



**IJMRBS**

ISSN 2319-345X  
Vol. 5, No. 1, January 2016

# International Journal of Management Research and Business Strategy

[www.ijmrbs.com](http://www.ijmrbs.com)



**MEGHANA PUBLICATIONS**

[www.meghanapublications.com](http://www.meghanapublications.com)

# THE EFFECT OF MERGERS AND ACQUISITIONS ON THE VALUE AND PROFITABILITY OF COMPANIES: A CASE STUDY OF TRAVELERS GROUP AND CITICORP COMPANIES

Irfan Sayyed<sup>1\*</sup>

\*Corresponding Author: **Irfan Sayyed** ✉ [zubainnsayyed@gmail.com](mailto:zubainnsayyed@gmail.com)

This paper attempts to bring out the relevance of building customer relationships as the most important next step on the way to sustainable growth of Online Retail in India. At first it briefly discusses the online retail industry scenario in India. It further discusses the Indian Online Retail Industry's characteristics with focus on the challenge of surviving the intensifying price wars and creating a differentiation. Next it discusses how Customer Relationship Building can be a powerful solution to the challenge. The paper presents a solution in form of a simple yet effective guideline for focal points of Customer Relationship Building through 7Es Framework of Building Excellent Customer Relationships that would act as. It also discusses some celebrated cases of the online retail business to throw light on how some companies have approached Customer Relationship Building. In the end, it recommends set of Effective and Relevant Strategies for Indian Online Retailers, which would help them, build relationships, develop a competitive edge and enhance their ability to succeed.

**Keywords:** Integrating Emerging Market Firms, Banking, Finance, International Acquisitions, Mergers, Synergy, Takeovers

## INTRODUCTION

### Background of the Research

Mergers and acquisitions have consistently played the role of influencing and shaping business and market outcomes in the financial services sector. Just like the general business world, the financial services industry recently has become dynamic. For this reason, expansions, new entrants, takeovers, startups, and many more

business strategies have characterized the finance world. Mergers and acquisitions, in the contemporary world, is one of the business strategies organizations use to expand and cement their influence in the market. "One plus one equals three" is a common phrase used by economists to explicate the reasoning behind the motive of mergers and acquisitions. Mergers and acquisitions has been one of the business dynamics influencing the competition in today's

<sup>1</sup> Ness Wadia College of Commerce, Pune University, Pune, India.

market. On this note, Berkovitch and Khanna (2011) elucidates that mergers and acquisitions is a global trend of enhancing market competition, reducing production cost, increasing market power, as well as improving the value and profitability of organizations. The first continental wave of merger and acquisition was witnessed in Europe after the global economic recession in 1980-1981. In United States, the first wave of merger and acquisition was experienced in between 1897 to 1904 (Drori *et al.*, 2012). During this time, mergers and acquisitions were mainly by organizations that had monopolized their lines of production such as electricity, railroads, and manufacturing. However, majority mergers and acquisitions in USA have been witnessed in the period from 1992 to 2000. During this period, most firms wanted to establish their monopoly to take advantage of the Single Market Program, which was introduced in the Eurozone.

The banking industry has also experienced tremendous mergers and acquisitions in the recent past. On this note, Savovic (2012) elucidates that the mergers and acquisitions among the small and big financial institutions has been unprecedented in the recent past. This is mainly because of the widespread perception that mergers and acquisitions influence the wealth of shareholders positively as result of economies of scale and reduced cost of production. The recent developments of mergers and acquisitions especially in the banking industry has raised eyebrows among the shareholders, banks' managements, as well as the investors regarding the influence of mergers and acquisitions to the value and profitability of the company.

In Europe generally, and in the United Kingdom in particular, mergers and acquisitions are believed to have developed as a result of

developments in the mass production industries of the 1920s that created techniques that would increase vertical firm integration through large scale production capacities. The internationalization of the global economy and industrial dynamics also created a wave of merger and acquisitions that would later endure the challenges faced by individual firms. In such environments, mergers and acquisitions emerged out of the need create larger entities that would be capacitated and effective in pursuing international competition mostly from the United States and Japan. However, in the post dotcom era of world history the phenomenon of company takeovers and integrations through merger and acquisition contractual agreements has gone global, and has been a worldwide business trend. The rapid rates at which companies are frequently integrating into larger conglomerates raise questions that are of utmost interest to the firms and shareholders alike. First, do mergers and acquisitions announcements add significant value to the shareholder's piece of the company pie? Second, do mergers and acquisitions create any profits and valuable outcomes for the target companies? In the shareholders' perspective, there is need to determine whether the giver merger or acquisition has the effect of creating more return on investments, which consequently improves their general welfare alongside investment objectives. And because firms pursue business interests in order to create value and make profits for the owners of assets, and the overall health and life of the firm, it is important for decision makers considering merger and acquisition contracts and agreements to have some unshakable ground upon which such integration decision are built.

Studies on the effect of mergers and

acquisition on the value and profitability of firms have generally hinted at the existence of a positive impact. For instance, several short term studies have found out that mergers and acquisitions generally a positive net effect on the return on wealth for firms participating in the merger activity.

### **Research Rationale**

The effect of mergers and acquisitions on the value and profitability of participating firms is an important study question worth investigating. Previous researches on mergers and acquisitions have yielded conflicting outcomes as far as their impact on value and profitability to the participating firms are concerned. Many studies have been conducted on the impact of mergers on value and profitability vis-à-vis the participant enterprises, but have come up with inconclusive findings. For instance, a study by Berkovitch and Khanna on the correlation between mergers and acquisitions and profitability concluded that the two variables have no statistically significant relationship (2011). In fact, Berkovitch and Khanna branded mergers and acquisitions as economic failures (2011). However, previous studies have little or no emphasis on the effect of mergers and acquisitions on the profitability and value of the firms. The rationale of this research is thus to investigate any influence that mergers and acquisitions have on enterprise profitability and value. It is also not clear how Berkovitch and Khanna (2011), came up with that conclusion about mergers and acquisitions as “economic failures.” A research by Savovic (2012) disputes the notion that mergers and acquisitions are economic failures. On this note, Savovic (2012) outlines that the success or failure of a merger and acquisition also depends on the competency of management of the two companies in managing the assets of the new company.

Moreover, according to Prijadi and Sidjabat (2010), mergers and acquisitions can be “an economic failure” if the market has a bad perception about the merger and acquisition. Moreover, Prijadi and Sidjabat (2010) explicate that mergers and acquisitions usually result into increased profitability and market share.

Mergers and acquisitions are essential events in any organization and their influence on business performance and operations cannot be ignored. According to Prijadi and Sidjabat (2010), both post and pre-merger announcements have substantial influence on the company’s future performance. Therefore, the research findings of this project will be a source of knowledge for organizations that are willing to engage in mergers and acquisitions. Moreover, shareholders and management of companies will have a full picture as far as the repercussions of mergers and acquisitions are concerned. This research will use mergers between Travelers Group and Citicorp in USA as the case study to assess the effect of merger and acquisition on value as well as profitability of the company. In order to seal the previous loopholes of previous researches, this research will be specific in terms of research strategy, design, as well as data collection.

### **Significance of the Research**

This research is important in terms of significance since managers charged with responsibility for undertaking merger and acquisition decisions require some guiding template on potential impacts their decisions to enter into or to opt out of acquisition and merger contracts have on the value and profitability of their firms. If managers have valid evidence-based reasons to enter into such structures their decisions and policy choices are likely to receive firm ownership

support due to the perceived benefits such a setup would bring to the firm. Furthermore, based on these findings acquisitions and mergers will be based on decisions that are well researched and are known to add value to the shareholders of the firms entering into mergers and acquisition enterprise models. This is particularly important given the fact firms are supposed to create value and make profits so as to ensure owners receive sufficient returns on their investments. Decisions based on well researched mathematical modeling are thus likely to achieve the objectives of the given merger and acquisition contracts.

