Nº 41

AD-MINISTER

UNIVERSIDAD EAFIT · MEDELLÍN - COLOMBIA · JULY - DECEMBER, 2022 · ISSN 1692-0279 · E-ISSN: 2256-4322

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JEL: G3; G34

Doi: https://doi.org/10.17230/Ad-minister.41.2

UNIVERSIDAD EAFIT

AD-minister Nº. 41 july - december 2022 pp. 35 - 56 · ISSN 1692-0279 · eISSN 2256-4322

MERGERS AND ACQUISITIONS FOR BUSINESS SUSTAINABILITY IN EMERGING MARKETS DURING A VAGUE ERA: A LITERATURE ANALYSIS

FUSIONES Y ADQUISICIONES PARA LA SOSTENIBILIDAD DE LAS EMPRESAS EN LOS MERCADOS EMERGENTES EN UNA ÉPOCA DE VICISITUDES: UN ANÁLISIS DE LA LITERATURA

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RECEIVED: 21/07/2021

MODIFIED: 06/07/2022

ACCEPTED: 08/08/2022

Doi: https://doi.org/10.17230/Ad-minister.41.2

ABSTRACT

Mergers and acquisitions are the most popular modes of external corporate growth. Business sustainability, which seeks present returns without compromising the ability to earn returns in the future, has come under serious challenges in an environment of uncertainty. While academic literature suggests that in periods of fundamental uncertainty, there is a decline of mergers and acquisitions, this paper analyses an emerging body of research that suggests that merger and acquisition deals in a vague era actually deliver more value compared to those made in normal economic conditions, which most empirical studies do not deliver much value for the acquirer. This paper therefore suggests that firms in emerging markets can use mergers and acquisitions during a downturn to deliver superior value to shareholders. It also argues that mergers and acquisitions are a corporate governance issue, because it is at the board level that the overall strategy of the firm is implemented, including the various growth options of the firm. However, further research on merger and acquisitions during a vague era need to be conducted in various regions of emerging markets.

KEY WORDS:

Mergers and acquisitions, vague era, business sustainability, emerging markets, corporate governance.

RESUMEN

Las fusiones y adquisiciones son los modos más populares de crecimiento empresarial externo. La sostenibilidad de las empresas, que busca la rentabilidad presente sin comprometer la capacidad de obtener beneficios en el futuro, se ha visto sometida a serios desafíos en un entorno de incertidumbre. Mientras que la literatura académica sugiere que en periodos de incertidumbre fundamental se produce un declive de las fusiones y adquisiciones, este documento analiza un cuerpo de investigación emergente que sugiere que las operaciones de fusión y adquisición en una era de incertidumbre realmente aportan más valor en comparación con las realizadas en condiciones económicas normales, que en la mayoría de los estudios empíricos no aportan mucho valor para el adquirente. Por lo tanto, este documento sugiere que las empresas de los mercados emergentes pueden utilizar las fusiones y adquisiciones en una época de recesión para ofrecer un valor superior a los accionistas. También sostiene que las fusiones y adquisiciones son una cuestión de gobierno corporativo, porque es en el consejo de administración donde se aplica la estrategia global de la empresa, incluidas las diversas opciones de crecimiento de la misma. Sin embargo, es necesario seguir investigando sobre las fusiones y adquisiciones en una época de indefinición en varias regiones de los mercados emergentes.

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PALABRAS CLAVE:
Fusiones y adquisiciones, era vaga, sostenibilidad empresarial, mercados emergentes, gobierno corporativo.

INTRODUCTION

Ashfaq, Usman, Hanif, & Yousaf (2014) define a merger as any activity where a firm is combined with another firm to form an entirely new business entity through the loss of their respective legal entities. Peng (2006) sees a merger as involving the combining of operations, management and assets of two separate firms to establish a legal entity which is completely new. Wright, Kroll and Elenkoy (2002) define an acquisition as involving the transfer and control of assets, management and operations of one company to another.

DePamphilis (2008) defines an acquisition as a situation where the ownership and control of a firm or a subsidiary of it or particular assets of one firm become vested in another. Mergers and Acquisitions (M&A) are one of the most-used strategies for the external growth and development of companies. Al-Sharkas, Hassan, and Lawrence (2008) argue that through M&A, firms can grow their product lines, penetrate new markets and expand geographical distribution among other benefits.

Merger and acquisitions are a corporate governance decision. Corporate governance is normally used as a means to minimize the agency problem between the shareholder and management in a company. Hermalin and Weisbach (2003) argue that the board of directors, a key cog in corporate governance, determines the quality of decision making of the firm, including merger and acquisition decisions and takeover defenses. According to Luke (2011), good corporate governance ensures management makes optimal strategic policies which can lead to sustainable competitive advantage.

