Exploring International M&As and Corporate Performance: Evidence from Greece

Dr. Alexandros Alexandrakis
Associate Professor
Department of Accounting
Technological Educational Institute of Central Macedonia
alex@teiser.gr

Dr. Michail Pazarskis
Adjunct Assistant Professor
Department of Business Administration
Technological Educational Institute of Central Macedonia
pazarskis@gmail.com

Dr. Panagiotis Pantelidis
Assistant Professor
Department of Business Administration
Technological Educational Institute of Central Macedonia
pan@teiser.gr

Stavros Stamatouros
Adjunct Lecturer
Department of Accounting
Technological Educational Institute of Central Macedonia
sstamatouros@teiser.gr

Abstract
This study examines international mergers and acquisitions (M&As) of Greek listed firms before the outbreak of the sovereign debt crisis in Greece. The main objective of this paper is to evaluate the post-merger performance of Greek listed firms in the Athens Stock Exchange that executed as acquirers one international merger or acquisition in the year-period 2005. Thus, it is examined firms' post-merger performance and is calculated from pre- and post-merger accounting data several financial ratios for two years before and after the international M&As events, which is also compared with these of firms that have performed domestic M&As, while the choice of merger or acquisitions at the international area is further analysed. From this point of view, the research revealed that there is no difference from the international orientation (domestic or international M&As) for the acquiring firms of the research sample at any of the examined accounting ratios. Last, in the case of the international M&As the choice of merger or acquisition, as a type of business unity, is not important for the business performance.

Keywords: merger, acquisition, international business strategies

JEL Classifications: G34, F23, M40

Introductory Comments

Presently, a basic option of contemporary corporate restructuring is the realisation of mergers and acquisitions (M&As). Notwithstanding, the process of internationalisation and the expansion of the European Union has fostered the whole activity in recent years: foreign direct investment by multinational companies has grown rapidly, international trade increase faster than the rate of growth of national economies, and supra-national institutions, such as the EU and the WTO, promoted ever more inter-linked economies over national governments, which evolve an international perspective of M&As and an increasingly competitive business environment.

The main hypothesis in successful M&As activities is that potential economic benefits arising from them are changes that increase business performance, which would not have been made in the absence of a change in control (Pazarskis, 2008). However, many researchers and business practitioners regard with scepticism this hypothesis, despite the fact that many others are confident and enthusiastic.

Recently in Greece, M&As have grown rapidly as part of this widespread corporate restructuring on the worldwide landscape. Obviously, their evolution could help Greek firms to be prepared and resist in case of an economic crisis (national or global). In order to provide further theoretical evidence on this issue at Greek business and especially from an international investment and a financial accounting perspective, this study examines the international merger activity of Greek listed firms in several countries through the citation of several Greek International M&As events in the year-period 2005 and attempts to depicture several M&As characteristics and special peculiarities of Greek acquiring firms. The motivation of this study is to provide a basic framework of analysis for Greek international M&As useful for managers, shareholders, academics, etc.

The structure of the paper is as follows: the next section refers to differences of domestic and international M&As. The following section presents the research design of this study (literature review; sample and data; selected accounting ratios; methodology and hypothesis), while the next one following section analysed the ratio results. The next sextion proposes concerning the research results further interpretations and evidence. Last, the final section concludes the paper.

Differences of Domestic and International M&As

As the strategy literature commonly argues, mergers and acquisitions are one of the mechanisms by which, firms gain access to new resources, reducing costs and increasing revenues via resource redeployment. International business researchers have extended the concept of resource opportunities to include a geographic component (Agorastos et al., 2006; 2011).

Thus, international M&As are considered a special category of merger activities and present special peculiarities than the domestic ones (Errunza & Senbet, 1981, 1984; Caves, 1986; Michel & Shaked, 1986; Doukas & Travlos, 1988, 2001; Conn, & Connell, 1990; Morck & Yeung, 1991; Harris & Ravenscraft, 1991; Cebenoyan et al., 1992; Healy & Palepu, 1993; Markides & Ittner, 1994; Doukas, 1995; Eun et al., 1996; Cakici et al., 1991, 1996; Markides & Oyon, 1998; Lyroudi et al., 1999; Seth et al., 2000; Rossi & Volpin, 2004; Danbolt, 2004; etc.).