### Scope of the Research

The scope of this is on the subject mergers and acquisitions and their effect on firm value and profitability. The study explores how these factors guide firms in terms of decision making on matters concerning mergers and acquisitions and the consequential bank performance.

### Research Aims and Objectives

The aim of this paper is to explore and analyze the effect of firm mergers and acquisitions on the profitability of the participating firms. In order to achieve its aim, the research is guided by the following objectives:

- To investigate the influence of mergers and acquisitions on the profitability of firms.
- To investigate the influence of mergers and acquisitions on the value of Citigroup.
- To recommend factors that can be considered in order to increase the contribution of mergers and acquisitions to the enhancement of profitability and value of financial institution in the USA banking sector.

### Research Questions

The research seeks to answer the following study

questions

- Do mergers and acquisitions increase the profitability of participating firms?
- Do mergers and acquisitions improve the value of participating firms?
- Which factors can be considered to enhance the contribution of mergers and acquisitions to the enhancement of profitability and value of financial institutions in the USA banking sector?

## LITERATURE REVIEW

In their study, Savovic (2012) found a positive correlation between mergers and acquisitions and increase in company's profitability. In this study, Savovic (2012) wanted to examine the effects on mergers and acquisitions on the working capital, profitability, and leverage of banks in Europe. As a result of engaging in mergers and acquisitions, the study found that banks in Europe increased their liquidity by 2.5%, performance by 1.5% and increased their debt capital by 6%. The study further noted that an increase in debt capital was an advantage to the firms. This is because debt capital is cheaper than equity capital because of tax benefits enshrined in debt capital. In addition, Rosen (2006) also examined the M&A's that happened between 1983 and 2001; an estimate of 6,000 M&As. Rosen (2006) outlined that the success or failure of mergers and acquisitions is determined by the reaction of the market. That is, previous merger responses will also yield positive responses in future. Rosen (2006) also found that the research findings of his/her study were in line with the assertions outlined by neoclassical theory concerning the influence of mergers and acquisition in the stock market.

A study by Prijadi and Sidjabat (2010) also found that mergers and acquisitions also increase shareholders' wealth. In this case, the study noted a lot of variations in the value of shares before and after the merger. Such variation is as a result of efficient market hypothesis. On this note, Drori *et al.* (2012) expounds that by utilizing the information available on mergers and acquisitions, investors can earn abnormal returns.

Performance research based empirical studies have been used to determine the effect of mergers and acquisitions on the firm performance and returns to shareholders. Flugt (2009) studied the effect of mergers and acquisitions on short term performance of firms in the European market, and his findings suggest that a positive correlation between mergers and acquisitions and the value and profitability of firms. The findings are based on statistical mathematical models that measure the normal and abnormal performance of firms in the immediate post-merger period, the findings point to a positive effect of firm integration on cost reductions, profitability and improved shareholder welfare. Flugt's findings are derived from a market model which is also used in this study to show that mergers and acquisitions have positive function, especially in the immediate post-merger period and measures the shareholder wealth effect attributable to the given merger, and has been applied in various studies available in the reviewed scholarly journal articles (Mann and Kholi, 2008).

The studies show that mean adjusted return models and market adjusted return models can be used to measure merger performance effect due to their vitality in simplifying the abstracted

reality alongside minimal input requirements the given computing framework capacity. In order to measure the wealth benefits that shareholders derive from mergers and acquisitions, the following Ordinary Least Square (OLS) model is applied for any given stock  $t$ .

$$R_{it} = \alpha_i + \beta R_{mt} + \varepsilon_{it}$$

for all  $t = -252, \dots, -3$  ... (1)

In the above model,  $R_{it}$  is the return value of stock  $t$ , whereas  $R_{mt}$  is the value for the expected return on the given stock, and is also recognized as the benchmark market index value. The  $t$  represents time period, while error term is the value representing the constant zero-mean disturbance associated with the model's variables, and provides the value of the forecast error. The coefficients (ALPHA and BETA) in the model represent firm-specific parameters of the given market model to be estimated. The abnormal return  $AR_t$  of the given merger can then be estimated using the following model that measures the difference existing between observed return value and the predicted or expected return value, as shown below:

$$AR_{it} = R_{it} - (R_{it} - \alpha_i + \beta R_{mt} + \varepsilon_{it})$$

For all  $t = -2 \dots +2$  ... (2)

where  $ALPHA_i$  and  $BETA_i$  are obtained by the OLS regression estimate of equation (1) using data collected for the given estimation period.

The estimates obtained by equation provide empirical model based evidence that the abnormal return value and the forecast error residual obtained from the market model is the same for both equations. This is due to the fact of the same coefficient which is part of the given stock's return value, associated with the incidence or event of merger and acquisition

announcement. Further estimation is performed in order to obtain the actual firm specific effect of the stock movements during the entire merger and acquisition event window period [-2, +2]. During this period the market is observed as it responds to the new merger information. For the entire period, the following model can be used to estimate the cumulative abnormal return, CAR, which gives a summation of all abnormal stock return values for the given window period.

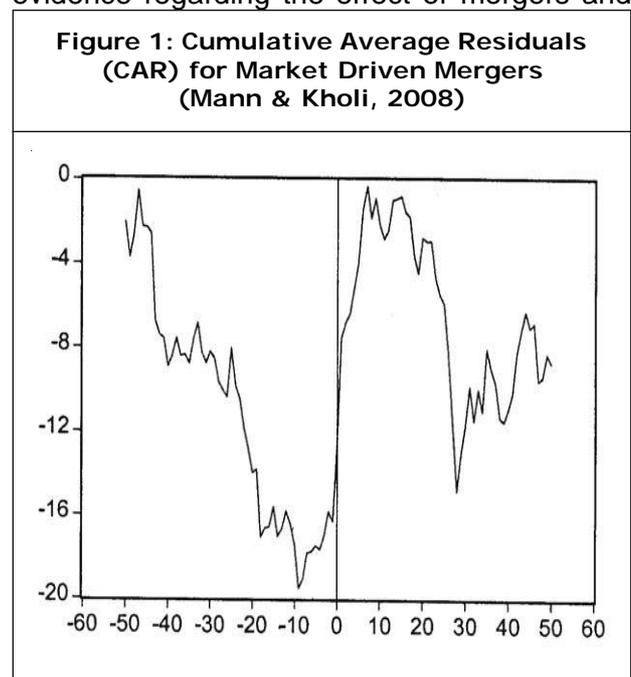
$$CAR = \sum_{t=-2}^2 AR_{it}$$

The benchmark applied in the above ordinary least squares regression model is important as it provides a valuable representation of the opportunity cost or the value of return investors have gained from other potential investment opportunities associated with similar risk levels. However, it must be noted that when selecting the appropriate benchmark applicable to the given merger situation, one must take cognizance of the fact the fundamental fact that such a choice has an impact on the value of the abnormal return. This finding is also supported by evidence from other sources (Mann and Kholi, 2008). To obtain the value of the benchmark appropriate to the given merger situation, an estimate is calculated using the Capital Asset Pricing Model (CAPM). CAPM represents a broad index for the regional or industrial level market condition. Notwithstanding, its potential value for estimating the expected profitability and value associated with cash flows that are likely to accrue to the firm’s investors or shareholders, this method could be improved so as to achieve rigorous results from merger and acquisition events that are associated with a case study scenario. Besides, given that the model is generated from

