



## MERGERS AND ACQUISITIONS RESEARCH IN FINANCE AND ACCOUNTING: PAST, PRESENT, AND FUTURE

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### **Abstract**

*This study presents an analysis of publication pattern and major themes in research on mergers and acquisitions in finance and accounting. We find that takeovers as mechanisms of governance, drivers of mergers, mechanisms of mergers, bank mergers, cross-border mergers, shareholder wealth effects of mergers and related events, and the role of financial experts and ownership structure form major themes of research in the finance area, while in accounting area major themes are corporate governance and accounting outcomes, predicting takeovers and their outcomes, valuation, financial reporting and takeover decisions, and financial reporting and performance.*

**Keywords: Bibliometric Analysis, Market for Corporate Control, Mergers and Acquisitions, Review.**

### **Introduction**

Mergers and acquisitions (M&As) have been a major tool of growth, restructuring, and diversification for corporations. They involve several stakeholders, such as buyers (acquirers), sellers (targets), advisors (investment bankers and lawyers), and regulators (governments, securities market regulators, antitrust watchdogs, etc.). Further, these transactions can involve firms in the same industry (horizontal mergers), firms at different stages of the production process (vertical mergers), and firms in unrelated industries (conglomerate mergers). These events represent economically large transactions that have the potential to create as well as destroy value on a large scale. Therefore, this subject has intrigued the interest of researchers from several areas, especially those from finance and accounting.

M&As have been the subject of extensive research for the last several decades. The seminal article by Manne (1965) can be offered as one of the first articles responsible for developing interest in this area. His exploration of the effects of the market for corporate control on large corporations initiated much research in the area. Since then, researchers have delved into many different aspects of mergers by focusing on several fundamental questions, including when do these transactions occur (activity), why do they occur (motives), how do they occur (mechanisms), and what are their consequences for different stakeholders such as share-holders, creditors, managers, and employees. Overall, there has been a substantial rise in the literature on M&As. While there have been several excellent reviews published on this important subject from time to time, these reviews have been limited in scope and coverage (i.e., either they confine themselves to at most a few aspects on the subject, or they look at the literature over a limited horizon) due to the voluminous literature on the subject.<sup>3</sup>In this paper, we present a bibliometric review on this subject that not only summarizes the state of the literature but also provides the emerging frontiers of research in this area in relatively objective manner. Specifically, we

A Business Deans Council (ABDC). This enables us to focus exclusively on research that is perceived to be of high quality and is likely to shape the future research agenda. Due to the vast body of



literature produced in the area, this review employs bibliometric analysis. In cases where the body of literature is extensive and cannot be summarized using traditional review methods, the use of bibliometric methodology is appropriate (Donthuet al., 2021). Under bibliometric analysis, we employ a range of tools to summarize the literature. First, we present a performance analysis of the field. This includes a summary of the most prominent and impactful sources of knowledge in the field, the prolific authors and their collaboration patterns, and the most impactful articles. This information is significant for new scholars to discover prominent sources to draw from in their research and their contributions.

### **Methodology**

To present a comprehensive review of the M&A literature, this study primarily employs the bibliometric method (Donahue et al., 2021). This method is helpful in minimizing the interpretation bias (Pandey et al., 2022) that often plagues reviews that employ qualitative techniques (MacCoun,1998). Further, the availability of tools and techniques, such as performance analysis, network analysis, and bibliographic coupling, facilitates handling large amounts of bibliographic data (Ramos-Rodriguez & Ruíz-Navarro, 2004). Therefore, the use of the bibliometric method is apt to address our research questions. We conduct a search employing a set of keyword strings related to mergers and acquisitions in the title, abstract, and keyword fields of articles in the Scopus database.

