International Journal of Research in Social Sciences
Vol. 8 Issue 9, September 2018,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

INFLUENCE OF AWARENESS LEVEL OF INVESTORS ABOUT MERGERS ON THEIR FREQUENCY OF MERGER-BASED INVESTMENTS

Dr. P. PRAVEEN KUMAR*

Abstract

Investors invest in shares with the objective of attaining financial benefits. This study discusses the number of merger-based investments made by investors and the number of times such investments have resulted in a loss for them. This study analyses the association between frequency of merger-based investment decisions of investors and their demographic profile. This study also tries to measure the influence of investor's awareness about mergers on their frequency of merger-based investments. This study is based on primary data. Data have been collected from equity investors in Puducherry and Chennai. The statistical tools of frequency analysis, chi-square analysis, correspondence analysis and structural equation modeling (SEM) have been applied to analyze the collected data. This study finds that investors have meagerly sustained loss due to merger announcements. This study also finds that there is a strong association between frequency of merger-based investment decisions of investors and their demographic profile. Finally, this study reveals that investor's level of awareness about mergers is strongly influencing their frequency of merger-based investments.

* **Assistant Professor,Saveetha School of Management, Saveetha University, 162, Poonamalle High Road, Chennai -**

Introduction

Strategic planning is drafted and implemented in a phased manner. The process of strategic planning may be laid down as under:

Purpose → **Assessment** → **Objective** → **Strategy**

Fig. 1: Process of Strategic Planning

Strategic planning process starts with assessing the purpose or need for strategy formulation. Assessment includes environmental and organizational assessments. In the case of former assessment, external threats and opportunities are assessed while in the case of latter, internal threats and weaknesses are assessed.

Merger is the most important strategy used by the business enterprises to achieve an immediate growth in the business and to increase the shareholders wealth. Corporate events such as mergers are aimed at providing some financial benefits for shareholders. However, such events may sometimes, result in losses for shareholders. This study tries to discuss the number of merger-based investments made by investors and the number of times such investments have resulted in a loss for the investors.

Review of Literature

Intrisano & Rossi (2012) have analyzed the effect of shareholders value due to M&A deals which were struck during 1994-2005. During this period, 640 M&A deals were registered, which included 438 mergers and 202 acquisitions (Bank of Italy’s Bollettini di Vigilanza). Based on 35 merger and 37 acquisition deals, the study estimated the combined AR and CAR of the target and bidder companies. Results revealed that M&A deals brought about value creation for target companies while shrunk in value for bidder companies.

Kao, Lin & Xu (2012) studied the performance of financial holding companies (FHCs) in Taiwan using DEA technique. The study has used operating expenses (I1), interest expenses (I2), non-interest expenses (I3) and fixed assets (I4) as input variables while interest incomes (O1), non-interest incomes (O2) and investments (O3) have been taken as output variables. The study has revealed that the technical efficiency of companies have not improved after merger deals.

Singh & Mogla (2008) have analysed the impact of merger deals on profitability of acquiring firms by considering 56 merger deals struck during 1994-2002. The study used the variables of return on capital employed, profit before depreciation, interest and taxes, net assets by net capital employed, return on net worth, profit after tax, net worth, profit margin, net sales, interest coverage, net capital employed and No. of years. The study has found that profitability of the companies have declined after merger deals while the group firms' performance has been better than the non-group companies.

Yin & Shanley (2008) have discussed the factors which influence companies choosing either M&A or alliances for expansion. The authors have identified three dimensions which influence such a choice.

Christensen (2006) has analyzed the effect of large company acquisition on creativity and innovativeness of smaller companies by surveying employees, functional managers and the employees of research section. The study has found that the driving force of smaller companies gets influenced by acquisition deals of larger companies. Couturier & Kumbat (2000) have concentrated on the merger case of Tampa Electric and Peoples Gas System by giving an insight into developments in costing methodology for the combined entity.

Research Methodology

This present literature is descriptive in nature. This study is based on primary data. Primary data have been collected from 513 equity investors by administering a well-structured interview schedule. Investors in Puducherry and Chennai have been considered as the population of this study. Researcher has also conducted pilot study with 59 investors. The statistical tools of frequency analysis, chi-square analysis, correspondence analysis and SEM have been applied in this study. The statistical packages of Microsoft Excel, SPSS 19 and SmartPLS have been used to analyse the collected data.