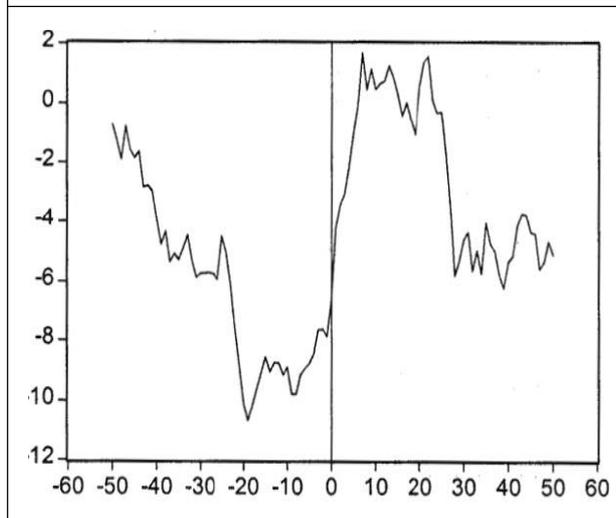
statistical methods, it is particularly useful in constructing empirical evidence-based generalization that applies in large sample study contexts.

Mann and Kohli (2008) also studied the effect of mergers on the Indian banks following the synergistic theoretical approach. Their study evaluated the synergistic gains attributed to bank mergers of two categories: market driven mergers and forced mergers, and found that market reactions were negative to announcements of forced, while the same markets were positively receptive to the news of market driven mergers. As such, forced merger do not improve the profitability and value of the merging firms. However, the study did not rule out the possibility of other factors such as geographic dispersion and market share altering the negations. Mann and Kohli’s analysis produced the results shown in Figure 1 and 2, for market driven mergers and forced mergers.

Other studies have produced conflicting evidence regarding the effect of mergers and



**Figure 2: Cumulative Average Residuals (CAR) for Total Sample of Mergers (Mann & Kholi, 2008)**



acquisition on the profitability and value of firms. For instance, a study conducted by Bryant (2008) on the impact of mergers on three largest American banking industry conglomerates, found that mergers either had a null or negative effect on the performance of the merged firms. The results of Bryant's findings are based on data acquired from JP Morgan Chase, Citigroup and Bank of America, three of the largest bank mergers from the United States. Bryant's findings are based on measurements obtained from various ratio estimates, mainly Return on Assets (ROA) performance ratio, which measures the success of the firm management in using the given bank asset in order to generate profits and value for the shareholders, and Return on Equity (ROE) performance ratio, and bank stock price analysis. ROE is also referred to as return on net worth, and measures the value the success of the firm's management in generating additional return or value on the shareholders' asset investments. Accordingly, Bryant concluded that larger mergers had the negative effect of creating extended volatility that jeopardizes the overall bank

performance, thereby capitulating additional risks that are dangerous to the general health of the bank (Bryant, 2008).

From the literature review, it is clear that evidence is inconclusive on the effect of mergers and acquisitions on the profitability and value of the merged firms. While some of these studies report findings of significant proportion of merger failures since the last decades of merger waves, the actual success rate in terms of profitability and return on investments value varies, as noted by the conflicting findings from the literature review. It is also worth noting that most of the literature has focused the analysis on research study designs that are based on non-case study targets. Hence, there is need for further research that not only provides conclusive evidence-based analysis but also focuses the research analysis on particular bank cases selected from the industry so as to provide a detailed analysis.

## METHODOLOGY

This section provides an explanation of the research methodology and highlights the process this research adopted. Under this section, the reason for this study, the study design, the potential ethical considerations, as well as limitation of this research are briefly discussed. Khan (2011) explicates that research methodology is a vital part of every research process. This is because it outlines the steps to be followed in the realization of objectives of the study. Usually, the methodology section of a research study reveals how the target population, tools of data collection and sampling, as well as techniques of data analysis were used by the study, and highlights the reasons for the study, study design, study limitations, ethical considerations, as well as any challenges and

limitations experienced in the course of the study.

### **Reasons for the Research**

This research provides a descriptive exploration of various conditions and situations linking the various aspects of the phenomena under study. This is done in order to formulate empirical generalizations which can form foundations for theory formulation and development and can be explored in future research and empirical investigations. This research seeks to establish relationships that generalize the effect of mergers and acquisitions on the profitability of firms. In order to achieve, the research explores several issues concerning mergers and acquisitions and their overall influence on firm profitability and value. To place this study into its proper context among other literature sources, the findings are related with earlier studies on mergers and acquisitions as reviewed from the literature. This study follows the descriptive format given that there is enough knowledge on the topic as well as available evidence from secondary sources.

### **Research Design**

The research was based on a review of empirical evidence gathered from case studies and theories of mergers and acquisitions. The study also relied on secondary data in order to make evidence-based conclusions. Such a study design enables the researcher to gain detailed insight into the actual scenarios of enterprises considering acquisitions and mergers with a view of altering the performance situation of their mother firms. The study extensively reviewed existing theories and theoretical and mathematical models that relate mergers and acquisitions to their actual effect. The study findings were compared with the information gathered from the reviewed literature sources.

The choice of this study design and structure was due to its logistic viability, given that it was not time consuming and required less expenditure, thereby enabling the realization of comparative analysis against earlier studies to provide conclusive and reliable evidence-based results. According to Balnaves and Caputi (2001) descriptive statistics are essential features of describing features of the secondary or primary data gathered. In this case, the study relied on the financial statements of Citigroup before and after the merger to identify trends in company's values and profitability.

### **ETHICAL CONSIDERATIONS**

Basic ethical questions arising from the case study were addressed. Importantly, prior to the conduct of the research, permission was sought from concerned authorities in order to study the given topic based on secondary data sources that are widely accessible in the public gallery, including peer-reviewed journal articles. Based on this ethical validity, the findings from the research are thus able to guide decision making.

### **LIMITATIONS**

Despite a multitude of extensive literature being available on the literature sources reviewed, the study was limited by the inability to find adequate sources that are extensive in their mathematical modeling of the relationship linking the variables of critical concern to this study. Furthermore, some important peer-reviewed journal article also inaccessible to the research thereby limiting the study to a limited set of sources. It was also difficult to generalize the findings of this case study to other settings due to geographical differences and differences in conditions. However, the researcher managed to overcome

these limitations through the collection of adequate and reliable evidence from authoritative sources that enabled to the realization of valid conclusions.

## THEORIES AND CASE STUDY

This section is divided into two parts namely; empirical and theoretical. The Empirical part outlines previous researches on the topic of merger and acquisition. The Theoretical part will discuss theories, which elucidate on the topic of mergers and acquisitions, policy formulation, and to assist firms in the course of making strategic merger and acquisitions planning. The study adopts an unbiased approach to the research question in order to come up with objective findings that accurately depict the case study phenomena, with no chance of misleading targeted audience and stakeholders. Literature review, related theories, and the particular case study situation were explored utmost integrity and responsibility devoid of any misconduct as guided by the research ethical code of conduct. The findings and their presentations are intended not to create any conflict of interest nor breach any copyright regulations, and to avoid the presentation of plagiarized material or sources that ethically deficient or which contravene ethical guidelines for published sources. Full and proper documentation and attribution of all sources was performed.