One area that needs to be explored is the use of M&A as a strategy for sustainability, especially during periods of uncertainty. Elkington (1997) views sustainability as one that aims at meeting short and medium term goals without compromising the ability to achieve long-term goals. Businesses have been exposed to various challenges during the pandemic, and their response to this disruption has impacted their resilience as well as their chances to overcome this crisis. The concept of sustainability is built on three pillars: economic, social, and environmental. Alhaddi, (2015) suggests that in order to be sustainable, companies need to address economic issues, as well as social issues, business ethics, and environmental justice. According to Alba-Hidalgo, Benayas del Álamo, and Gutiérrez-Pérez, (2018), the environmental pillar aims to preserve resources for future generations; through economic sustainability, firms should contribute to the external context in terms of prosperity and the social pillar refers to the provision of value to society. The COVID-19 era is an example of such an uncertain or vague environment. Jose (2016), suggests that sustainability issues will, going forward, be core issues that influence corporate strategy and therefore returns. This is especially important because the world is becoming resource-constrained

AD-minister Nº. 41 july - december 2022 pp. 35 - 56 · ISSN 1692-0279 · eISSN 2256-4322

and there is a possibility of sustainability issues turning into an industrial crisis in the long run. Although there is an ample body of literature on mergers and acquisitions, this analysis seeks to address a gap as to whether M&A can be an appropriate strategic move for sustainability during periods of uncertainty.

Sustainability of businesses becomes very important during periods characterized by vagueness and uncertainty. Pandemics, natural disasters, terrorist attacks, and recessions are some of the factors that pose both an uncertain and severe threat to the sustainability of an organization. Rabin and Thaler (2001) define vague as 'uncertain, indefinite, or unclear character or meaning.' A vague era is taken as one characterized by uncertainty such that the associated probabilities for the future cannot be estimated. Decision theory identifies between risky environment as where probabilities associated with the possible outcomes are assumed to be known and uncertain environment as where these probabilities are not assumed to be known. Therefore, under an uncertain environment, the broad range of possible outcomes and complexity makes it impossible to define a set of probabilities. Firms have always been faced with uncertainty on issues such as technological disruption, demographic shifts, trade barriers, and arbitrary regulations among others.

Bordia, Hobman, Jones, Gallois, and Callan (2004) defined uncertainty as a lack of knowledge about current or future events. Cocco (2014) contended uncertainty resulted from insufficient information to inform judgments about the future. Challenging markets create turbulence impacting demand, confidence, the competitive landscape and access to resources and capital. Uncertain economic times have downward pressure on consumer expenditure and confidence, with implications for business performance, while at the same time influencing asset prices downwards, which is enabling for resource acquisition. Geroski and Gregg (1997) argue that declining aggregate demand may lead to business exits, especially among new firms thereby enabling higher market shares for surviving firms.

Initially, the COVID-19 pandemic created significant uncertainty in the economy because it was largely not understood by medical experts and it was not clear when vaccines would be developed (Caggiano, Castelnuovo, & Kima , 2021 and Fauci, Lane, and Redfield 2020). With time, several vaccines were developed and approved followed by emerging countries ramping up vaccination drives. However, key concerns on 'vaccine apartheid,' the capacity of many countries to vaccinate large portions of their populations within a short time period and the constant emergence of new variants on which the efficacy of the approved vaccines meant that the environment of uncertainty persisted for some time. Under such conditions of vagueness, traditional strategic planning and implementation by both governments and businesses becomes inherently difficult.

Kooli and Lock (2021) argued that the COVID-19 pandemic created a 'new normal' which pundits suggest will be the new order of doing business. Initially, businesses largely relied on physical contact like face-to-face meetings to make deals. Due to the pandemic, governments discouraged physical interactions among people, while such

processes shifted to the virtual space through various online platforms. The online platforms however do not allow the parties to read the non-spoken communication and discuss other topics that could easily be discussed in a physical interaction. (Rahul, Neena & Abhipsa. P., 2020).

Uncertainty may even cause more harm in emerging markets due to factors like lower incomes, lack of government support, and incomplete markets, among other factors. The United Nations Conference on Trade and Development (UNCTAD, 2020) projected that, due to the pandemic, developing countries (excluding China) were to lose USD 800 billion in export revenue in 2020. An emerging markets refers to an economy in the middle, i.e. neither advanced nor low-income. Khanna and Palepu (2010) define it as a market that isn't there yet but is on its way to getting there. Such emerging market economies are characterized by significant and rapid economic growth evidenced by rising gross domestic product (GDP) in an aggregate and per capita basis, increased trade volumes, as well as increased foreign reserves (Carrasco and Williams, 2012). While GDP may not be the sole factor that determines whether an economy is emerging, GDP growth does indicate where the economy would be in the near future.