This view is fully analyzed by Weston Fr., Chung K. and Hoag S. (1990) as they described that many of the motives for international mergers and acquisitions are similar to those for purely domestic transactions[1], while others are unique to the international arena. On the whole, these "international" motives include the following: A. Growth: (i) to achieve long-run strategic goals, (ii) for growth beyond the capacity of saturated domestic market, (iii) market extension abroad and protection of market share at home, (iv) size and economies of scale required for effective global competition. B. Technology: (i) to exploit technological knowledge advantage, (ii) to acquire technology where it is lacking. C. Extend advantages in differentiated products: strong correlation between multinationalization and product differentiation (Caves, 1986); this may indicate an application of the parent's (acquirer's) good reputation. D. Government policy: (i) to circumvent protective tariffs, quotas, etc., (ii) to reduce dependence on exports. E. Exchange rates: (i) impact on relative costs of foreign versus domestic acquisitions, (ii) impact on value of repatriated profits. F. Political and economic stability: to invest in a safe, predictable environment. G. Differential labor costs, productivity of labor. H. To follow clients (especially for banks). I. Diversification: (i) by product line, (ii) geographically, (iii) to reduce systematic risk. J. Resource-poor domestic economy: to obtain assured sources of supply.

Research Design

Related past accounting researches

Several past studies on post-merger operating performance after M&As that employed accounting characteristics (financial ratios) concluded on ambiguous results (Pazarskis, 2008). Many of them supported an improvement in the operating performance after the M&As action (Cosh et al., 1980; Parrino et al., 1998; etc.), while other researchers claimed that there was a deterioration in the post-merger firm performance (Meeks, 1977; Salter & Weinhold, 1979; Mueller, 1980; Kusewitt, 1985; Neely & Rochester, 1987; Ravenscraft & Scherer, 1987; Dickerson et al., 1997; Sharma & Ho, 2002; etc.), and others researchers concluded a "zero" result or ambiguous results from the M&As action (Kumar, 1984; Healy et al., 1992; Chatterjee & Meeks, 1996; Ghosh, 2001; etc.).

Sample and data

In the year-period 2005, several important international M&As activities from firms of Greek interests, listed in the Main market of the Athens Exchange are tracked, The final sample consists of eleven firms, from which four firms have performed international M&As, and are considered for further analysis. Also, the examined firms have not performed bank activities, which present special peculiarities in their accounting evaluation of the international M&As transactions, while their merger activity have consisted of an important investment that assure the acquiring firm management.

[1] For an extensive literature review about the motives for M&As, in general, see: Jensen, 1986; Ravenscraft & Scherer, 1987; Ravenscraft, 1988; Pazarskis, 2008.

The study proceeds to an analysis only of listed firms as their financial statements are published and it is easy to find them and evaluate from them the firm post-merger accounting performance. The M&As activities of the listed Greek firms have been tracked from their announcements on the web sites of the ASE. The data of this study (accounting ratios) are computed from the financial statements of the M&As-involved firms and the databank of the Library of the University of Macedonia (Thessaloniki, Greece).

Selected accounting ratios
The post-merger accounting performance of a firm is evaluated with its performance at some accounting ratios. For the purpose of this study, five ratios are employed, which are the following ratios (see, Table 1):

Table 1: Classification of financial ratios

Code	*Variable Name*	*Description*
R1	Return on assets (ROA)	Earnigns / Total Assets
R2	Return on equity (ROE)	Earnings / Equity
R3	EBIT margin	EBIT / Sales
R4	Operating profit margin	Operating Profit / Sales
R5	Cash flow / Operating revenue	Cash flow / Operating revenue

There are many other approaches for accounting evaluation performance, different from the above. Return on investment (ROI) type of measure are considered as the most popular and the most frequently used when accounting variables are utilised to determine performance. However, in considering Kaplan's (1983) arguments against excessive use of ROI types of measurements, the above referred ratio selection of this study is confirmed as better, as:

> "…any single measurement will have myopic properties that will enable managers to increase their score on this measure without necessarily contributing to the long-run profits of the firm" (Kaplan, 1983, p. 699).