To answer research questions RQ1, RQ2, RQ3, and RQ4 that pertain to finding the pattern of publications as well as prominent sources (journals), prolific authors, and impactful articles in M&A research, we employ performance analysis. This involves analyzing publications and their citations as measures of productivity and impact, respectively (Ding et al.,2009). For address in research question RQ5, we employ co authorship analysis (Acedo et al.,2006), which involves analyzing the network of scholars who have worked together to contribute to the field. This analysis is useful in identifying “invisible collages” (Crane,1977) and the intellectual structure of the field.5Employing this analysis, we identify the major author groups and the themes explored by each group. To answer research questions RQ6 and RQ7, we use bibliographic coupling (Baker et al., 2020). In bibliographic coupling, it is assumed that the similarity between two articles is based on their shared literature references (Weinberg, 1974). Since the development of any scientific field is often based on the content of the research that came before, this assumption seems appropriate. We then use these thematic similarities to create clusters of articles and determine the key themes of M&A research in finance and accounting areas (RQ6). Finally, we also apply bibliographic coupling on publications in the last 3 years (2020–2022) to reveal the emerging frontiers of research (RQ7). We use a variety of software packages for our analyses, including VOS viewer for analyses on co authorship and bibliographic coupling (van Eck & Waltman, 2010) and Gerciviewphi for network visualization (Bastian et al., 2009).

### **Performance Analysis**

The publications pertaining to M&As have increased consistently over the years (RQ1). As shown in Figure 1, publications in the area have been on the rise since the 1980s. This pattern matches closely with the merger activity itself. While in the 1980s, the research was inspired by the merger waves due to the hostile takeovers, in the 1990s, the merger waves were primarily led by the quest for increased efficiency within the industry. The 2000s show a similar rise in research interest. These eras can be seen as the eras of corporate consolidation that led to the rise of giant corporate entities and conglomerates.



The merger waves and consolidation both in the banking and services sectors seem to have fuelled the surge in research interest. The trend in research seems to have continued in the 2010s. Table 1 presents the list of journals that satisfy our selection criteria (as detailed in the methodology section) and have published research on M&A (RQ2).<sup>6</sup> The most prominent sources of M&A research, as measured by the total number of publications, are the Journal of Corporate Finance (217 publications), followed by the Journal of Financial Economics (169 publications) and the Journal of Banking and Finance (136 publications). The most impactful sources of research in this area, as proxied by the total number of citations or the average number of citations per paper, are the Journal of Finance (10,197 citations, 167 citations per paper) and the Journal of Financial Economics (25,882 citations, 153 citations per paper). Table 2 reports the top 20 prolific authors as well as the top 20 countries of contributing authors in M&A research (RQ3). Luc Renneboog is the most prolific author in the field with 155. The term “invisible collages” refers to a group of scholars who work across institutional lines to produce collaborative research.<sup>6</sup> Our classification of journals into finance and accounting areas is based on the ABS list. We acknowledge that some journals, especially The British Accounting Review and the Journal of Business Finance and Accounting, publish research in both finance and accounting areas.

### **Thematic Analysis**

To determine the major themes in M&A research (RQ6), we employ bibliographic coupling. The application of this tool leads to the creation of seven thematic clusters in the finance area and five thematic clusters in the accounting area. We then review these thematic clusters to find their central themes as mechanisms of governance.

#### **Major themes in the finance area**

##### **Takeovers as mechanisms of governance**

Under the finance area, the largest cluster of M&A studies has been shaped from the corporate governance perspective. Shleifer and Vishny (1997) view corporate governance as mechanisms that deal with how “suppliers of finance to corporations assure themselves of getting a return on their investment.” These mechanisms, which are used to mitigate conflicts of interest.

##### **Drivers of Mergers**

The second largest cluster of M&A research in the finance area focuses on the drivers of merger activity. In this cluster, researchers have concentrated on the market, industry, and firm-level factors that drive merger decisions. This cluster comprises of studies that are, on average, more recent than studies in other clusters, as indicated by an average publication year of around 2015. Whether stock-financed mergers are driven by acquirer opportunism has been a hotly debated issue in the literature. On the one hand, the models developed by Shleifer and Vishny (2003), and Rhodes-Kropf and Viswanathan (2004), which are based on the inefficiency of financial markets, attribute merger activity to managers opportunistically, exploiting the market mispricing of firms. Rhodes-Kropf et al. (2005) and M. Dong et al. (2006) document results broadly consistent with the above models. On the other hand, Harford (2005) finds that the market timing variables do not have sufficient power to explain merger waves, and it is the clustering of industry shocks in periods of high capital liquidity that drives merger waves. Fuet al. (2013) also challenges stock overvaluation as a motive for acquisitions by providing evidence that overvalued acquirers end up overpaying their targets. In a recent study, Eckbo et al. (2018) strongly reject acquirer opportunism as a motive in stock-financed acquisitions. Further, de Bodt et al. (2018) and de Bodt et al. (2023) explain why the