### Mergers and Acquisitions Theories

Researchers and theoreticians have developed many theories that explain the occurrence of different phenomena in the markets. In the markets for mergers and acquisitions, there are also theories that explain various states of market conditions, and seek to provide an insight into the different modes of firm and individual behavior.

Two of the theories that have been extensively used in explaining the behavior of firms undertaking mergers and acquisitions include Empire Building Theory and Synergistic Mergers Theory.

### Empire Building Theory

Mergers and acquisitions are used by organizations to increase their influence in the market. According to empire building theory, the management prioritizes on mergers and acquisitions in order to increase shareholders value through the economies of scale. In this case, corporations take advantage of efficiency gains as well as synergies of mergers and acquisition in order to reduce the cost of production, which in return helps them to cement their influence in the market. A study conducted by Savovic (2012) concluded that organizations normally use mergers and acquisitions as a mechanism to enable them realize the benefit of asset risk diversification. In this sense, mergers and acquisitions are effective tools for realizing value for stakeholders through minimized risks. According to empire building theory, risk diversification brings the additional value of reduced firm's earnings volatility, and increases potential value of the merged and acquired firms. As such, empire building theory stipulates that influence in the market is an essential factor for companies that want to monopolize their operations. In this regard, managers opt for mergers and acquisition in a bid to cement their position in the market. In the perspective of managers, mergers and acquisitions are an effective tool to entrench and cement their firm's positioning in the market. Lastly, according to empire building theory, mergers, and acquisition is also a move instigated by the management to increase their rewards. On this note, Drori *et al.*

(2012) managers are rewarded (salaries) depending on the profitability of the organization. Therefore, by engaging in mergers and acquisition, they will be seeking to improve the profitability of the organization.

According to Hellgren (2011) empire building theory does not focus on the benefits shareholders are likely to receive from a merger. Empire building theory describes mergers as planned outcomes that managers execute as a conduit to maximize their own benefits from the accrued profits of the merger companies. In this perspective mergers are seen as tools that managers use in order to enable them realize their own utility from the resources that are availed, as opposed to being seen as an activity that aims at maximizing shareholder value. As such, managers adopt goals and objectives that influence the merger process but are in fact loaded with the motives of the given manager. Often when managers present merger agendas, these managerial goals are never cited nor do they get attribution for the justification of the merger contractual agreement (Hellgren, 2011). On the other hand, when shareholders perceive these mergers as conduits for the realization of management motives and self interest, as opposed to generating value and profitability for the company owners, a situation of mistrust in the firms may arise in the post merger period (Maguire and Phillips, 2008).

This theory also relates to shareholders wealth pie of the merged companies. Investors considering acquiring stocks on a firm are normally guided by rational expectations of future increments in the returns for their investment by the merged firms. Furthermore, firms normally merge in order to increase shareholder value and returns in terms of profits. The merger effect in

terms of shareholder's wealth value is thus obtained by examining the stock prices and trends, in a forward looking manner in order to estimate the future profitability of such investments. The model aims at estimating total future profits and stock value from the day of the announcement of the merger. The intention and purpose of the model is to estimate a decrease or increase in the firm's estimates of profits proportion and present worth that were generated as a function of the merger and acquisition event. This gives the difference in the observed increase in stock price over time from the day of the merger, as influenced by market conditions and trends. On the basis of empire building theory, return on shareholder's wealth can be estimated using the following equation for the merger and acquisition event, which assumes full information of firm's stock standing in the current window period of the merger:

$$P \text{ shareholder wealth} = \sum_{t=0}^n (R_t / (1+r))$$

where P is the estimated price of the stock, r is the interest rate associated with the given stock investment, and R the estimate of the total profits accrued to the shareholder from the initial time t (t=0) representing the initial period. In this case, time is an infinite variable since stocks are perpetual investments with perpetual values for the stockholders. However, this model imposes some stock valuation challenges for merger and acquisition decision makers in terms of inability to accurately determine the interest rate most applicable to the computation process, which is an exogenous economic variable determined outside the model by variations in economic factors.

$$\% \Delta P_{\text{stock price}} - \% \Delta P_{\text{share index}} = \% \Delta_{\text{Wealth}}$$

This means that when the merger has no effect on the shareholder's wealth returns the share index price of the stock equals the actual price of the stock.

$$\% \Delta P_{stock\ price} - \% \Delta P_{share\ index}$$

$$\% \Delta P_{stock\ price} = \% \Delta P_{share\ index}$$

And when the merger generates profit value for the shareholder, the stock price is greater than the average industrial share index, with significant profit value generated for the shareholder, as shown by the following relationship.

$$\frac{\% \Delta P_{stock\ price}}{\% \Delta P_{share\ index}} > 1$$

implies +ve  $\% \Delta_{Wealth}$

**Synergistic Mergers Theory**

On the basis of Synergistic Mergers Theory, the value of mergers and acquisitions can either take the form of low cost capital or high cash flows. Moreover, mergers and acquisitions also help increase the debt capacity of combined firms. This is valuable for the merged firms because the cash flows and earnings of the new firm become more predictable and stable. For this reason, mergers and acquisitions enable the firms to borrow from various financial institutions. A study conducted by Prijadi and Sidjabat (2010) concluded that financing a company through debt capital is cheaper than equity capital. Majors and acquisitions are thus seen to benefit companies by availing additional debt capital with potential tax benefits. Consequently, synergistic theory perceives mergers and acquisitions as potential tools used to increase firm performance and value, especially when implemented by firms operating in the same industry. Also, the synergistic theory also outlines that mergers and acquisitions are preferred because of their high

bargaining power. On this note, Drori *et al.* (2012) explicates that after the mergers and acquisitions, firms have a strong bargaining power, and can negotiate prices of raw materials with their suppliers, with such price reductions bringing additional value and profitability to the company. The mathematical model of the synergistic theory of merger and acquisitions can be summarized via the following relationship:

$$V (AB) > V (A) + V (B)$$

The relationship indicates that the value a merger firm is more than the value of each of the merged firms independently (A and B).

Other relationships have been used in measuring mergers the value for mergers and acquisitions. For instance, assuming that firm A purchases B through a stock-for-stock transaction. In this case A, B and AB represents the first enterprise firm A prior to the merger and acquisition, and company B before the merger, as well as company A after it has acquired company B. The assumption being made here is that the merger is non-synergistic in the perspective of economics and accounting, but the principle still holds in the context of synergistic theory of merger. Another assumption is that firm earns perfectly reflect the cash flows as reported in the financial statements of the two companies. The market value of the firm is thus computed using earnings from the merger or acquisition. Another assumption is that the two firms are equity earners. Based on this information, we can measure the effect of mergers using some common relationships.

$V_A, V_B, V_{AB}$  are used to represent the market values of firm A before prior to the merger, and firm B prior to the merger, and firm A *after* it

has entered into an acquisition deal with firm B, respectively

$E_A, E_B, E_{AB}$  are further used to represent the earnings of company A, company B, and company A in the post-merger period, respectively.

In order to measure the effect of mergers, the price-earnings ratio is calculated. The price-to-earnings ratio is a function of the future growth rate of earning, as well the risk of earnings. Price to earnings ratio is an instrument of valuing stock. As its name implies, P/E is the share price of a company compared to the earnings per share (Nicholson, 2010).

$$[p/e]_A, [p/e]_B, [p/e]_{AB},$$

Which indicate the formulas for calculating price-earnings ratio for firms A and B before the merger, and firm A after the merger. Significantly, an increase in the price-earnings ratio is associated with an increase in the expected future growth for the merging firms, and a concurrent decrease in the level of perceived risk, holding all other factors constant. The implication is that higher growth is good for companies while greater risks are treated as bad.