The International Finance Corporation (2021) summarizes the impact of COVID-19 in emerging markets as disruption of value chains, limited and shrinking financing opportunities, and contraction of business due to the pandemic. Businesses requiring face-to-face interaction such as tourism and travel have been affected more. The initial response of many countries in controlling the rapid infection was enforcement of restrictions of movement and other measures like shorter working hours as many organizations encouraged their staff to work from home. Local and international travel restrictions had an adverse effect on businesses and led to increased risk of corporate bankruptcy. Hevia & Neumeyer (2020) argues that many emerging economies have weaker healthcare systems, high public debt hence limited fiscal space, and lower levels of development, among others. Therefore, governments do not have many options in dealing with the pandemic and its consequences on businesses. This creates the need for proper strategies to ensure business sustainability beyond the COVID-19 era. (Michie, 2020).

Uncertainty, like the one presented by the COVID-19 pandemic is an opportunity to break away from the past and rebuild an organization better. Shehata & Mohieldin (2021) argue that crises and breakdowns can be a source of transformation as they remove barriers and institutional rigidities that previously stood in the way of sustainability. They further suggest that responding effectively to "a crisis should permit the change of mentality required to address the cracks in the system and the root causes of vulnerabilities, thus allowing for building back better in the context of implementing longer-term policies that can bring about meaningful structural changes." Addas, Kibsey, Ng, Walker (2016) argue that

AD-minister Nº. 41 july - december 2022 pp. 35 - 56 · ISSN 1692-0279 · eISSN 2256-4322

some disasters can be mitigated but others cannot be avoided but only managed to reduce their impact if they happen.

The objective of this paper is to explore the use of M&A as a strategy for sustainability, especially during periods of uncertainty. Building on the academic literature that suggests that M&A decline in periods of uncertainty, this paper analyses an emerging body of research that suggests that merger and acquisition deals in a vague era actually deliver more value to shareholders as compared to those made in normal economic conditions, which most empirical studies do not deliver much value for the acquirer. The paper therefore examines if M&A can be an appropriate strategy for sustainability of firms in emerging markets in vague times.

LITERATURE ANALYSIS METHODOLOGY

Galvan (2013) argues that sources of literature need to be considered credible to support a proposed literature review. Such credible sources include peer reviewed journal articles, edited academic books, articles in professional journals and publications from international agencies and governments. For this paper, peer reviewed articles, academic books, international financial reporting standards and publications by governments agencies and international organizations were reviewed. The papers were obtained from the Social Science Research Network (SSRN), Elsevier, ScienceDirect, Jstor, Sage, ScienceGate and Wiley Online Library databases, as these contain a large collection of research papers in social sciences with high impact factors.

We searched for papers in corporate governance, investment management, risk management, strategy, emerging markets, corporate mergers and take overs, corporate ownership and management during change. The search was done using phrases containing key words like mergers, acquisitions, risk, uncertainty, vague, emerging markets and developed markets. Thus research systematically reviewed seventy-seven papers on the various issues that are the subject of this paper.

Of these, seven papers (7) related to the theoretical review while forty-six (46) of them related to M&A in cross border markets, in developed markets and in other markers. Other markets in this case were either the emerging markets or the low-income markets. Of these forty six papers (46), eleven (11) were cross-border studies, twenty four (24) focused on the developed markets and another eleven (11) were focused on other markets. A further fifteen (15) papers focused on the various conceptual and cross-cutting issues and a further eight (8) material like books and standards like accounting standards were reviewed. The review of literature therefore sought to examine the cross-cutting issues of M&A with a special focus on the theoretical underpinnings of M&A, M&A in developed markets and in emerging markets, and on conceptual and cross-cutting issues relating to vague times.

The papers are presented in the Table 1: Literature Review below:

Table 1: Literature Review

Theoretical Review papers	Empirical Review Papers			Conceptual and Cross-Cutting Issues papers	Books and other material
	Cross-border Studies	Developed Markets	Other Markets		
Jensen, M. C. (1993).	Rao-Nicholson, R., & Salaber, J. J. (2014).	Eisenbarth & Mecki (2014) - Germany	Chari, A., Ouimet, P. P., & Tesar, L. L. (2004).	International Finance Corporation. (2021).	Gaughan, P. A. (2002).
Schumpeter, J. (1950).	Kooli, C.; Lock Son, M. (2021)	Al-Sharkas, A. A., Hassan, M. K., & Lawrence, S. (2008) - USA	Yezhou, Chenlei, & Zilong (2020) - China	UNCTAD. (2020).	Dixit, A., & Pindyck, R. (1994).
Trautwein, F. (1990).	Gatti, S., & Chiarella, C. (2013).	Gaughan (2002)- USA	Deng (2008)- China	Hevia, C., & Neumeyer, P. A. (2020).	Elkington, J. (1997).
Philip, B., Ulrich, P., Harald, R., Christin R., Bernhard, S.,& Dieter, H. (2012)	Bloom, N. (2009).	Geroski, P. A., & Gregg, P. (1997) - UK	Ashfaq, K., Usman, M., Hanif, Z., & Yousaf, T. (2014)- Pakistan	Caggiano, G., Castelnuovo, E., & Kima, R. (2021, July 14)..	Frear, J. (1990).
Gort, M. (1969).	Julio, B., & Yook, Y. (2012).	Seth, A., Song, K. P., & Peltit, R. (2000).	Carrasco, E. R., & Williams, S. (2012) – Brazil	Alhaddi, H. T. (2015).	International Financial Reporting Standard. (2008).
McDonald, R., & Siegel, D. (1986).	Lee, K. N. (2018).	Nelson, R. L. (1959).	Khanna, T., & Palepu, K. G. (2010).	Fauci, A. S., Lane, H. C., & Redfield, R. R. (2020).	Weston, F. J., Mitchell, M. L., & Mulherin, H. J. (2004).
Abel, A. (1983)	Laamanen, T., & Keil, T. (2008)	Komlenovic, S., Mamun, A., & Mishra, D. (2011) - USA	Long, P. H. (2015)- Czech Republic	Wright, P., Kroll, M., & Elenkoy, D. (2002).	DePamphilis, D. M. (2008).

AD-minister Nº. 41 july - december 2022 pp. 35 - 56 · ISSN 1692-0279 · eISSN 2256-4322

Theoretical Review papers	Empirical Review Papers			Conceptual and Cross-Cutting Issues papers	Books and other material
	Cross-border Studies	Developed Markets	Other Markets		
	Banerjee, A., & Eckard, E. W. (1998)	Bhagwat, V., Dam, R., & Harford, J. (2016) - USA	Michail, P., Manthos, V., Andreas, K. & George, D. (2021) Greece	Alba-Hidalgo, D., Benayas del Alamo, J., & Gutierrez-Perez, J. (2018).	Navarro, P. (2005)
	Leon-Gonzales, R., & Tole, L. (2015).	Deng, Q. (2008)	Khanna & Palepu, (2010)	Rabin, M., & Thaler, R. H. (2001).	
	Martynova, M., & Renneboog, L. (2008).	Garfinkel, J. A., & Hankins, K. W. (2011).	Carrasco & Williams (2012)	Bordia, P., Hobman, E., Jones, L., Gallois, C., & Callan, V. J. (2004).	
	Nguyen, N. H., & Phan, H. V. (2017)	Rosen, R. J. (2006)- USA		Porter, M. E. (1985).	
		Hasbrouck, J. (1985) - USA		Coase, R. (1937)	
		Palepu, K. G. (1986)- USA		Meyer, A. D. (1982).	
		Schleifer, A., & Vishny, R. W. (1992).		Michie, J. (2020)	
		Bonaime, A., Gulen, H., & Ion, M. (2018) - USA		Bernanke, B. (1983).	
		Chattopadhyay, P., Glick, W. H., & Huber, G. P. (2001) - USA			
		Moeller, S., Schlingemann, F., & Stulz, R. (2005)-USA			

Theoretical Review papers	Empirical Review Papers			Conceptual and Cross-Cutting Issues papers	Books and other material
	Cross-border Studies	Developed Markets	Other Markets		
		Hotchkiss, E. S., & Mooradian, R. M. (1997).			
		Hotchkiss, E. S., & Mooradian, R. M. (1998).			
		Ang, J., & Mauck, N. (2011).			
		Jeurissen, R., & Elkington, J. (2000).			
		Duchin, R., & Schmidt, B. (2013)			
		Cocco, J. J. (2014).			
		Capron, L., & Pistre, N. (2002)			

Source: Authors (2022)

THEORETICAL REVIEW

Why do firms engage in M&A? Why should M&A be a probable strategy for sustainability in vague times? To answer these questions, various theories have explained the key motives behind M&A. Some of these theories include the empire-building theory, the efficiency theory, the valuation theory, and the theory of corporate control among others.