## **Mechanisms of Mergers**

The third major topical cluster that has emerged relates to the mechanisms of mergers, that is, how firms are sold. These are the technical aspects of mergers and relate to decision-making and the processes behind mergers. Specifically, the focus here is on the finer nuances of mergers, such as those related to initiation, completion, and terms of deals. The research questions asked here relate to the process of takeovers (A. L. Boone & Mulherin,2007) and also the role of factors such as bidder toehold (Betton & Eckbo,2000;Bettonetal.,2009), markup pricing (Schwert,1996), termination fees(Bates & Lemmon,2003; Officer,2003), deal advisors (Kale et al.,2003; Servaes & Zenner,1996), the target listing status (Draper & Paudyal,2006), connections between acquiring and target firms (Cai & Sevilir,2012), and transaction rumors (Alperovych et al.,2021) in mergers. Additionally, insider trading laws (Bris,2005) and informed trading around merger announcements (Aktas et al.,2007) have also played a significant part in driving the research interest on the topic. Despite the simple nature often presented to outsiders, mergers involve legally and financially cumbersome processes that require consideration of several factors, including synergies, institutional environment, and investor interest. Thus, it is important for researchers to have focused on this strand of research.

## **Bank mergers**

This cluster is related to nuances of mergers in the banking sector. Banks hold a very different position than nonfinancial firms in the economy as they are responsible for the flow of money. Thus, they are regulated by a much stricter regulatory framework, often having to comply with almost all of the regulations followed by nonfinancial firms, in addition to the rules set by central banks.

The value implications of bank mergers and their consequences on lending practices have shaped much of the discussion in this cluster. Bank mergers, like mergers of industrial firms, lead to the creation of wealth for the shareholders of the combined firm (Houston et al.,2001) and make them more diversified (Elsas et al.,2010).However, unlike conglomerate discount in industrial firms, diversification on account of bank mergers or organic growth increases the profitability and, consequently, the market valuation of banks(Elsasetal.,2010). Additionally, similar to financial crises (Ivashina & Scharfstein, 2010), bank. mergers can also adversely affect lending to small businesses (Berger et al.,1998). Given the significant differences between banks and industrial firms, bank mergers remain a fruitful area for researchers to pay attention to. Increased attention to the topic can also be attributed to the major consolidations that occurred in the banking industry after the global financial crisis of 2008. Though other factors, such as the creation of the euro zone and greater financial integration among European nations (Allen & Song,2005; Ekkayokkaya et al.,2009) are also relevant, particularly in the case of Europe. The average publication year of articles in this cluster stands at around 2011

## **Cross-border Mergers**

The fifth significant thematic cluster emerging from the finance perspective concerns cross-border mergers. Unlike domestic mergers, cross-border mergers involve targets that are based in countries different from those of acquirers. Therefore, geographic, cultural, institutional, and other differences between countries of acquiring and target firms become especially important in these mergers. Studies in this cluster look at different aspects of cross-border mergers. For instance, Erel et al. (2012) examine the drivers of cross-border mergers, identifying geography, the quality of disclosures, and bilateral trade as key features in such deals. Similarly, Ahernet al. (2015) explores the roles of different dimensions of national culture on the volume and synergetic gains in cross-border mergers.



Further, Bonaime et al. (2018) document that merger activity is subject to policy and political uncertainties

### **Shareholder wealth effects of mergers and related events**

The sixth major theme in the research relates to the shareholder wealth effects of mergers and other related events as well as the sources of these wealth changes. These are some of the foundational topics in the literature in the market for corporate control. Specifically, the research in this cluster examines the effects on shareholder wealth of mergers in the United States (Franks et al.,1991;Jensen & Ruback,1983), the United Kingdom (Franks & Harris,1989), and other countries and also the role of factors such as the managerial control of voting rights (Grossman & Hart,1988;Stulz,1988), corporate focus (Comment & Jarrell,1995), and Tobin's Q (Lang et al.,1989)in that relationship. Some other studies in the cluster also examine whether and how the adoption of takeover defenses (Bhagat & Jefferis,1991; Comment & Schwert,1995;Ryngaert,1988)and antitakeover laws (Comment & Schwert,1995; Szewczyk & Tsetsekos,1992) affect the shareholder wealth. Overall, studies in this cluster share a predominant view that mergers primarily benefit the shareholders of targets and that the enactment of takeover defenses and antitakeover laws is generally detrimental for the shareholders of acquirers.