The value of firm A is thus measured using the formula:

$$V_A = [p/e]_A \times E_A, V_B = [p/e]_B \times E_B,$$

$$V_{AB} = [p/e]_{AB} \times E_{AB} \quad \dots(A1)$$

For markets that are economically efficient the effect of merger and acquisition acquires a slightly modified. In such cases the merger is considered to involve non-synergistic firms, with the general Synergistic still applicable. Given this reality, and driving from the earnings formula:

$$E_{AB} = E_A + E_B \quad \dots(A2.a)$$

Such a merger produces the effect of no economies or diseconomies for the merged firms. In certain cases such merger and acquisition markets may be consistently and rationally valued, with the information publicly available in the public domain, so that investors into the stocks of the given firms are not easily duped by unrealistic expectations of projected increases in profitability and value of the firms in the period after the merger.

$$V_{AB} = V_A + V_B \quad \dots(A2.b)$$

In order to measure the total effect of the merger value for the firms, the price-to-earnings ratio must equal the sum total equity or shareholders' stock value in the company divided by the total earnings gained. This is obtained by the following simultaneous relationship:

$$[p/e]_A = [V_A / E_A] \quad \dots(A.3a)$$

$$[p/e]_B = [V_B / E_B] \quad \dots(A.3b)$$

$$[p/e]_{AB} = [V_{AB} / E_{AB}] \quad \dots(A.3c)$$

We can use equation A.1 and equation A3.c above to model the price-to-earnings ratio for the merger, as follows:

$$\begin{aligned} [p/e]_{AB} &= \frac{V_{AB}}{E_{AB}} = \frac{V_A + V_B}{E_A + E_B} \\ &= [p/e]_A \times \left[ \frac{E_A}{E_{AB}} \right] + [p/e]_B \times \left[ \frac{E_B}{E_{AB}} \right] \end{aligned}$$

And when we balance the equation we get:

$$[p/e]_{AB} = [p/e]_A \times \left[ \frac{E_A}{E_{AB}} \right] + [p/e]_B \times \left[ \frac{E_B}{E_{AB}} \right] \dots(A4)$$

From the above equation A4, we notice that price-to-earnings ratio of the merged firms AB must be equal to the weighted average of the price-to-earnings ratios of firms A and B, where the weights, as shown in the raised parentheses, are equal to the percentage of the of the merged firms, which is represented by the earnings realized by firm A due to the merger ( $E_A$ ) added to the earnings of firm B ( $E_B$ ).

Of course, the intuitive implication of the model for the two firms is that in the period after the merger company A is likely to have to have a resultant risk level, and associated growth rate figures that fall in the range for the premerger companies A and B. Price-to-earnings ratio is thus a function of growth rate and risk level that are associated with the impact of the merger of the two companies. And because of this functional dependence of the price-to-earnings ratios on earnings growth and potential risk levels, associated with mergers and acquisitions  $[p/e]_{AB}$  is interpreted as an average of  $[p/e]_A$  in the case of firm A, and  $[p/e]_B$  for firm B. Significantly, worth noting is the nature of the effect of the merger for both firms whereby the greater the value of  $E_A$  relative to the value of  $E_B$ , the closer will be post-merger company A to its total value during the period immediately prior to the merger announcement. Simultaneously, the same effect applies to the price-to-earnings ratio of the merger company and the acquired merged firm, whereby  $[p/e]_{AB}$  will also tend to move closer to  $[p/e]_A$ .

In either case, the general effect of the merger for the companies is measureable and can guide the management decision making and also help potential investors to make conclusive decision on whether or not to invest their sources in the merged conglomerate firm. In cases where the price-to-earnings ratio is greater for the merger, the stockholders or owners of the firm are likely to derive value and profitability associated with the merger. This is also in perfect sync with the theories of mergers and acquisitions being explicated by this research study, including the empire building theory and the synergistic theory of merger. As regards the Empire building theory, the effect of the merger creates a larger conglomerate with an extended market and improved debt and capital capacities that are able to dominate the market, as the profit situation or the return on investment improves.

Profitability and value attributed to merger and acquisition decisions is a technical issue that requires some tangible model to aid the process. One of the most fundamental technical issues in the process include time, which crucially can undermine even hamper the success of even well prepared transaction, and is often underestimated by those performing stock valuations. The Synergistic model presented here takes cognizance of the time variable, and can be represented by the following model:

$$\text{For infinity } RPI = P + \frac{r(1-r)(d-1)}{1-(1+r)-(n-d+1)}$$

$$RPI = P + r.(1+r)$$

where  $RPI$  is the Required Performance Index for the firms entering into a merger contract

**Travelers Group and Citicorp Case Study**

In 1998, Travelers Group merged with Citicorp in a deal which was worth \$70 bn. This one multibillion merger attracted the attention and interest of many of industry experts and business commentators alike. By merging the two companies' insurance services and banking brokerage, the two firms created one of the largest conglomerates in history, which marked a major turning point for the financial services industry culminating in a series of deregulations of the sector. The case study of this research is the merger between Travelers group and Citicorp companies in the United States.

Travelers Group is an insurance company located in United States. Travelers Group is the biggest writer of America's commercial property casualty insurance. In addition, the firm is also the third largest writer of America's individual insurance through its independent agents. Travelers Group had been operating a range of diversified services and products, including investment banking, asset management, property casualty insurance, life insurance, as well as offering consumer lending service streams. Springing from other mergers with other companies in the industry, before its merger with Citicorp, Travelers Group had grown to become the third largest insurance writer in the United States by the year 1997. Prior to the 1998 merger event, Citicorp used to operate as a bank holding company. Citicorp commenced its operations in 1979 in New Castle. After the merger with Travelers Group, Citicorp became Citigroup Inc. Citigroup Inc. is a multinational banking intermediary as well as a major financial services provider in the United States.

As of January 15, 2015, Citigroup is one of biggest financial institution in America by asset valuation. Historically, Citicorp had served

corporate and consumer clientele base through its Citibank branches. Geographically, its business operations were trans-boundary in character and served more than one hundred countries, with its Global Consumer Business becoming one of the largest firms offering credit and charge card issuance service streams in the world. Citicorp's product mix comprised of mortgage equity loans, retirement planning, debt consolidation, as well as other financial service streams in well over 1000 worldwide branches. In early 1990s, the firm had been faced with serious challenges emanating from bad real Latin American loans and real estate loan services. Eventually, Citicorp did recover and by mid 1990s had become one of the most competitive companies in the industry. In the years immediately preceding the merger, Citicorp focused its business efforts on the credit and savings accounts services. During the same period, Citicorp also reduced its domestic wholesale industry involvement, including decreasing its corporate lending business services.

The reasons for their mergers can be explained by the Synergistic model and the empire building theories of merger and acquisition. Interestingly, the issues surrounding the merger are pointer to the invisible hand of these two important theories at play. As non-bank service providers grew and increased their pressure on the traditional commercial banking market holders, new mechanisms were needed to extend market share (empire building). Commercial banking firms thus started to operate in particular investment banking business alternatives, including underwriting debt, as well as equity, due to higher profits generated. Despite Citicorp having the financial capacity to expand its service

streams into these emerging new market segments, the costs of internal expansion and development facing the company were extremely high. And as commercial banks searched for new methods to increase firm profitability and stockholder value, insurance firms had to deal with the challenge of maintaining their grip on their market share for continued profitability and firm value for stockholders. Many insurance companies started to build strategic alliances with financial service provider companies in order to reduce internal operating costs and increase firm profitability and value so that shareholders could realize substantive returns on their investments in these firms, hence the mergers.