THEORY OF CORPORATE CONTROL

The thrust of this paper is the theory of corporate control, because in a merger or acquisition, there is change of controlling rights. Control rights are necessary to restructure and run firm efficiently so as to extract maximum value for the shareholders. Manne (1965) suggested that the need for control rights so as to restructure the firm is at the heart of mergers and acquisitions. Accordingly, "the lower the stock price, relative to what it could be with more efficient management, the more attractive the takeover becomes to those who believe that they can manage the company more efficiently. And, the potential return from the successful takeover and revitalization of a poorly run company can be enormous." Therefore, an investment that allows buyers to exert control over decisions made by the company will allow

AD-minister Nº. 41 july - december 2022 pp. 35 - 56 · ISSN 1692-0279 · eISSN 2256-4322

for restructuring for maximum benefit of the shareholders. Control over this decision can occur if the buyer buys more than 50% of the shares or less than 50%, but the voting threshold allows the buyer to make decisions in almost all aspects.

Therefore, when stock prices fall, it creates an incentive for outsiders to accumulate control rights and restructure the firm to create value for themselves. Corporate control therefore explains well the rationale for mergers and acquisitions. Accordingly, when the acquirer firm acquires a prey, the acquirer board of directors get the control rights over the target firm. An acquisition is about control of the assets of the firm being acquired or the combination of the assets in the case of a merger, on the understanding that the consolidated entity firm can use the assets to generate synergies by either gains in operational efficiency and/or increased capabilities.

According to the theory of corporate control, if the merger market is efficient, there is always another firm or management team willing to acquire an underperforming firm so as to remove those managers who have failed to capitalize on the opportunities to create synergies, and thus to improve the performance of its assets (Weston, Mitchell, & Mulherin, 2004). Therefore, managers who offer the highest value to the owners will take over the right to manage the firm until they themselves are replaced by another team that discovers an even higher value for its assets. This means managers that do not maximize profits will not survive, even if the competitive forces on their product and input markets fail to eliminate them. Hostile takeovers should, as a result, be observed amongst poorly performing firms, amongst those whose internal corporate governance mechanisms have failed to discipline their managers. Once again, the empirical evidence (Hasbrouck, 1985; Palepu, 1986; Martynova & Renneboog, 2008) again seems to support this conclusion.

A comprehensive study by Philip, B., et., al (2012) argued for the benefits of acquisitons and mergers during turbulent economic times. They found that mergers and acqusitions during bad economic times delivered superior returns as compared to similar deals during economic upturns. Michail, P., Vogiatzoglou, M., Koutoupis, A. and Drogalas., G. (2021)

examined the accounting performance of Greek listed companies after mergers in 2009–2015, the economic crisis period in Greece. The study found that mergers that took place during the crisis period were positively correlated with several performance measures and the results were statistically significant.

Michail et al., (2021) however found that conglomerate mergers had more positive impact on the improvement on the companies' profitability than non-conglomerate mergers and the farther the mergers were from the climax of the economic crisis, the more the profitability of merged companies were increased. Therefore, acquisitions made during periods when most firms are shunning deals may actually provide the best long-term returns for shareholders. Successful companies recognize that recessions, or any crises, provide as many opportunities as they do dangers. These firms will also recognize that well-timed downturn deals present opportunities that are unlikely to be found in better economies.

Tough times present openings to pick up businesses and assets that may be overleveraged or undermanaged, or that are simply no longer core operations for the seller. It is a chance to change the competitive dynamic in the acquirer's favor. For acquirers, the increased availability of assets and distressed companies has created a buyer's market, especially for buyers who have cash and/or still have access to debt funding. Therefore, in a vague environment, it is possible that managers may identify underperforming firms and initiate M&A so as to improve the performance of their assets. This will be a method of sustainability for businesses in a vague and uncertain era.

Kooli and Lock (2021) found that the volume of merger and acquisition deals around the world declined by around 50% as of mid-February 2020 after the World Health Organization announced a pandemic. The uncertain business environment due to government restrictions coupled with lack of understanding of the virus led to such a massive decline. However, with the relaxation of lockdown measures in many countries, reduction in the virus-inflicted uncertainty and the vaccine announcements, merger and acquisition deals began experiencing a recovery.

RESULTS

A review of the literature shows that the whole area of investment decision under risk and uncertainty has received plenty of academic attention. There seems to be no agreement in theoretical and empirical literature on how a company invests in periods of uncertainty so as to not only survive the uncertainty but to also deliver sustainable value to the shareholders in emerging markets. While Caballero (1991) and Hartman (1972) found a positive relationship between uncertainty and corporate investment, McDonald and Siegel (1986) and Abel and Eberly (1994) found a negative relationship. Vermeulen (2002) and Kunc and Bandahari (2011) argue that firms with greater financing restrictions and operating in imperfect markets are more affected by periods of uncertainty. Liu, (2009) and Buca & Vermeulen (2012) examined the 2008-2009 economic crisis and how it affected the investment decisions by small and medium enterprises, and found that the crisis negatively affected investment by SMEs. On the other hand, Bartlett (2008) finds that an economic crisis provides good opportunities for businesses.