Thus, an adoption of additional and combined measures is believed to be necessary in order to provide a holistic view of the profitability and performance of a firm (Pazarskis, 2008; Pazarskis et al., 2011).

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

For the purpose of the study, the selected financial ratios for each company of the sample over a two-year period before or after the M&As event are calculated (as it is shown on Figure 1), and the mean from the sum of each financial ratio for the years before is compared with the equivalent mean from the years after the M&As, respectively[2].

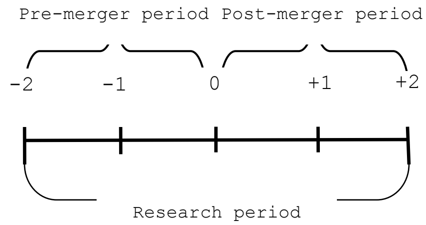

Figure 1: Accounting data

In order to evaluate the relative change with ratio analysis of the sample of the Greek firms that executed M&As actions, the general form of the hypothesis that is examined for each accounting ratio separately (ratios from R1 to R5) is the following:

H_{0ij}: *There is expected* ***no*** *relative change of the accounting ratio* ***i*** *from the M&As event for the acquiring firms.*
H_{1ij}: *There is expected relative change of the accounting ratio* ***i*** *from the M&As event for the acquiring firms.*

Where,
i = {R1, …, R5}

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

The selected accounting ratios for each company of the sample over a two-year-period before (year T-2, T-1) or after (year T+1, T+2) the M&As event are calculated, and for the case α the mean from the sum of each accounting ratio for the years T-2 and T-1 is compared with the equivalent mean from the years T+1 and T+2 respectively. Thus, to test this hypothesis two independent sample mean t-tests for unequal variances are applied, which are calculated as follows:

$$t = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}}$$

where,
n = number of examined ratios
$\overline{X}_1$ = mean of pre-merger ratios

[2] In this study, the mean from the sum of each financial ratio is computed than the median, as this could lead to more accurate research results (Pazarskis, 2008). This argument is consistent with many other researchers diachronically (Philippatos et al., 1985; Neely & Rochester, 1987; Cornett & Tehnarian, 1992; Manson et al., 1995; Sharma & Ho, 2002; Pramod Mantravadi & A. Vidyadhar Reddy, 2008; Pazarskis et al., 2011; 2014a;b; Eleftheriadis et al., 2011; etc.).

$\overline{X}_2$ = mean of post-merger ratios
s = standard deviation
1 = group of pre-merger ratios
2 = group of post-merger ratios

Last, the study does not include in the comparisons the year of M&A event (Year 0) because this usually includes a number of events which influence firm's economic performance in this period (as one-time M&As transaction costs, necessary for the deal, etc.) (Healy et al., 1992; Pazarskis, 2008; Pazarskis et al., 2011).

Finally, the research results are presented in the next section.

Analysis of Results

The results revealed that over a two-year-period before and after the M&As event one (return on equity-ROE) out of the five accounting ratios had a statistically significant change due to the M&As event, which slightly increased. The rest four (return on assets-ROA; EBIT margin; operating profit margin; cash flow/operating revenue) accounting ratios did not change significantly and they did not have any particular impact (positive or negative) on post-merger accounting performance of merger-involved firms (see, Table 2).

More analytically, concerning the variable R2 (return on equity-ROE), which is a profitability ratio, presents an increase after the M&As transactions. This increase of this profitability ratio could be attributed to the efficient unity of the merged firms. This result is consistent with the results of some other studies that have found a profitability improvement in the post-merger period: Cosh et al. (1980), Parrino et al. (1998), etc. But, it is also not consistent with the results of some other past studies Neely & Rochester (1987) found a decline of the profitability ratios, especially the ROA, in the post-merger period, for the US market for the year 1976. Sharma & Ho (2002) also found a decline for the ROA ratio for the Australian market. Similar results, with a decline of the profitability ratios, have found Meeks (1977), Salter & Weinhold (1979), Mueller (1980), Kusewitt (1985), Mueller (1985), Dickerson et al. (1997), etc. Furthermore, these results for the Greek market, since there is partially significant profitability improvement, do support the hypotheses of market power (Lubatkin, 1983; 1987). According to this approach, market power that gained by the acquirer after the merger or the acquisition should increase the new firm's profit margins and therefore, its profitability.