Frequency of Merger-Based Investments and Those Resulted In Losses

The number of merger-based investments made by the investors surveyed and the number of times such investment has resulted in loss has been portrayed in Table 1.

Table 1: Frequency of Merger-Based Investments and Those Resulted In Losses - Frequency Analysis

S. No.	No. of Times	Frequency of Merger-Based Investments		Losses	
		Frequency	Percent	Frequency	Percent
1.	<2	209	40.7	431	84.0
2.	2-4	262	51.1	80	15.6
3.	5-6	35	6.8	2	0.4
4.	>6	7	1.4	-	-
	Total	513	100.0	513	100.0

It can be inferred from Table 1 that majority of the investors (262 or almost 51 percent) have made merger-based investments two to four times while 209 investors have made less than two such investments. Seven percent of the investors have invested five to six times while merely seven investors have invested more than six times based on merger announcements. Furthermore, it can be observed from the table that almost 84 percent of the investors have sustained loss due to merger announcements for less than two times while merely couple of them have sustained loss five to six times. Hence, it can be said that investors are investing in shares based on merger announcements of corporates while investors have meagerly sustained loss due to merger announcements.

Association between Frequency of Merger-Based Investment Decisions of Investors and Their Demographic Profile

Profile of investors comprises of personal profile of investors and their investment-related characteristics. This section shall highlight the association prevalent between the profile of investors and their merger-based investment decisions.

Table 2: Association between Personal Profile and Frequency of Merger-Based Investment Decisions

	Investments based on mergers (No. of times)	
	Value	Sig.

Gender	4.494	0.213
Age	20.912	0.013
Educational qualification	7.240	0.841
Occupation	108.932	0.000
Monthly income	45.843	0.000
Family members	51.625	0.000
Dependents	53.394	0.000
Income earning members	14.394	0.109
Family members in share market	27.080	0.001
Savings	41.252	0.000

Table 2 displays that significance values in respect of majority of demographic variables are less than the threshold limit of 0.05 suggesting that the demographic characteristics of investors are closely associated with their merger-based investment decisions.

Table 3: Association between Personal Profile and Frequency of Merger-Based Investment Decisions

	<2	2-4	5-6
Age	<30	30-50	-
Occupation	Employed-Govt. sector	-	Self-employed, Employed-Private sector & Professional
Monthly Income	<Rs. 15,000	-	Rs. 30,001-Rs. 45,000
Family Members	3	-	-
Dependents	0 & 1	3	4
Family Members Investments in Share Market	-	-	-
Savings	<10%	10-15%	-

The results of correspondence analysis have been compiled in Table 3. It can be inferred from the table that investors aged less than 30, those employed in government sector, those with income of less than Rs. 15, 000, those having family with three members, those having one or no dependent and those saving less than ten percent have made less than two merger-based investments. Investors aged 30-50 years, those having three dependents, those saving 10-15 percent have made 2-4 merger-based investments. The self-employed and privately employed investors, professionally qualified investors, those with income of Rs. 30,001-Rs. 45,000 and those having four dependents have made 5-6 merger-based investments. Hence, it can be said that number of merger-based investments made by an investor is closely associated with their income.

Table 4: Association between Investment-Related Characteristics of Investors and Frequency of Merger-Based Investments

	Investments based on mergers (No. of times)	
	Value	Sig.
Investment avenues	28.368	0.000
Period of investments	59.385	0.000
Equity investment avenues	34.958	0.000
Money in equity	34.700	0.001

Table 4 displays that all investment-related characteristics of investors are associated with merger-based investments made by them at one percent level. Hence, the frequency of merger-based investment decisions made by investors is closely associated with their investment-related characteristics.

