The Role of Mergers and Acquisitions for the Financial Performance of an Organisation

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Abstract

In today's corporate world, the procedure of "mergers and acquisitions (M&A)" has occupied a remarkable significance. Basically, this method is utilising in this current business process in a vast range for developing profitability and revenues to rebuild the business organisation. The main purpose of this study is to anlayse the role and impact of mergers and acquisition on financial performance. In this context, some financial indicators such as credit risk, liquidity, asset profile, cost control ratios, and capital structure is important key tools. All these financial indicators are withdrawn from the "audited financial reports" of different years. The role of mergers and acquisitions depends on the performance capability of the employees and the relationship between managers and employees. In this study "secondary data" has been used to generate a valuable and reliable outcome to draw the conclusion. Thus, effective research tools have helped the researcher to set the path of research and get the right information related to the research topic. All the issues related to mergers and acquisitions and using strategies to lead financial performance have been mentioned to understand the role of in a perfect way. Finally, the result highlighted that mergers and acquisitions can have a remarkable effect on the financial performance of an individual organisation.

Keywords

acquisitions, corporate strategy, financial performance, finance, mergers.

INTRODUCTION

Background

In a broader sense, Mergers and Acquisitions refer to the process of combining or merging two different companies into one. The goal however in these cases differs and is often based on the benefits that both companies can receive through the combined synergy. In business, this kind of merges often occurs between businesses that are of similar sizes and based on the competitive advantage that this business venture can provide to the organization. According to Kishwar & Ullah, mergers and acquisitions are some of the most useful business techniques that can increase the host organization's profitability, efficiency, and business expansions [1]. It should be noted however the economical background and market environment of the country also plays a significant role in the success of these transactions.

Mergers and acquisitions have a positive impact on the financial performance of the organization. Further research shows that mergers and acquisitions were slowed down in the year 2020 due to the uncertainty and economic crisis brought in by the pandemic. However, in 2021 many of these practices have effectively bounced back, the USA has some of the biggest growth in terms of merger deals [2]. The present research study, therefore, focuses on the financial impact that mergers and acquisitions can have on the performance of an organization.

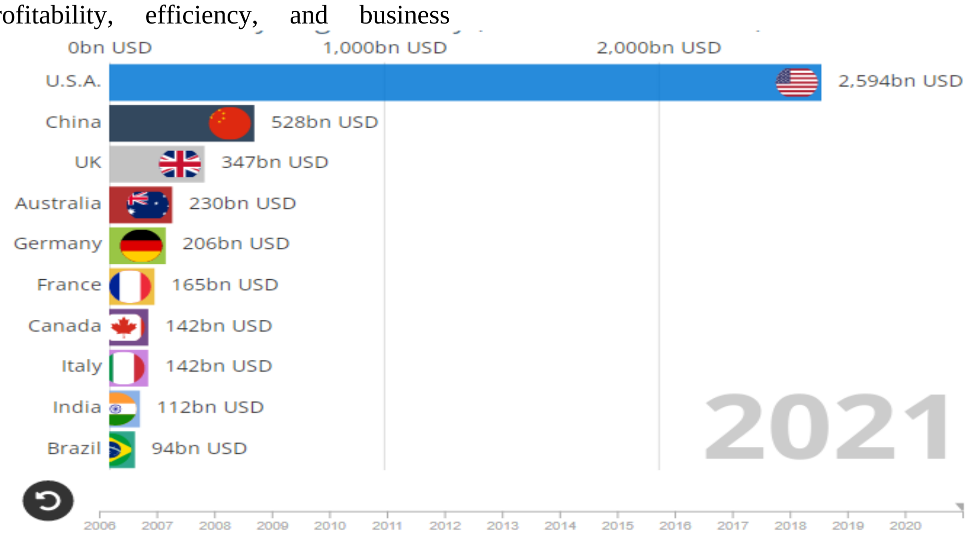

Figure 1: Worldwide Merger and Acquisition financial deals
(Source: [2])

Aim of the study

The main aim and purpose of this research study are to identify the factors that contribute to the financial performance that results from the merger and acquisition of organizations. After analyzing the background of the present research, the following aims have been proposed:

- To gather proper insight into the impact that mergers and acquisitions can have on an organization.
- To identify the ongoing issues that exist with merging and acquiring companies.
- To explore the role of organizational culture in embracing the changes resulting from mergers and acquisitions.
- To examine strategies with the help of which the financial performance of these merged companies can be increased.