Citigroup, the new company created out of the merger of two firms, Citicorp and Travelers Group, was now able to offer an extensive mix of products and services to customers that enabled substantial risk reductions, with substantial gains in revenue output as well as the increased benefits of company profitability and value. What then was the effect of the merger between the two firms? Are their increases in value and worth associated with that incidence of merger and acquisition? This study seeks to provide theory

based evidence that supports the theoretical frameworks upon which it is based.

**Findings of the Case Study**

There was an increase in the profitability value of the Travelers Group and Citicorp companies. Prior to the year of their merger, Travelers Group was worth less than observed in the period following the merger.

The same case is reported in the context of Citicorp which had its asset worth more than double following the merger. The findings of this study are based on data collected from the websites of the two banks involved in the acquisition. An appropriate sampling method makes a successful research. This study used judgmental or purposive sampling. In regard to this, the aim of the research was to investigate the influence of merger and acquisition on the value and profitability of Citigroup. To realize its objectives, the study also depended on secondary data. This data was found on the financial statements of Citigroup before (1998) and after the merger. The financial statements of Travelers Group, Citicorp, and Citigroup were found on the websites of the respective banks. These financial

**Table 1: Citigroup’s price per share and Earnings per share (Citigroup.com, 2015)**

	1997	1998	1999	2000
	\$	\$	\$	\$
Share Price	80.81	49.69	83.53	68.68
Earnings per share	1.48	1.35	2.26	2.69

**Table 2: Citigroup Price to Earnings Ratio (Citigroup.com, 2015)**

	1997	1998	1999	2000
	\$	\$	\$	\$
Price to Earnings Ratio	54.60	36.81	36.96	25.30

records indicate that the companies' value and profitability increased owing to the incidence of the merger.

The table shows that Citicorp Company's price per share ratio has generally increased in the period following the merger. Conclusively, these findings imply that the merger had a positive effect on the value of the firm as shown in the table.

The findings in Table 2 reveal that before the merger, in year 1997 and 1998, the price to earnings ratio was \$54.60 and \$36.81 respectively. Then after the merger in 1998, the price to earnings ratio increased by \$0.15 in 1999. However in the year 2000, the price per earnings ratio decreased by \$11.66.

PEG is ascertained by dividing price to earnings ratio by annual growth in earning per share. This data was derived from previous calculations and Citigroup's financial statements; as depicted in Table 3.

The findings show that although mergers and acquisitions reduces price to earnings ratio, it is important to understand that it increases profit

by increasing annual growth in earnings per each share invested.

As revealed by Table 4, Citigroup's PEG ratio has been declining since the onset of merger in 1998. PEG ratio is given by the following formula:

$$\text{PEG Ratio} = \text{Price per Earnings} / \text{Annual EPS Growth}$$

The value of Annual EPS Growth is obtained by computing the difference between the EPS for the beginning period and the EPS for the forecasted period. The results in Table 4 show that the value of this ratio was actually in gradual decline across the years, but still statistically significant.

The impact of the merger and acquisition on Citigroup can also be measured in terms of profit margin ratio and dividend per share ratio. In regard to this, the researcher intended to respond to the following questions; what is the influence of mergers and acquisition on Citigroup's profitability. To answer this question, the study used profitability ratios; dividend per share, and profit margin ratio. Dividend per Share is the value

	1997	1998	1999	2000
	\$	\$	\$	\$
Price to Earnings Ratio	54.60	36.81	36.96	25.30
Annual Growth in earning per share	10.46	9.46	15.67	21.34
Earnings per share	1.48	1.35	2.26	2.69

	1997	1998	1999	2000
	\$	\$	\$	\$
PEG	5.21	3.89	2.35	1.18

of one share invested into the company. This data was derived from Citigroup financial statements.

Dividend per share of Citigroup Company is as shown in Table 5.

As revealed by the Table 5 above, Citigroup dividend per share has been on the rise since of the onset of merger in 1998. From 1998 to 1999, dividend per share increased by \$0.128. In addition, from 1999 to 2000, the dividend per share went up by \$0.015.

Profit Margin Ratio provides a relationship between the net income of a company and its revenues. Data regarding the profit margin ratio was derived from Citigroup’s financial statements. The following were the net income and revenues of Citigroup Company from year 1997 to 2000; as shown in the table below.

Using the data in Table 6, the research found the profit margin ratio of Citigroup as in Table 7.

As revealed by Table 7 above, the profit margin ratio has been on the rise the onset of merger. In this case, profit margin ratio increased by 0.04 between year 1998 and 1999. In addition, the profit margin ratio also increased by 0.02 between year 1999 and 2000.

## INTERPRETATION AND ANALYSIS OF RESULTS

The results show that mergers and acquisitions have dual effect on the participating companies. Prior to the merger, both banks had lower asset and debt capacities. However, in the period post the acquisition and merger, the results indicate the debt capacities and asset values have increased significantly. The positive effect of merger on the firm are associated with long-term increases in price-to-earnings ratio, dividends-per-share ratios as well as in net incomes and net revenues of the firm. In this regard,

**Table 5: Citigroup's Dividend per Share (Citigroup.com, 2015)**

	1997	1998	1999	2000
	\$	\$	\$	\$
Dividend per Share	0.200	0.277	0.405	0.520

**Table 6: Net income and net revenues (sales) of Citigroup (Citigroup.com, 2015)**

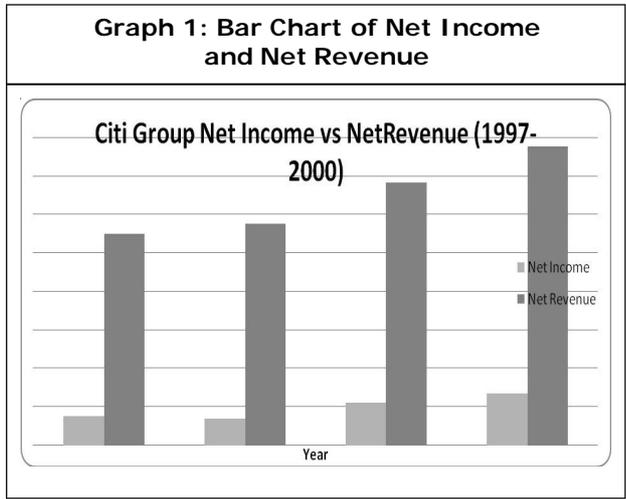
	1997	1998	1999	2000
	\$	\$	\$	\$
Net income	7,682	6,950	11,243	13,519
Net revenue	54,965	57,597	68,429	77,694

**Table 7: Profit margin Ratio (Author, 2015)**

	1997	1998	1999	2000
	\$	\$	\$	\$
Profit margin ratio	0.14	0.12	0.16	0.18

acquisitions are viewed as a good tool to improve stockholders' income level.

