and as such acquirer are rewarded with positive returns. There is a positive market reaction to the M&A announcement since investor are more prone to buy into the deal. Our findings in this section is related to Singh & Montgomery (1987) who reports that M&A's in related industries generate better abnormal return than unrelated mergers.

Table 13. Acquirers CAR for industry un-related deals before Financial Crisis

Event window	CAR	T-value	P-Value
[-10; 0]	-4.796	-0.54	0.6296
[-5; 0]	-4.160	-1.45	0.2425
[-2; 0]	-2.916	-1.17	0.3251
[-1; 0]	-3.094	-1.33	0.2769
[0]	-3.364	-1.4	0.2571
[-1;+1]	-1.885	-0.95	0.4111
[-2;+2]	-0.973	-0.43	0.6968
[-3;+3]	-1.214	-1.5	0.2294
[-10;+10]	0.349	0.03	0.9765

This table shows the results of the acquirers CAR for industry un-related deals during the financial crisis of 01/10/07 — 31/03/09. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level

Table 14 represent results from a multivariate of our data. The conclusions for most part are similar to what has already been found in the previous chapters. We run panel regressions with CAR [-1; +1] as the dependent variable and explain it with some independent variables. We run the regression 5 times with different combinations of the independent variables. We create 4 dummy variables and 3 interaction variables. Crisis is identified by a dummy variable of value 1 if the announcement is done within the crisis period of October 2007— March 2009, or takes a value of 0 if otherwise. Interrelated takes the value of 1 if both the targets and acquirers are in the same industry sector, or else it takes a value of 0. Stock takes the value of 1 if only stock financing is used in an M&A deal, or else it takes a value of 0. Cash takes the value of 1 if only cash financing is used in an M&A deal, or else it takes a value of 0. The interaction variables are computed by multiplying two variables. We control for firm size since the companies in our sample are made up of different firm size and the results can be biased if done without controlling for firm size.

In the first regression (1) we see that crisis still has a positive and significant effect on the acquirers CAR and performance which is in line with what has been previously established. For the second regression (2) we see that during the crisis bidder firm that acquire other target firms from the same industry earn significantly positive CAR. Thus, during the crisis interrelated acquisitions have a positive effect on firm performance. From the third and fourth regression (3) (4) we derive the same conclusion as in hypothesis 3 that cash financed deals have a more positive impact on acquirer performance that stock financed M&A. In the last regression where we include all explanatory variables into the regress, we see a positive and significant CAR for the crisis and interrelated interaction variable and the crisis and cash interaction variable.

Table 14. Panel regressions of acquirers CAR [-1; +1] on other explanatory variables and control variable

Independent Variable	1	2	3	4	5
	Dependent Variable				
	CAR [-1;+1]				
Intercept	2.963*	3.544**	3.369*	2.826*	3.120
	(0.061)	(0.042)	(0.060)	(0.076)	(0.181)
Crisis	3.631**	-2.476	2.330	4.321**	-4.193
	(0.034)	(0.509)	(0.456)	(0.022)	(0.509)
Interrelated		-0.695			-0.633
		(0.499)			(0.541)
Crisis*Interrelated		7.747*			9.166**
		(0.067)			(0.041)
Stock			-0.448		0.378
			(0.664)		(0.819)
Crisis*stock			1.886		1.918
			(0.615)		(0.709)
cash				0.801	1.064
				(0.462)	(0.542)
Crisis*cash				3.918**	4.291**
				(0.041)	(0.049)
Control Variable					
Firm Size	-0.314*	-0.326**	-0.325**	-0.323**	-0.342**
	(0.050)	(0.041)	(0.044)	(0.045)	(0.035)

This table shows regressions of acquirers CAR [-1; 1] on other explanatory variables and control variable for the acquirer firm. We create 4 dummy variables and 3 interaction variables. Crisis is identified by a dummy variable of value 1 if the announcement is done within the crisis period of October 2007— March 2009, or takes a value of 0 if otherwise. Interrelated takes the value of 1 if both the targets and acquirers are in the same industry sector, or else it takes a value of 0. Stock takes the value of 1 if only stock financing is used in an M&A deal, or else it takes a value of 0. Cash takes the value of 1 if only cash financing is used in an M&A deal, or else it takes a value of 0. The interaction variables are computed by multiplying two variables. * = significance at the 10%-level, ** = significance at the 5%-level, *** = significance at the 1%-level.

5 CONCLUSION

The main purpose of this study was to examine effect of M&A activities on firm performance in the crisis and pre-crisis period. In this paper, we look at how stock prices react to M&A announcements during pre-crisis and crisis periods. We employ an event study approach to measure M&A performance and study the success rate of M&A deals during crisis and pre-crisis periods.