Relevance of the study

The present research study is highly significant to the current business climate, as mergers and acquisitions have the potential of providing greater financial strength to all the companies that are involved in these kinds of transactions. Having higher economic stability and power can lead to an overall increase in market share and allow the company to provide better customer services while also reducing the risk aspects that the company could face otherwise. Valuation of the assets also plays a key role in this aspect as the organization that is willing to buy an organization will always try to make the purchase at the lowest price possible. The research sheds light on all these important factors along with the financial implications that mergers and acquisitions can have on organizations.

MATERIALS AND METHODS

Research design

The research design refers to the framework that is utilized by researchers to determine the methods and techniques that are chosen to carry out the research procedure. It allows to sharpen up the research procedure, research design can be subdivided into two parts, namely exploratory and conclusive research [3]. Furthermore, conclusive research can also be divided into two parts, namely descriptive and causal research designs. The present study has made use of a descriptive research design because in order to thoroughly understand the financial impact that mergers and acquisitions have on an organization, it is important to cast light on the ongoing issues and opportunities that exist in the domain.

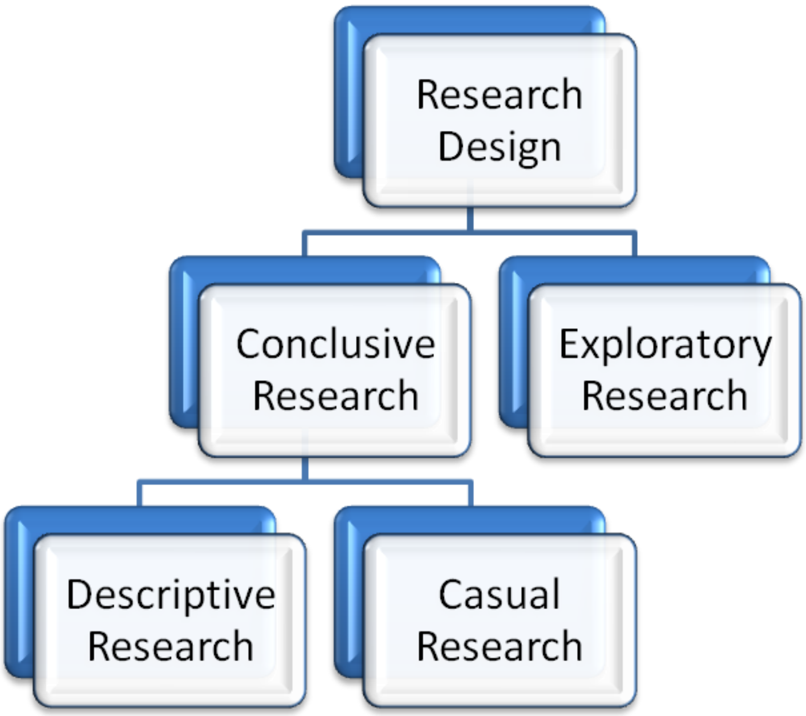

Figure 2: The different kinds of research design
(Source: Inspired by [3])

Research Type

The research type that has been chosen for the research is qualitative analysis because this form of research typically relies on data that is non-numeric in nature [4]. As the research is primarily based on figuring out the financial implication of mergers and acquisitions, this kind of research type can be beneficial in identifying the different concepts and opinions of other researchers on the subject. Studies conducted with the help of this method can also be conducted at a much faster pace and provide in-depth knowledge and understanding of the subject.

Inclusion and exclusion criteria

In order to carry out a research study, it is critical to provide a brief account of the inclusion and exclusion criteria that were maintained for the research, likewise, the criteria that were utilized for conducting the research work, include:

- The peer-reviewed articles and journals that have been considered for the research have been carefully collected from literature published after 2019.
- Articles that have been published prior to 2019 or written in a different language other than English have not been considered for the research study.
- The focus of the study has throughout been on the implications of mergers and acquisitions on the success of an organization.

Data collection and data analysis

The viability of any research work entirely depends on the data collection and data analysis of the research, as a result of which, only suitable data collection methods have been adopted. There are mainly two different kinds of data collection processes, these are primary and secondary data collection [5]. While primary data focuses on raw relevant data collected through interviews, surveys, and questionnaires, secondary data is gathered from secondary sources such as previously published books, articles, peer-reviewed journals, newspapers, and official websites [6]. Both of these data collection methods are significant, however, the stress in this research has been made on secondary data collection. The data collected from the different articles and journals have further been analyzed with the help of thematic analysis.