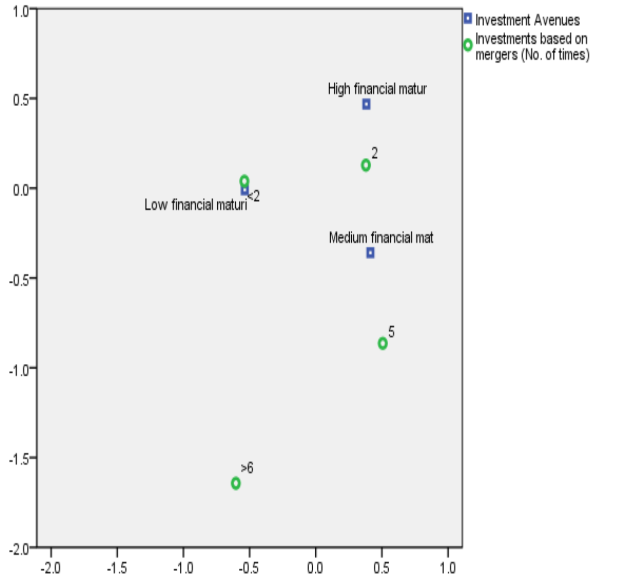

Fig. 2 (a): Investment Avenues & Merger-Based Investment Decisions

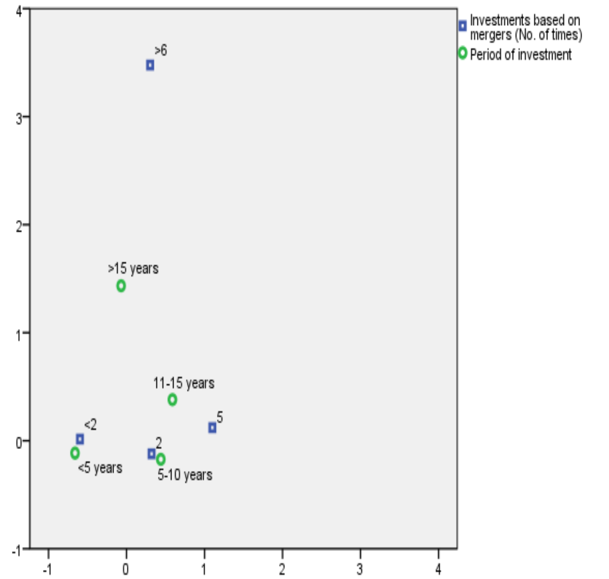

Fig. 2 (b): Period of Investment & Merger-Based Investment Decisions

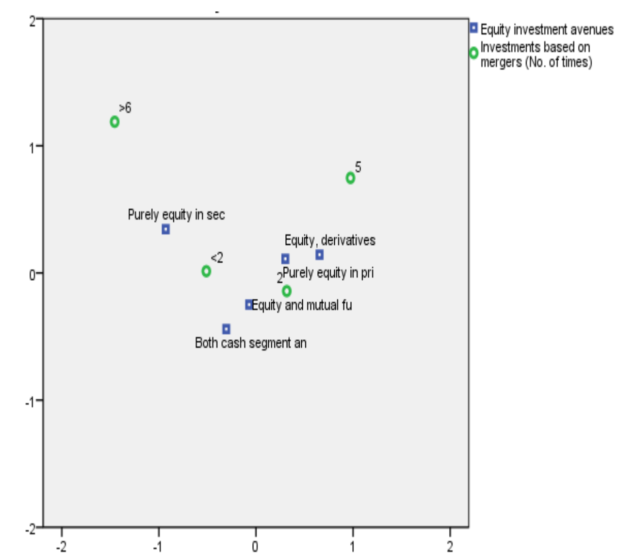

Fig. 2 (c): Equity Investment Avenues & Merger-Based Investment Decisions

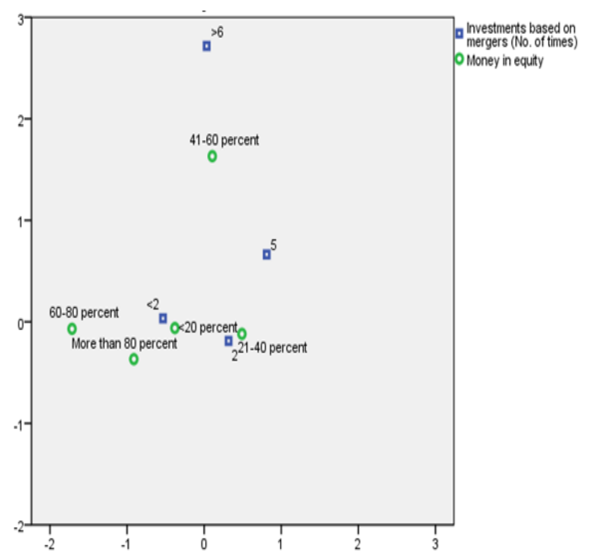

Fig. 2 (d): Money in Equity & Merger-Based Investment Decisions

Fig. 2: Association between Investment-Related Factors and Frequency of Merger-Based Investment Decisions

Figure 2 clearly indicates that investors with low financial maturity, experience of less than 5 years in share market and those who have invested less than 20 percent in equity market have made merger-based investments for less than two times. However, those investors with high financial maturity, those with experience of 5-10 years in stock market, those who have invested in equity and mutual funds and those who have invested 21-40 percent of their total investment in equity have made merger-based investments for 2-4 times. Investors with experience of 11-15 years in stock market have made merger-based investments for 5-6 times. It can be observed from the above discussion that level of experience in stock market and degree of financial maturity possessed by investors exert a direct bearing on the number of merger-based investments made by them.