The profit margin ratio, or known as the return on sales or gross profit ratio, is a profitability ratio



that firms used to measure the amount of net income earned due to each dollar of sales output. A positive net margin ratio implies that the company's left over after all the expenses are cleared by the business, which means there was profit generated for the investors. The profit margin ratios shown in Table 7 can be obtained using this formula:

$$\text{Profit Margin Ratio} = \text{Net Income} / \text{Net Revenue}$$

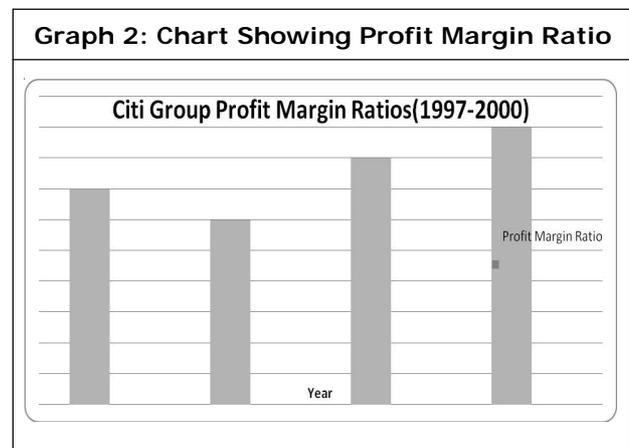
For example, we can apply the formula on the 1997 data shown in table 6 in order to obtain the profit margin ratio for the year of the merger announcement:

$$\begin{aligned} \text{Profit Margin Ratio (1997)} &= \text{Net Income} / \text{Net Revenue} \\ &= 54,965 / 7,682 \\ &= 0.14 \end{aligned}$$

The implication is that the merger was actually profitable from the year of its announcement. When this formula is applied for all the years recorded in Table 6, this ratio shows a slight but

gradual increase in the profitability of the company, which can be attributed to higher sales revenue due to expanded market holdings. On the basis of this ratio, the merger had a positive effect on the shareholder value. For each dollar invested by the shareholders there was a 14 percentage increase on the value of the investment.

The Price Earnings Ratio for Citigroup was calculated using the following formula for all the years from the year of the merger.

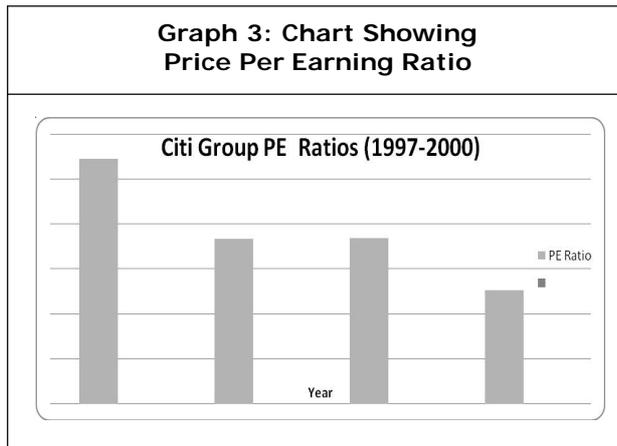


$$\text{Price Earnings Ratio} = \text{Market Value Price per Share} / \text{Earnings per Share}$$

Based on data from Table 1, the results in Table 3 are generated using the Price Earnings Ratio formula. For example, for the 1997 year of the merger, the value was obtained as follows:

$$\begin{aligned} \text{PE ratio} &= (\text{Market Value per Share} / \text{Earnings per share}) \\ &= \$80.81 / \$1.48 \\ &= 54.6013515 \\ &= 54.60 \end{aligned}$$

Following the merger, Citigroup's PE ratio increased to 54 times. Imperatively, the stock investors into the company were willing to pay 54.60 dollars for every dollar of earnings. For 1997,



the expected share per the merger’s stock based on the earnings show that investors into the firm were able to garner value for their investment due to higher performance of the stock. This performance can be linked to the expectations of future profitability that shareholders had following the merger. The computation method applied for year 1997 also applies across board to the subsequent years. The calculations for the selected years have been done and tabled in Table 2.

According to the Synergistic theory of mergers and acquisitions, the Citicorp and Travelers merger was fueled by synergies that offered it numerous advantages. Thanks to the merger, Citigroup is now able to issue diversified financial service streams to an individual consumer, such as brokerage services, banking services, mortgage and auto loans, life insurance, home and auto insurance service streams, annual remittances or annuities, all provided under one umbrella. Furthermore, their clientele based for individual firms increased in terms of size as the two firms can now cross-sell to each other’s clientele base. As a partner to the merger scheme, Citicorp’s value has increased and now records at least \$800 million in new mortgages annually, and is able to package insurance and home loan products a situation which was never dreamed

of before the merger. While customers received convenience benefits, the Citicorp firm was able to sell more products and increase its profitability and value to employees and management, but importantly to company stockholders.

## DISCUSSION

This section of the research provides findings of the case study and associates them with meaning in merger and acquisition. The aim of this paper was to explore and analyze the effect of firm mergers and acquisitions on the profitability of the participating firms. In order to achieve its aim, the research was guided by the objectives; to investigate the influence of mergers and acquisitions on the profitability of firms; to investigate the influence of mergers and acquisitions on the value of Citigroup; and to recommend factors that can be considered in order to increase the contribution of mergers and acquisitions to the enhancement of profitability and value of financial institution in the USA banking sector. It was found that mergers and acquisitions increase the profitability of participating firms. Mergers and acquisitions contribute in improving the value of participating firms. Merger and acquisitions are factors considered to enhance the contribution to profitability and value of financial institutions in the USA banking sector. The findings of this research study agree with earlier studies.

The results from the analysis show that mergers and acquisitions have a positive effective on the value and profitability of companies. On this note, Khan (2011) explicates that purposive sampling of company to acquire or merge with is adapted to aid in the realization of a particular purpose. Imperatively, companies enter into acquisition and merger contracts as a way of creating value for the shareholders of the firm.

On this note, Pringle (2013) postulates profit margin depicts the financial profitability of the firm. This also spring from the both synergistic theory of merger and the empire building theoretical frame. In this regard, firms like Citigroup and Travelers are seen as taking measures to build an empire of dedicated market that transcends the boundaries of their mother nation.

The results from the case study of the merger between Travelers and Group and Citicorp are in sync with some of the findings from the literature reviewed. For instance Berkovitch and Khanna (2011) studied the effect of mergers and acquisitions on the value and profitability of companies, and concluded that the variables had a positive correlation. The findings point to the impact of mergers and acquisitions on the value of the two companies on Value of Citigroup Company, but also point to a generalized trend in the merger and acquisition markets. Mergers and acquisitions also increase dividends. On In this respect, Pringle (2013) elucidates that dividend per share depicts the overall financial profitability of the company. However, Sapienza (2002) found a mild statistical significance on the effects of banking mergers on loan contracts. The results are in support of this study which argues that mergers improve firm's performance in terms of value and profitability.

The ratios and the results show that the merger of Travelers and Citicorp into Citigroup expanded their market share and so the effects of market reactions from the announcement of the merger and acquisition agreements did not affect overall profit returns. Although from the literature, Bryant (2008) had reported that in the case of Citigroup and other American banking conglomerates there was no positive impact on the profitability and

value of Citigroup in terms of observed returns to stockholders effect. The positive increases in price-to-earnings ratio indicate that the Citigroup merger had created significant shareholder wealth in the given merger and acquisition event window period. Even the current capitulation of total asset worth for both companies indicate that they have generally fared well even in the post merger period. Bryant's findings can be linked to the results of the PEG ratio as computed in this study. The PEG ratio in table 4 is actually reporting a trend of declining value for the expected stock growth. However, the effectiveness of PEG ratio to measure the stock growth for companies with low growth, given that it oversimplifies in some cases disproportionately inflates the stock growth value.