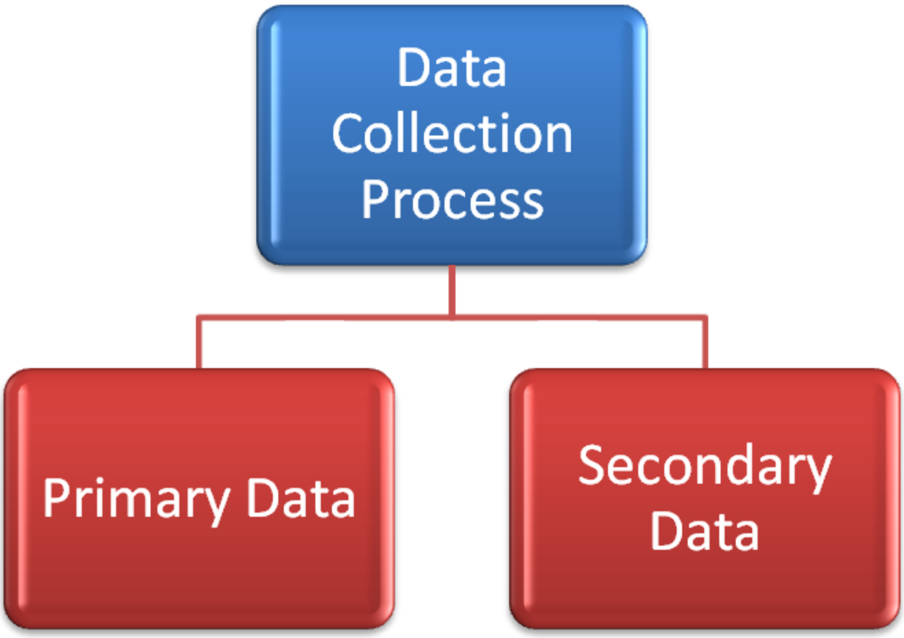

Figure 3: The two main data collection procedures
(Source: Inspired by [6])

RESULTS

Impact of Mergers and Acquisition on financial performance

Past research suggests that mergers and acquisitions have the potential of improving the company's performance levels. Merging of companies is therefore conducted in hopes of boosting the growth and development of the business and reducing the market competition. The synergy that is created due to the resulting merger helps with lowering the transaction costs and evaluation based on the security analysis. The purpose of this financial performance analysis, therefore, is to critically understand the implementation of the company’s strategies in accordance with the merger [7]. The financial implication however is not always huge as it entirely depends on the market. Financial acquisition is considered to be the act through which the financial profit of an organization is achieved. Under most circumstances, an organization tends to buy a target company that differs in functionality to increase the reach of the organization. However, there are also instances where the transaction is carried out between similar organizations and is conducted based on the interests and benefits that it would provide to the company.

The financial performance of an organization is dependent on the management's success in handling the organizational functions, therefore in order to analyze the success that has been acquired as a result of the merger can be best experienced by observing the financial ratios. Data collected from various research have showcased that even though the performance level of an organization has the potential of improving in the post-merge scenario, most organizations do not have a significant improvement [8]. Other positive aspects include the greater financial strength that both companies acquire. Having a higher amount of economic reach can allow the organization to exert its power in the market. Larger organizations are often on the lookout for acquiring more opportunities, merges improve the financial positioning of the company that can help the organization stay afloat during times of distress.

Issues related to mergers and acquisition

While the study has provided a vivid idea of all the benefits that are provided by mergers and acquisitions, there are some limitations and issues that prevent organizations from merging with smaller organizations, some of these issues include a lack of good motive behind conducting the transaction. It is highly important to determine the reasoning for which the merge of the organizations will be carried out, with an unclear motive, it is not possible to carry out the merging stage. Other issues involve targeting the wrong company for the merger that might not be able to provide a competitive edge within the market [9]. Due to internal bias or divergence in opinion, these kinds of issues often occur and are extremely harmful to the organization in the long run. Organizations also need to foresee the benefits the merger can bring to the organization, overestimating the synergies can also prove to be harmful to the organization.

Overpaying is yet another issue that organizations suffer from while acquiring different companies in the competitive market. Although most organizations try to conduct the transaction in the most minimal amount possible, in certain situations organizations end up overpaying for the business transactions. Organizations that are hoping to merge with other organizations also need to consider the implications that it might have on their own organization, as it might contribute to stakeholders losing interest in the organization [10]. Because of all the factors mentioned within the study, it is important to have a proper understanding of the issues and risks that mergers and acquisitions can bring to an organization.