In some cases, for the sake of ensuring business continuity, it may be tempting to reduce investment, freeze hiring, or avoid entering new markets and such other short-term strategies. But if not carefully thought through, these short-term tactics may be harmful on long-term strategy. Business leaders therefore need to use a broad lens and have a balanced perspective in the choice of strategy for sustainability.

This paper suggests that M&A can be an appropriate strategic choice for sustainability when firms are facing vague times. Capron and Pistre (2002) argue that merger and acquisition processes can foster the transfer of important intangible assets between prey and predator such as technical know-how and also enable firms to pursue efficiency in terms of costs. This is possible through the achievement of

AD-minister Nº. 41 july - december 2022 pp. 35 - 56 · ISSN 1692-0279 · eISSN 2256-4322

economies of scope and scale as well as generation of new revenues (Laamanen and Keil, 2008). Gaughan (2002) argues that M&A have an important effect on firms' results and sustainable competitive advantage. This paper argues that in times of uncertainty firms can use M&A to buy into the latest innovations, to disrupt the competition, or seek to prevent being disrupted by the competition because markets are constrained and every firm is at risk.

For predators, the increased availability of assets and distressed companies has created a buyer's market, especially for buyers who have cash and/or still have access to debt funding. This paper argues that in vague times, probably best shown by the COVID-19 era, M&A can be an important strategy for business sustainability in emerging markets. Difficult economic conditions can be seen as periods of creative destruction, when some businesses may decline while new ideas, technologies, products and industries emerge and become the drivers of subsequent economic activity and growth. Vague periods can contribute to this economic restructuring by stimulating entry and exit of firms, and by motivating incumbent firms to adapt products and business processes. M&A during uncertain periods can create greater value because the cost is much lower due to reduced market capitalization of companies. Due to the lower values, predators can go after targets that were initially out of reach and this allows them to make a bolder strategic ploy which can lead to market leadership.

Empirical studies (Komlenovic, Mamun, and Mishra 2011), show that M&A vary in proportion to the economic condition. They will increase in a boom and reduce during depression. Depression or even recession in an economy suppresses demand leading to idle capacity. Jensen (1993) argues that M&A can eliminate this idle capacity by unifying the existing companies. However, during the depression the firms have a challenge raising capital and cannot afford to pay the value of a merger or acquisition (Schleifer and Vishny, 1992). As a result, M&A are postponed until the economy is out of recession or depression. Nelson (1959) argues that stock market boom has been connected with increase in merger and acquisition activity. This is because during economic boom, there is not only a willingness of stock markets to allow firms to issue new shares to raise capital but also, many firms report higher corporate profitability. Conversely, companies and stock markets might adopt a conservative approach during an economic downturn. Thus, authors have suggested a close relationship between general economic performance and takeover activity.

Many empirical studies (Bernanke, 1983; Abel, 1983; McDonald & Siegel, 1986; Dixit and Pindyck, 1994; Bloom, 2009) on merger and acquisition have focused on economic and policy uncertainty and their effect on merger and acquisition activity. Using national elections from 48 countries as a proxy for uncertainty in policy, and data covering the period 1980-2005, Julio and Yook (2012) examined the impact of uncertainty on 13 investments. Their research argues that firms prefer to wait when elections can have a negative outcome to receive additional information about the future prospects of an investment. They found that uncertainty during elections leads

to decline in investments during the period leading up to elections. The literature seems to have consensus that uncertainty of any nature has a negative association with investment as people delay making decisions as they wait for more information.

Several researchers have examined M&A in the context of an uncertain environment. Bhagwat, Dam, and Harford (2016) examined the effect of uncertainty on M&A. They focused on the delay between deal announcement and completion. They found that increased uncertainty as measured through market volatility had a negative effect on willingness to complete the deal. Analysis by Gaughan (2002) of merger and acquisition activity during a financial crisis in USA found a decline due to lack of access to credit. The study further argues that the difficult economic conditions reduced profits further leading to a further decline in the attractiveness of M&A.

Other researchers have examined whether mergers and acquisition deals closed in a period of uncertainty created more value for shareholders compared to those closed during normal economic conditions. Eisenbarth and Mecki (2014) investigated market for corporate control in Germany and analyzed, whether companies take advantages of periods with low asset prices to buy out other companies. Their study has shown that merger and acquisitions tend to be initiated during periods of high asset prices. While in terms of returns, transactions initiated during low asset prices are more successful and deliver higher merger benefits. Rosen (2006) examined the interrelation between the broad market conditions and the stock returns of bidding firms. The study found that falling stock prices during economic crises had a large effect on M&A returns.