All-in-all, it is clear from the received results that the M&As activities of the Greek listed sample firms of this research have lead them to a better post-merger accounting performance.

Table 2: Mean pre-merger and post-merger ratios before/after M&As

Code	*Pre-Merger (2 years avg.)*	*Post-Merger (2 years avg.)*	*T-statistic (Two-tail)*	*P-Value*	*Confidence Interval 95%*
R1	-1,98	1,76	1,60	0,118	(-1,00; 8,48)
R2	0,17	6,9	2,00	0,054 [c]	(-0,11; 13,55)
R3	0,5	2,9	0,55	0,583	(-6,36; 11,15)
R4	-3,3	0,8	0,94	0,353	(-4,72; 12,93)
R5	8,92	9,22	0,19	0,853	(-2,99; 3,59)

Note: [a, b, c] ***indicate that the mean change is significantly different from zero at the 0.01, 0.05, and 0.10 probability level, respectively, as measured by two independent sample mean t-tests.***
More analytically, the P-value interpretation levels for the above referred three cases are described below:
$p<0.01$ strong evidence against Ho (see, [a])
$0.01\leq p<0.05$ moderate evidence against Ho (see, [b])
$0.05\leq p<0.10$ little evidence against Ho (see, [c])
$0.10\leq p$ no real evidence against Ho

Interpretation of Results and Further Evidence

As the strategy literature commonly argues, mergers and acquisitions are one of the mechanisms by which, firms gain access to new resources, reducing costs and increasing revenues via resource redeployment. International business researchers for international M&As have extended the concept of resource opportunities to include a geographic component (Agorastos et al., 2006; 2011). Furthermore, transactions of international M&As are considered for the acquiring firm as higher risk investments in a new environment, but also provide opportunities for higher profitability with the development of economies of scale at the hosting country of the investment (Hymer, 1976).

In order to examine the impact of the international expansion or not at the post-merger economic accounting performance with the research examined five ratios, regarding to the above referred argument, the study analyses this data of the sample firms and categorize them in two groups from this respect:
64% (7 firms) has done a domestic M&As and
36% (4 firms) of the sample firms have performed an international M&As.

Next, the differences between the means of post-merger and pre-merger ratios (ratios R1 to R5) are computed as below:

$$\Delta RX_i = \overline{X}_{2i} - \overline{X}_{1i}$$

where,
ΔRX = difference between the means of post- and pre-merger Ratios
i = examined Ratios {R1, …, R5}
$\overline{X}_1$ = mean of pre-merger examined Ratios
$\overline{X}_2$ = mean of post-merger examined Ratios

Then, for these data (see, ΔVX_i), after the rejection of the null hypothesis that the data sample has the normal distribution, a non-parametric test is applied, as non-parametric tests imply that there is no assumption of a specific distribution for the data population: the Kruskall-Wallis test.

The Kruskall-Wallis test is a nonparametric test, alternative to a one-way ANOVA. The test does not require the data to be normal, but instead uses the rank of the data values rather than the actual data values for the analysis. The general calculation form of the Kruskall-Wallis test statistic is for H:

$$H = \frac{12\sum n_j[\overline{R}_j - \overline{R}]^2}{N(N+1)}$$

where,

n_j = the number of observations in group j

N = the total sample size

$\overline{R}_j$ = the average of the ranks in group j,

$\overline{R}$ = the average of all the ranks.

The received results are presented in the Table 3 (see, below). From the above received results, it is clear that there is no difference at business performance from the international orientation (domestic or international M&As) for the acquiring firms of the research sample at any of the five examined accounting ratio.