Role of Organization Culture on Mergers and Acquisition

Mergers and acquisitions are two main key features of the growth strategy for many organisations as this help to improve the strategies while entertaining the new marketplaces, acquiring new technologies, and leveraging scale and size. Through the mergers and acquisition method, two different organisations are brought together for economic reasons, and those organisations are introduced to different work cultures of their organisations which sometimes creates doubts about whether the cultures remain precisely the same or not. Besides this, through the M & A method, the work environment becomes stressful as both organisations need to understand each other's cultures and adopt those cultures to work together. However, implementing the M & A method in organisations has created many clashes between the organisations regarding their cultures which have caused failures for many organisations and impacted their growth negatively [11]. However, there are many other organisations that have beneficial facilities by implementing the M & A method in their organisations to improve their organizational growth in the global market.

Cultures of different organisations depend on the country-specific cultures which influence the work environment of different organisations around the whole world. While implementing the M&A method in different organisations around the whole world, firstly it is very important to understand the different cultures of different organisations to avoid the cultural conflicts of different organisations merging with each other. However, the organisational culture is complicated because it includes individual interactions, team interactions, individual beliefs and also includes the organization’s beliefs. Depending on the organisational cultures of different organisations the working process and working patterns are indifferent from each other. Apart from that, there are many aspects and elements that are associated with the organisational cultures which are not invisible to every employee of the organisation [12]. However, through the Mergers and Acquisition method, every employee gets the knowledge of their organisational cultures and their beliefs which impactfully influence the working patterns of the organisation.

There is huge role of Mergers and Acquisitions on the organisational growth of different organisations of different countries and it impactfully helps to improve the performance of the organisations which helps to improve the organisational position in the global market. Besides that, this process helps to understand the cultures of different organisations while merging with different organisations from all around the world which also impacts the working patterns of these organisations positively. Though handling the organisations after implementing M & A method is difficult in this digital era, through different innovative technologies it has become easier than in previous years [13]. It also helps to establish strategies to merge with different organisations from around the world while understanding their cultures and language and helps to develop innovative strategies to improve the organisational growth rate in the global market.

Strategies through which the financial performance of an organisation can be increased

In this digital era, with the help of different advanced technologies establishing a business has become easier than before but over time the business environment has become more complicated which is the basic risk factor behind managing a business organisation. Managing these businesses is becoming more difficult over time and to maintain the organisational growth many potential strategies have been developed to increase the organisational position in the global market. Thus, it is very challenging to develop a consistent approach to measure the organisational growth and improve the financial performance of the organisation. However, different efficient and effective strategies have been established by ensuring measures of organisational growth are in their proper place which also helps to improve the financial performances of different organisations [14]. Besides that, it is impossible to develop a business strategy without sufficient transparency between the organisational heads and the employees and also without discussing important strategic decisions regarding the organisation with the employees of the company.

It is very important to make sustainable and efficient strategies to manage an organisation and its working patterns to provide a better working environment for the employees of the company. The main four key factors that are important while developing strategies for an organisation such as ***enhancing key performance indicators (KPIs), managing the measurements of the organisation, addressing the bigger picture of the organisation to the employees and customers,*** and lastly ***aligning risk management and compliance of the organisation.*** In this digital era, business patterns are evolving with new changes every day thus it is necessary to change the management cultures of the organisation that compliments high-level financial statements. The ***Key Performance Indicators*** or KIPs help to improve the management system by establishing proper strategies that improve the client segments, products and services of an organisation [15]. Besides that, KPIs provide a pragmatic set of performance indicators which helps to allocate the financial budget of the organisation and give a clearer idea about the key drivers to achieve long-term financial growth if the organisation has strategic targets.

Besides that, establishing an appropriate financial system in the organisation regularly helps to manage the working environment monitors each employee's growth and measures the organisational actions through the KPIs to maintain transparency in the business. However, ***managing the measurements of the business*** helps to establish efficient strategies to achieve the organisational goals. Addressing the bigger picture to the employees of the organisations helps to identify new opportunities to boost financial performance by developing sustainable strategies. Lastly, ***risk management strategies*** help to protect the business from risks such as non-compliance with local and global tax, regulatory, corporate social responsibilities, environmental issues and many others which also balance the organisational performances [16]. Hence, establishing strategies regarding these elements associated with businesses and organisations helps to establish better strategies than before and helps to improve the performance of the organisation.