Level of Awareness about Mergers

This section tries to measure the level of awareness among investors about mergers. Frequency analysis reveals that the majority of investors are aware about the motives behind mergers.

Influence of Awareness about Mergers on Frequency of Merger-Based Investments

This section measures the influence of awareness level of investors about mergers on their frequency of merger-based investments using path analysis. Figure 3 displays the results of path analysis.

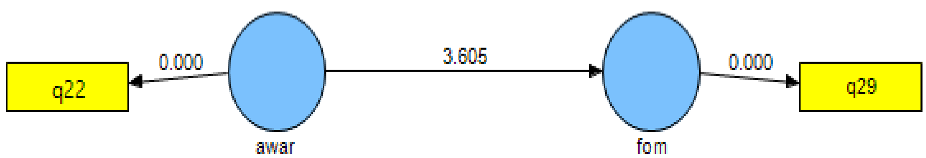

Fig. 3: Influence of Awareness about Mergers on Frequency of Merger-Based Investments

Where, awar - awareness level of investors; fom - frequency of merger-based investments;

It can be inferred from Figure 3 that t value is 3.605, which is greater than 2.58, implying that awareness level of investors about mergers is influencing their frequency of merger-based investments at one percent level.

Conclusion

Corporates striking merger deals have the primary objective of maximizing shareholders wealth. This study finds that the investors are investing in shares based on merger announcements of corporates while investors have meagerly sustained loss due to merger announcements. The existence of significant association between frequency of merger-based investments and profile characteristics of age, occupation, monthly income, number of family members, number of dependents, number of family members engaged in share market, savings, investment avenues, period of investments, equity investment avenues and money in equity has been established.

This study also reveals that awareness level of investors about mergers is influencing their frequency of merger-based investments.

References

1. Christensen, K. S. (2006). Losing innovativeness: the challenge of being acquired. *Management Decision*, *44*(9), 1161–1182.

2. Couturier, G. W., & Kumbat, T. A., (2000). Information technology costing methodology development after a corporate merger. *Industrial Management & Data Systems*, 10-16.

3. Donnelly, T., & Morris, D. (2003). Restructuring Ford Europe. *European Business Review*, *15*(2), 77–86.

4. He, H. –W., & Balmer, J. M. T. (2013). A grounded theory of the corporate identity and corporate strategy dynamic: A corporate marketing perspective. *European Journal of Marketing*, *47*(3/4), 401–430.

5. Intrisano, C., & Rossi, F. (2012). Do M&As Generate Value for Shareholders? An Analysis of the Italian Banking Sector. *Chinese Business Review*, *11*(2), 206–216.

6. Kao, M.-C., Lin, C.-T., & Xu, L. (2012). Do Financial Reforms Improve the Performance of Financial Holding Companies? The Case of Taiwan. *International Review of Finance*, *12*(4), 491–509.

7. Lodorfos, G., & Boateng, A. (2006). The role of culture in the merger and acquisition process: Evidence from the European chemical industry. *Management Decision*, *44*(10), 1405–1421.

8. Moses, A., & Åhlström, P. (2008). Dimensions of change in make or buy decision processes. *Strategic Outsourcing: An International Journal*, *1*(3), 230–251.

9. O'Regan, N., & Ghobadian, A. (2009). Successful strategic re-orientation: lessons from Cadbury's experience: An interview with Todd Stitzer, Chief Executive of Cadbury. *Journal of Strategy and Management*, *2*(4), 405–412.

10. Singh, F., & Mogla, M. (2008). Impact of Mergers on Profitability of Acquiring Companies. *The Icfai University Journal of Mergers&Acquisitions*, *5*(2), 60–76.

11. Yin, X., & Shanley, M. (2008). Industry determinants of the "merger versus alliance" decision. *Academy of Management Review*, *33*(2), 473–491.