Nguyen and Phan (2017) found that during period of high uncertainty, the predator gets more value from merger and acquisition deals. They explained that this is due to the acquirer being more prudent and doing proper due diligence such that they only pursue investments with better outcomes during periods of uncertainty. They found that policy uncertainty has a negative correlation with M&A but a positive correlation with the time to complete merger and acquisition deals. They also found that predators will most likely use share payments during periods of high uncertainty. Lee (2018) used national elections as a proxy for uncertainty to examine the effect of uncertainty on cross-border M&A. The study found that in periods of uncertainty, firms in the target country have lower bargaining power hence the acquirer being able to negotiate better terms. On the other hand, Bonaime, Gulen, and Ion (2018) found that policy uncertainty is negatively associated with M&A activities.

Ang and Mauck (2011) examined whether severely financially distressed firms during uncertain times would sell at low prices. The thrust of the argument was that the distressed firms do not have much choice but to sell their assets at discount. Therefore, the predator is in a stronger position in the negotiation and this may lead to high abnormal returns as compared to the normal economic period. However, the study found that financially distressed firms actually sell at a premium, sometimes as much as 30% as compared to the normal economic period. According to Rao-

AD-minister Nº. 41 july - december 2022 pp. 35 - 56 · ISSN 1692-0279 · eISSN 2256-4322

Nicholson and Salaber (2014) firms in financial distress wish to restructure and redeploy assets as soon as possible during financial crises. As a result, the period of negotiation will be shorter and returns will be higher for the predator. They investigated the returns to firms during the pre and post 2007-2008 financial crisis and reported higher returns to shareholders as compared to acquisitions announced in the pre-crisis period.

Hotchkiss and Mooradian (1997) found positive abnormal returns for both acquirers and targets upon a merger and acquisition announcement. They argue that when firms are in related industries, there is higher post-merger performance because of a more efficient reallocation of assets. They also find that mergers with healthy non-bankrupt firms do not lead to significant improvements in terms of performance. The process also induces abnormal positive stock returns for both bidder and target at the moment of announcement. Gatti and Chiarella (2013) researched how M&A can be a useful tool during periods of high volatility. They concluded that M&A can be a powerful and value- creating strategic tool in such periods. Garfinkel and Hankins (2011) found that increase in cash flow uncertainty encourage firms to make vertical acquisitions. Duchin and Schmidt (2013) found a positive correlation between economic uncertainty and M&A. They suggest that this is due to the empire-building action of the managers.

Some researchers have examined the motivations and how specific aspects of M&A have been managed in emerging markets. Man, et., al. (2021), examined the how country-specific uncertainty affects the payment method in international acquisitions. The study found a negative association between country-specific uncertainty and cash transactions, such that when the host country experiences a high level of country uncertainty, acquirers were more likely to choose non-cash transactions. The study also found that that the negative relation between target country-specific uncertainty and cash payment weakened with larger differences in power distance between host and home countries. Alhanhanah, Akbalik, and Akosile, (2019) examined the trends of M&A in Turkey covering the period 2014-2018. They found that the election transition year of 2014 affected the volume and value of M&A. Political conflicts with neighboring countries, and the sanctions due to tensions between Ankara and Washington affected merger activity during the period. Mody and Gegishi (2000) argue that the Asian financial crisis led to the increase in merger and acquisition activities in the period after the crisis.

For management of risks in emerging countries with weak minority investor protection, La Porta, Lopez-deSilanes, Schleifer and Vishny (1999) found that foreign acquirers will prefer to acquire majority control in the local firms. Goddard, Molyneux & Zhou (2012), examined the period 1998-2009 and found that bank M&A in Latin America and The Caribbean were largely driven by financial restructuring, privatization, and the deregulation in the respective regions. Pérez (2013) found that M&A in the Mexican banking sector were motivated by elimination of restrictions on foreign capital which led to 80% of the banking sector being under foreign control.

DISCUSSION

While there is plenty of academic literature on M&A and creation of shareholder value, not much research seems to have been devoted to M&A as a downturn strategy for uncertain times, especially in emerging markets. Besides the works of Yezhou, Chenlei, and Zilong (2020) and Deng (2008) in China, other works have generally addressed the generic areas of M&A and if any associated synergies create value for shareholders. Yezhou, Chenlei, and Zilong (2020) examine the relationship between economic policy uncertainty and M&A in China. They used all listed Chinese companies on the Shanghai and Shenzhen Stock Exchanges and 4,188 merger and acquisition deals from the period of 2001–2018. They found that Chinese firms are more likely to make acquisitions during periods of high economic policy uncertainty.

Deng (2008) argues that more Chinese firms engage in cross-border M&A in order to access strategic assets and address their own competitive disadvantages. The researcher further suggests that because markets are highly competitive, the firms need the assets so as to have an advantage in a global market. Because such assets are not available at home, acquisition of foreign firms helps overcome the institutional constraints.