DISCUSSION

Mergers and Acquisitions, this term refers to the consolidations of companies or their major business assets through financial transactions between two different companies or organisations. Through this process, two organisations are merged with each other and can purchase and absorb another company's outright working strategies, and working processes to improve their organisational performances. Besides that, the M&A also manages the financial performance of these organisations to improve their business in an international market [17]. Mergers and acquisitions increase operational synergy by establishing efficient strategies which impact the financial performance of the organisation. However, the financial implications do not always achieve the organisational goals as it depends on the climate of the market but still through the financial acquisition achieves organisational profits and improves the financial performances of the organisation. Besides that, the financial and organisational performances of an organisation depend on the effective management system of the organisation. However, he collected data from different research that has shown that merging with different companies improves the organisational performance and also increases the financial performance of their organisations through implementing the mergers and acquisitions method in the organisation.

There are different factors that create challenging situations for organisations to achieve their organisational goals and improve their organisational performances. There are many issues that are associated with M&A which impact businesses negatively such as lack of good motivations for acquisitions, overestimated synergies, targeting wrong companies for merging, losing trust from the stakeholders, failures in integration and many others. Evaluating with appropriate companies is an important factor and if one company merged with the wrong companies it impacts their financial performances negatively and both organisations face challenging situations and failures [18]. Apart from this, language is a big barrier when merging with other organisations from all around the whole world and also different cultures of different organisations create conflictual situations between two organisations. This conflictual situation impacts the working environment of both organisations. Besides that, due to different cultures, employees lack motivation for acquisitions which badly impacts organisational growth. Overestimating the synergies related to finance, organisational growth, productivity and many others negatively impacts the organisational performances and increases other risk factors while achieving the organisational goals.

There are many financial organisations that follow mergers and acquisitions as the main two key tools to lead their business processes. Thus, it has been observed that mergers and acquisitions are different from each other and it is generally brought together based on a specific reason. Both are helping an individual business organisation to recognise and adopt new business strategies to improve revenue growth and secure the future development process. Leveraging scale and size, new marketplace, and acquiring new technologies are associated with the development process of any financial organisation [19]. In the case when the business organisation is introducing different work cultures and making the workplace effective and efficient, the M & A method have helped a lot. Throughout the above analysis, it has been found that there are several organisations that got benefits by implementing M & A method in their business process.

In addition to this, it also has been observed that implementing M & A method in an organisation is caused clashes based on differentiating between cultures and thoughts. In the global business market, secure business growth and opportunity, focusing on the different perspectives and different cultures are highly significant [20]. In this regard, it also has been observed that in most cases the implementation of the M & A method in the business process has become helpful to serve greater knowledge and skill to the employees to achieve the potential goal in the given time. Along with this, the adoption of the M & A method also proved useful in depending on the financial performance of the individual organisation which helped the company to increase its productivity and capability. The current market value and position can be secured depending on the organisational performance level.

In this digital era, the adoption of the "M & A" method in the workplace has become helpful in using advanced and modern technology and also in establishing effective business strategies. Among the different competitors, today's business operation has become a difficult and complex process [21]. In order to manage an individual organisational process, it is very important to make a sustainable and effective strategy to shape the work capability and efficiency of the employees. Securing the business strategy to be sustained for a long-term issue, "enhancing key performance indicators (KPIs)", "managing the measurements of the organisation", "addressing the bigger picture of the organisation to the employees" and "customers and lastly aligning risk management and compliance of the organisation" are the four elements that need to be followed.

CONCLUSION

M & A method has become identified as the most popular and effective key tool for external growth followed by an individual financial institution. Its impact on financial performance could not be able to be avoided to secure organisational financial growth in the existing competitive business market. Making the short-term changes in stock the relationship between mergers and acquisitions can become stable to serve a better outcome. Setting the organisational goal in advance and measuring the work performance of the employees helped the organisation to understand the potential financial growth and future outcome. In the majority of the business organisation, it has been seen that developing a particular consistent approach has become difficult to stable the market position in the global business market. Based on these complexities, the adoption, and implementation of effective business strategy by observing the business patterns help the organisation to measure the organisational growth by improving the financial performance. Moreover, this study paper can help the readers to identify the current status of the M & A method in balancing organisational financial performance.

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