Also, it has been noted that public expectations of the Citicorp-Travelers merger were high at the time of the announcement of the deal. This positive reaction from the stock markets was the main reason for the improved performance attributed to the merger, and is the reason for the high PE ratios reported in this study. According to Nicholson (2010), price/earnings to growth ratio give the full picture of stock valuation. This was particularly notable from the day of the announcement on April 6, 1998, when Citicorp's stock price shot up by 26% to close the day's trading at \$180.50 dollars. Similarly, Travelers Group also had their stock price jump 18% to close the day's trading at \$73.00. from this, it is was clear that consumers and shareholders had anticipated that benefits attributed to the \$70 billion Citicorp-Travelers Group merger would outweigh costs for the two firms and were likely to generate profits and value for the shareholders.

## **CONCLUSION**

There are several theoretical models that explain mergers and acquisitions, aided by mathematical models, and which help in understanding their effect on the value and profitability of the company. However, the focus of this study has mainly been on the Empire Building Theory and the Synergistic Theory of mergers and acquisitions. On the basis of the empire building theory, mergers and acquisitions are seen as tools companies and their managements utilize as a mechanism or economic tool to extend their market and widen their scope and reach of their brand beyond the domestic into the cross-border locations. As revealed by the previous literatures, conflict exists among research as to the influence of M&A's on profitability and value of the company. From a practical point of view, the research project has found this to be true. As pertains to the relationship between mergers and acquisitions' value of the company, the research project has found mixed research findings. The effect of price to earnings ratio and price earnings to growth ratio (as revealed by Table 2 and 3 respectively) is that merger and acquisitions have no influence of the value of the company. This is because the value of Citigroup stocks in both cases (price to earnings ratios and PEG) did not show significance improvement since the onset of the merger. However, the study has found a correlation between mergers and acquisitions and profitability of the company. As revealed by dividend per share and profit margin ratio, merger, and acquisition have a positive influence on the profitability of the company. In this case, after the merger, Citigroup's dividend per share and profit margin ratio improved constantly. On this basis, the study concludes that mergers and acquisitions have a negative influence on the

value of the company and a positive influence on the profitability of the company.

While there have recent economic downturns across the global economy, various factors have led to the consolidation of firms, particularly through mergers and acquisitions. The firms that have chosen the path of merger and acquisition have received the consequential benefits of profitability and value through increased debt capacities associated with the merger. This case study suggests that mergers and acquisitions have positive effect on the firm in terms of profits and ability to dominate the market share. Furthermore, the results are also pointer to the positive effect that mergers have on the company through reduced risk positions.

The Citigroup merger occurred at the time when financial deregulation was just taking off in Europe and North America, as well as most of the financial markets. The merger was significant in the financial services industry as it created the largest financial services firm in the world. The effect of the merger in terms improving stockholder value and the firms' profitability has been attributed to the increased debt capacities of the two firms and enhanced abilities to realize full cross selling potential. The merger combined Citicorp with the most vital capital, customer base, and diversified products, but with low cross selling potential with the resources from Travelers Group which had more diversified products and historical cross selling potentials and successes. The resulting new company, Citigroup has been a strong competitor in a world market that is highly competitive and full of recurrent stories of failed mergers and acquisitions. For Citigroup, the merger had the effect of expanding its customer base and improving the economies of scale, as

well as enhancing the group's stock market standing associated with positive high public expectations reported in the immediate post-merger announcement window period. This gave room for the management to create value and profitability for the shareholders' investments.

Despite conflicting findings from the literature, mergers and acquisitions are a positive economic phenomenon. Mergers and acquisitions offer a strategic opportunity for managers to expand the business in order to create profits and value for shareholders. However, from the empire building theoretical perspective, mergers and acquisitions are instrumental mechanism for the management of the given firms to extend its influence over extra human and economic resources in order to obtain the objective of additional compensation associated with the expansion. Therefore, despite the odd economic outcomes that have been reported by previous studies and research findings, this research recommends mergers for decision makers who aim to expand their market shares and their debt capacities, as well as those seeking to expand sales outputs through the cross selling benefits and economies of scale attributed to merger phenomena. Consequently, profitability and return on investments are achievable. Future research is also needed in order to determine the effect of mergers and acquisitions to the ordinary consumer with shareholding rights on the merged conglomerates so as to determine the comprehensive dimension of the mystery of these economic outcomes. Such studies would consider whether firm efficiency and service delivery is improved as a result of the given merger, and also whether such efficiency is recognized by the ordinary consumer of the financial services in evidence based empirically

designed user satisfaction studies.

## REFERENCES

1. Balnaves M and Caputi P (2001), *Introduction to Quantitative Research Methods: An Investigative Approach*, London: Sage Publications.
2. Berkovitch E and Khanna N (2011), "A Theory of Acquisition Markets: Mergers versus Tender Offers, and Golden Parachutes", *Review of Financial Studies*, Vol. 4, No. 1, pp. 149-174.
3. Bryant Y (2008), "Do Large Bank Mergers Affect The Performance of Large Banks? A Case study of Bank of America", Citigroup, and JPMorgan Chase. University of Massachusetts
4. Citigroup.com (2015) [online] Available at: <http://www.citigroup.com/citi/investor/data/k01c.pdf?ieNocache=32>. Accessed 29 Jul. 2015
5. Drori I, Tarba S and Weber Y (2012), "Culture-performance relationships in mergers and acquisition: the role of trust", *European J. of Cross-Cultural Competence and Management*, Vol. 2, No. 3/4, p. 252.
6. Flugt C (2009), *Shareholder wealth effects of mergers and acquisitions: An empirical investigation of short term performance in the European market*.
7. Hhobhana V K and Deepa N (2012), "Impact of Mergers and acquisitions on the Shareholder Wealth of the Select Acquirer Banks in India: An Event Study Approach".
8. Hellgren B (2011), "The Reproduction of Efficiency Theory: The Construction of the

- AstraZeneca merger in public discourse”, *International Journal of Business and Management*, Vol. 6, No. 5.
9. Khan J A (2011), ‘*Research methodology*’, New Delhi: APH Publishing
  10. Nicholson . (2010), “Price-Earnings Ratios”, *Financial Analysts Journal*, Vol. 16, No. 4, pp. 43-45.
  11. Prijadi R and Sidjabat M (2010), “Firms Performance after Mergers and Acquisition in Indonesia.SSRN”, *Electronic Journal*.
  12. Pringle J (2013), “Price Earnings Ratios, Earnings-Per-Share, and Financial Management”, *Financial Management*, Vol. 2, No. 1, p. 34.
  13. Rosen R J (2006), “Merger Momentum and Investor Sentiment: The Stock Market Reaction to Merger Announcements”, *The Journal of Business*, Vol. 79, No. 2, pp. 987-1017.
  14. Sapienza P (2002), “The Effects of Banking Mergers on Loan Contracts”, *Journal of Finance*, Vol. 57, No. 3, pp. 29–68.
  15. Savovic S (2012), “The importance of post-acquisition integration for value creation and success of mergers and acquisitions”, *Ekonomski horizonti*, Vol. 14, No. 3, pp. 193-205..
  16. Maguire S and Phillips N (2008), “Citibankers’ at Citigroup: A Study of the Loss of Institutional Trust after a Merger”, *Journal of Management Studies*, Vol. 45, No. 2, pp. 0022-2380
  17. Mann B S and Kohli R (2008), “An Empirical Analysis of Bank Mergers in India: A Study of Market Driven vs. Non-Market Driven Mergers”, *Decision*, Vol. 35, No. 1.



**International Journal of Management Research and Business Strategy**

**Hyderabad, INDIA. Ph: +91-09441351700, 09059645577**

**E-mail: editorijmrbs@gmail.com or editor@ijmrbs.com**

**Website: www.ijmrbs.com**