Kale (2004) argues that there are differences in mergers in emerging markets and developed markets due to the traditional business environments in these markets and how they have changed gradually due to liberalization. According to Lebedev et al. (2015) M&A in emerging markets will be affected by local institutional and market imperfections compared to M&A in developed economies that have mature markets and stronger institutional frameworks. Developed markets have a well-developed legal and regulatory system to protect the interests of shareholders and the welfare of consumers. On the other hand, as pointed out by La Porta, Lopez-De-Silanes, & Shleifer (1999), emerging economies may suffer from a poor legal and regulatory environment as well as weak enforcement of existing laws. Besides, the corporate governance, cultural differences and disclosure systems are different.

CONCLUSION

While M&A in periods of uncertainty have not been extensively studied in emerging markets, the trend from the developed markets suggests that such M&A deliver more value to shareholders. Therefore, vague times provide an opportunity for firms to use M&A to fully transform their operations through acquisition of latest technologies and new supply chain capabilities, and achievement of cost synergies, among others. Others are exiting businesses with lower growth and profitability prospects while focusing on cost reductions to maintain profitability. This paper will prepare the businesses well for not only survival but also a rebound at the end of the vague era. The lower valuations work to the advantage of the predators, and will thus increase in size and scope through M&A and hence significantly benefit after economic recovery. When the oil sector faced a decline in oil prices in 1990's that was severe and extended, they turned to consolidations leading to the multinationals of today.

AD-minister Nº. 41 july - december 2022 pp. 35 - 56 · ISSN 1692-0279 · eISSN 2256-4322

A vague era leads to many company valuations to be lower across all sectors and industries, making some acquisitions very attractive and opportunistic. Even the earliest theoretical work on merger activity such as Coase (1937), Schumpeter (1950), and Gort (1969) suggested that merger activity was a response to technological shock. Chattopadhyay, Glick, & Huber (2001) and Meyer (1982) argue that firms can generate synergies during turbulent economic times by adopting new resources and using new opportunities through M&A at low costs. Therefore, future research should involve M&A during a vague era in emerging markets, especially in the African, Middle East, Latin American and Asian regions. This is because while such markets are a huge opportunity for businesses, they need to be approached carefully due to inherent risks such as political risks, weak corporate governance, foreign exchange risk, and legal protection for investors, among others (Tarun, Krishna and Kjell, 2007).

However, mergers and acquisitions are largely a corporate governance issue. It is at the board level that the overall strategy of the firm is designed and implemented. This strategy addresses among many issues, the various growth options of the firm and whether mergers and acquisitions are part of the growth options. Therefore, the board must be satisfied that the acquisitions are an appropriate strategy at that time. However, analysis by Refakar &o Ravaonorohanta (2020) found that corporate governance in emerging markets is sometimes ineffective due to weak rule of law, weak transparency, and inefficient financial markets. Sometimes, ownership is concentrated, institutions are less developed, financial markets are not sophisticated, there is more corruption, and competition is restricted. All these lead to inefficient boards, which may therefore lead to sub-optimal merger and acquisition decisions.

A key managerial implication of this literature analysis is that external growth through M&A can be a successful strategic move during vague times. Low valuations of firms provide favorable conditions for making deals that can be beneficial to shareholders in the long run. While uncertainty is ordinarily expected to make managers less confident about the future, hence leading to shelving of investment decisions and decline in M&A, uncertainty may also create opportunities that can deliver superior value to shareholders. Firms in emerging markets can therefore be on the lookout for opportunities in terms of undervalued firms during times of uncertainty that can offer good returns at the end of the uncertainty.

Similarly, firms in emerging markets, if undervalued as a result of the uncertainty, may also become candidates for mergers and acquisitions, especially by firms from mature markets. It may therefore offer an opportunity for them to either negotiate acceptable deals for their shareholders, especially given that the literature shows that the shareholders of target firms gaining in the event of mergers and acquisitions. They may also need to put in place strategies to protect themselves from hostile takeovers. The managerial and theoretical contribution of this paper is the challenge it presents to the traditional thinking of being conservative towards risk during times of uncertainty.

It challenges managers to adopt a contrarian approach during uncertainty and to scout for undervalued assets which may deliver superior value to shareholders.

On a methodological level, the paper presents a review of how M&A have worked in developed countries during vague times, and the implications of those results in emerging markets. This is important because emerging markets have different characteristics compared to developed markets and therefore what works in developed markets may not necessarily work in emerging markets. A key implication for future empirical research is the common thread that M&A during uncertainty create value for the acquirers. Much of the previous literature shows that M&A mostly created value for the targets. It will therefore be useful to empirically examine whether this reverses during uncertainty, especially in emerging economies.

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