Previous empirical studies conducted on M&A activities tend to show a positive abnormal return for targets and a negative abnormal return for acquirers close to the announcement date (Spyrou & Siougle 2010, Campa & Hernando 2006, Karceski, Ongena & Smith 2005, Yeh & Hoshino 2002, Houston & Ryngaert 1994). However, the results are more uncertain for the acquirer than for the target firms since a number of studies have also reported positive abnormal returns and even some have found insignificant abnormal returns for the acquiring firm. This gave us the reason to look into the returns of the acquirer firms more critically. Although we did not neglect the effect of M&A's on target returns

To proceed we first use our full sample of M&A data to analyze the effect of M&A announcement on the returns of both the Acquiring and target firm. We find similar conclusion with past studies on the returns to target firms. However we find a slight contradiction to what has been popularly been reported in many empirical studies about the acquirers returns (negative returns to the acquirer). In our full sample of 181 M&A's we find significantly positive CAR for the target and find positive but insignificant CAR for the acquirer. This result from our first hypothesis is directly in line with the finds of Beitel and Schiereck (2001), who find that in any event window the CARs for the target firms are significantly positive, while the CARs for the acquirers are positive but insignificant. Thus, for our first hypothesis we find that M&A's have a positive effect on the performance of the target and acquirer firm although the positive effect is more pronounced (significant) for the target firm than for the acquirer firm.

Next we investigate the separate effect of a crisis and pre-crisis period on the CAR of the acquirer and target around the announcement day. We find that Acquirer firms earn positive CAR in the crisis period but they turn negative in the pre-crisis period. This implies that the financial crisis created room for better acquirer performance by putting more giveaways deals on the market for acquirers to take advantage of. During economic boom (pre-crisis) where there is stiff competition among acquirers for targets firms, we find that targets will be well positioned to come out of an M&A negotiation with a better price or deal. Thereby transferring gains or value creation from the acquirer to the target. From the target firms, we find significantly positive CARs during the pre-crisis period than during the crisis period.

Thirdly we investigate the effect that a chosen method of financing will have on the acquirer performance during the crisis period and find more highly positive CARs for the acquirer that use cash as a means of financing deals. Therefore cash financed deals have a more positive impact on acquirer performance that stock financed M&A because during the crisis stock become overvalued and acquirer will rather use cash as a means of financing. Also the fact that the acquirer uses cash to finance deals sends a positive signal to the market about the condition of the acquirer which makes it more attractive to investors.

We turn to look at the effect of the direction of a firm's diversification on its performance during the financial crisis period, and find that during the crisis period, when volatility and uncertainty is high acquirer firms are better off biding for targets in the same industry since they generate more positive CAR for the acquirer firm. We even find significant CAR for event windows [-2; 0] and [-1; 0]. This indicates that during the crisis period acquisition made in related industries have a positive effect on the acquiring firm's performance. The CAR to the acquirer for acquiring targets in unrelated industries is negative which implies that during the crisis period acquisition made in unrelated industries have a negative effect on the acquiring firm's performance.

In a nutshell, we see that most of our results are in line with previous empirical studies. The result of this thesis is beneficial for both institutional and individual investors as

they might be prone to a lot of lemon investment if they don't meticulously scan the M&A market. In accordance with the signaling theory, investors can now have an idea about the current and future condition of the acquiring firm. Investors should be on the lookout for firms that use more cash financing than equity financing since the use of cash is a signal of good new but the use of stock is a signal of bad new to investors. Also acquirers should not relent in their due diligence process especially during the crisis period when it would prove to be most valuable. By undergoing a proper due diligence process acquirer are sure to make accurate and informative decision that may have a positive impact on their overall performance.

Just like all academic papers, this study is not void of limitations. The following are a few limitations and some suggestions for future research.

Firstly, this study is limited to only the analyses of individual acquirer and target returns to see whether returns are transferred from bidder to target. However, In addition to this it will be better to also make an analyses of the combined entity to see whether value creation is still possible and if these results will still remain the same.

In our last table we run a regressions of acquirers CAR [-1; +1] on other explanatory variables and control variable. We find that when we add all explanatory variables into the same regression only two variables (interaction variables) were significantly explaining CAR but all variables together explains only a tiny portion of the variation in the CAR's surrounding the announcement of M&A deals. This implies that there are some other external variables not included in the regression that are effecting the results presented in this thesis. Therefore for the purpose of further research it will be good to find out those endogenous variables and include more control variables in order to have more robust findings.

In this study we also employ the 2-digit SIC code as a way of measuring industry relatedness. However literature has proposed other good proxies for industry relatedness. This is something that could be incorporate into future research to compare if our findings on the performance of firms in related industries remain robust.

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