Table 3: Kruskal-Wallis test for domestic and international M&As

Code	Difference at Examined Variable	Median		P-Value
		Domestic M&As	International M&As	
ΔR1	Return on assets (ROA)	1,745	1,013	0,705
ΔR2	Return on equity (ROE)	5,5865	0,6800	0,131
ΔR3	EBIT margin	4,119	1,831	0,705
ΔR4	Operating profit margin	3,729	2,676	1,000
ΔR5	Cash flow / Operating revenue	1,489	1,553	0,850

Note: [a, b, c] ***indicate that the mean change is significantly different from zero at the 0.01, 0.05, and 0.10 probability level, respectively.***

Thus, the result of this study is not consistent with Hymer's (1976) argument that the transactions of international M&As are considered for the acquiring firm as higher risk investments in a new environment, but also provide opportunities for higher profitability with the development of economies of scale at the hosting country of the investment, for the post-merger performance and profitability of the present examined Greek acquiring listed firms.

With similar process than the above also a Kruskall-Wallis test is applied only at international M&As in order to examine if merger or acquisition as type of business unity provide a better performance for the acquirers in the international area.

The data of the sample firms within this respect are in two groups:
75% (3 firms) have done an acquisition and
25% (1 firm) of the sample firms has preferred a merger.

The results reveal that none of the five variables (ΔR1, …, ΔR5) present a significant change due to the M&As events. And thus, it further signalizes that there is any difference at performance of acquirers firms in international M&As in case of a merger or an acquisition.

Table 4: Kruskal-Wallis test for mergers and acquisitions at International M&As

Code	Difference at Examined Variable	Median		P-Value
		International Mergers	International Acquisitions	
ΔR1	Return on assets (ROA)	1,1125	0,9145	0,655
ΔR2	Return on equity (ROE)	-1,934	1,221	0,180
ΔR3	EBIT margin	2,7845	0,9615	0,180
ΔR4	Operating profit margin	6,710	1,773	0,180
ΔR5	Cash flow / Operating revenue	1,508	1,599	0,655

Note: [a, b, c] ***indicate that the mean change is significantly different from zero at the 0.01, 0.05, and 0.10 probability level, respectively.***

Concluding Remarks

One of the main elements of contemporary corporate restructuring is the formation of new business entities via M&As. Hence, except of the "well-explored" cases of the US and the UK capital markets, there were only a few of extensive researches on M&As in the majority of other countries globally, diachronically. For the case of Greece, there is a scarcity of post-merger economic performance studies with ratio analysis regarding firms involved in M&As activities, especially from an international orientation. The present study focuses on the latter issue and tries to obtain new insights on the subject.

In order to evaluate this phenomenon, this study tries to analyse the pre- and post-merger performance of a sample of eleven Greek firms, listed in the Athens Stock Exchange (ASE) that executed one M&As action in the year-period 2005 as acquirers, with accounting data analysis from 2003 to 2007 (analysis for two years before and after the examined merger events). Using five essential financial profitability ratios (ROA; ROE; EBIT margin; Operating profit margin; Cash flow/Operating revenue), which had been firstly computed from firms' accounting data, the study attempted to investigate the M&As effects on the post-merger economic performance of this sample.

In brief, this study revealed that there is a significant change at one out of five examined variable at the post-merger performance of the Greek listed firms. Thus, it is concluded that M&As events have partially lead the merger-involved firms to enhanced economic profitability, in order to have an advantage before the outbreak of the sovereign debt crisis in Greece. Furthermore, this result for the Greek market, since there is a significant profitability improvement, does support the hypothesis of market power (Lubatkin, 1983; 1987). According to this approach, the market power that was gained by the acquirer after the merger or the acquisition should increase the new firm's profit margins and therefore, its profitability.

Also, a further data analysis of this study revealed clearly that there is no difference from the international orientation (domestic or international M&As) for the acquiring firms of the research sample at any of the five examined accounting ratio. Thus, the result of this study is not consistent with Hymer's (1976) argument that the transactions of international M&As are considered for the acquiring firm as higher risk investments in a new environment, but also provide opportunities for higher profitability with the development of economies of scale at the hosting country of the investment, for the post-merger performance and profitability of the present examined Greek acquiring listed firms. Last, in the case of the international M&As the choice of merger or acquisition as a type of business unity is not important for the business performance.

Future extensions of this study could examine the effects of the type of M&As transaction (domestic and international) to a larger sample that could include not only M&As-involved Greek firms listed in the ASE, but also non-listed firms and within other time periods.

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