### **The role of financial experts and ownership structure.**

Compared to the previous cluster, this cluster is much more recent, with an average publication year of around 2013. The central theme in this cluster revolves around the role of financial experts and ownership structure in influencing M&A decisions and outcomes. Financial experts, including investment bankers, accountants, and analysts, render valuable services, such as providing estimates of firm value, identifying synergistic combinations, offering fairness opinions, and giving stock recommendations. Specifically, investment bankers play an important role in M&As (Bao & Edmans,2011) by delivering higher acquirer returns (Golubovet al.,2012) and reducing takeover premiums paid by acquirers (Kisgen et al.,2009). Apart from investment bankers, analysts too can affect deal outcomes through their recommendations (Clarke et al.,2007; Kolasinski & Kothari,2008). Additionally, firms with superior managerial attributes are more likely to make better merger decisions

### **Major themes in the accounting area**

- Corporate governance and accounting outcomes
- Predicting takeovers and their outcomes
- Valuation
- Financial reporting, takeover decisions,
- Performance

### **Research Fronts and Future Directions**

The application of bibliographic coupling on publications in the last 3 years (2020–2022) reveals the existence of seven thematic clusters (RQ7). These thematic clusters represent the research frontiers that have formed the discussions in the last 3 years and therefore reveal the direction the field is heading in. We discuss these frontiers

- Frontier 1: Corporate culture and mergers
- Frontier 2: Information flows
- Frontier 3: Merger decisions
- Frontier 4: Legal and economic environment





Frontier 5: Information asymmetry  
Frontier 6: Expertise  
Frontier 7: Value implications in special cases/deal

## Conclusion

Employing the bibliometric review method, this paper presents a deeper understanding of the research on M&As that has got published in high-quality finance and accounting journals over the period 1970–2022. We find that the research on M&As has been on the rise since the 1980s with bursts in the research often matching increases in merger activity. The major contributions to the research have expectedly come from the United States and the United Kingdom, two of the largest takeover markets globally. Our analyses uncover not only the sources of highly prolific and impactful research but also the authors who have contributed extensively to the field, the impact of their research, the themes of research they have explored, and their networks with other scholars. A thematic analysis of research on M&As reveals that the major themes in the finance area include takeovers as mechanisms of governance, drivers of mergers, the mechanisms of mergers, bank mergers, cross-border mergers, shareholder wealth effects of mergers and related events, and the role of financial experts and ownership structure. In the case of the accounting area, the major themes include corporate governance and accounting outcomes, predicting takeovers and their outcomes, valuation, financial reporting and takeover decisions, and financial reporting and performance.

We find that a large body of research on M&As has been shaped from the corporate governance perspective. More recently, research has focused on corporate culture, information flows, the legal and economic environment, information expertise, and value implications of special kinds of deals. Like any other review paper, this study also suffers from certain limitations. First, the scope of our study is confined to M&A-related articles appearing in select finance and accounting journals that are perceived to be of high quality. Further, since our search of prior literature is based on a set of specific keywords using the Scopus database, it is possible that we might have missed some articles that do not conform to our search criteria. Additionally, we measure the impact of an article based on its citations in the Scopus database. Since this database only captures the citations from sources that are listed in it, the actual impact of an article is likely understated in our analyses. Our findings should be viewed in light of these limitations. Overall, given the vast literature on M&As across multiple disciplines, they have become a subject of their own. Researchers have tried to shed light on the different aspects of these large and complex transactions involving several stakeholders, both inside and outside the corporation. Despite the voluminous literature on the subject, there remain several questions that remain either unanswered or not answered convincingly. Further, the changing external environment (including regulatory changes, macroeconomic shocks, changes in accounting rules, etc.) is likely to give rise to new questions for the research community to grapple with. In light of the above, the topic is expected to remain relevant and worthy of further exploration.

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