

Do M&As of Greek listed firms before the economic crisis improved their current liquidity and profitability?

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Abstract

This study examines the impact of mergers and acquisitions (M&As) on liquidity as long as the profitability of listed companies at the ASE (Athens Stock Exchange) in Greece at the beginning of the economic crisis. Using accounting data (financial ratios), the post-merger performance of a sample of Greek companies, listed on the Athens Stock Exchange that executed one merger or acquisition in the two-year-period from 2008 to 2009 as acquirers, is investigated in order to study how firms administer liquidity and profitability before the outbreak of the sovereign debt crisis and during the following years of economic crisis in Greece (2010 and 2011) and if the merger decision improve their performance. For the purpose of the study, a set of financial ratios is employed, in order to measure firms' performance and to compare pre- and post-merger performance for two years before and after the M&As announcements (with accounting data analysis from 2006 to 2011). The question that tries to analyse this paper is if in the merger procedure of Greek listed firms their decision have as business priority to achieve higher profits and they failed to secure their viability through their liquidity. The results revealed that M&As had a negative impact on the post-merger performance of merger-involved firms, and more analytically concerning the profitability ratios, but not their liquidity levels due to the M&As events. Last, different post-merger performance results are observed among the examined firms according to a business industry categorization and are revealed slightly better results for the firms with business activities in the industry of metals, mining and constructions.

Keywords: mergers, acquisitions, ratios, liquidity, profitability, economic crisis, Greece

JEL Classification: G34, M40

Introduction

Mergers and Acquisitions (M&As) have been a worldwide business development tactic and commonly accepted as one of the mechanisms by which firms gain access to new resources and, via resource redeployment, increase revenues and reduce cost. However, many researchers and business practitioners regard with scepticism this hypothesis, despite the fact that many others are confident and enthusiastic, and it is quite interesting if this perspective it is actual and accurate in the period of economic crisis, as was the outbreak of the sovereign debt crisis in Greece, mainly in 2009 and during the following years of economic crisis in Greece (2010 and 2011) (Pazarskis & Alexandrakis, 2009; Pazarskis et al., 2010).

It is obvious that after the outbreak of the U.S.'s crisis in mid 2007 and the debt crisis in our country in the end of 2009, the lack of liquidity and the reduction of profitability dominated almost in every business section in Greece. The bibliography shows that before every economic crisis beginning many firms could have the opportunities and more easily to access a stock market as its members. However, as the situation is getting worse, as was in Greece after the year 2008 and when economic crisis was almost observable and everyone noticed that this crisis was not temporary, it becomes obvious for firms, listed or not, to consider more on how to deal with their business risk, liquidity and do not neglect more their profitability.

Many economists believe that liquidity and profitability, as conduct tools of basically macroeconomic research, give the opportunity in many cases to draw conclusions for the firms' abilities and if these end up in business arena at right decisions. However, as the economic research demands structured and itemized work, this study analyses, theoretically and practically, the situation of listed companies in the period of crisis in relation to the liquidity and profitability with a financial and accounting data combination.

Thus, this paper focuses on the analysis of financial statements of listed companies based on financials ratios. According to analysts, financials ratios are static measures that show a variable or group of variables changes' between two time periods, two regions or two general situations. The use of financials ratios is one of the most widespread and dynamic methods of financial analysis. Furthermore, it is not coincidence that a large number of publications, books, academic lectures and theories, use and deal with issues which are being mentioned to financial ratios.

Hence, except of the "well-explored" cases of the US and the UK capital markets, there were only a few of extensive researches on M&As in the majority of other countries globally, diachronically. This proposition seems to be even more correct, if it is referred to the post-merger performance studies which employ accounting data (financial ratios), than event studies based on stock returns (Sudarsanam, 2003). Regarding the Greek market, there have been several studies on M&As, most of which are either questionnaires of the involved firms' executives or event studies based on announcement and completion dates, and there is a scarcity of post-merger performance studies with ratio analysis regarding firms involved in

M&As activities, especially before the outbreak of the sovereign debt crisis in Greece (Pazarskis, 2013).

This study focuses on the latter issue and tries to obtain new insights on the research subject of the business performance and liquidity at listed firms of the ASE (Athens Stock Exchange) after M&As at the beginning of the economic crisis. In order to examine the post-merger performance of Greek firms after M&As activities, this study proceeds to an analysis of the post-merger performance of a sample of firms, listed at the Athens Stock Exchange (ASE) in Greece that executed one merger or acquisition in the period from 2008 to 2009, using accounting data (financial ratios), and attempts to investigate the M&As effects on their post-merger performance.

The structure of the paper is as follows: next section analyses the research design of this study (related past researches with financial ratios, sample and data, selection of variables-financial ratios, research methodology and hypothesis). The following section presents and analyses the results, while there is an in-depth analysis for the sample firms according to a business industry categorization. Finally, the last section concludes the paper.

Research design

Related past accounting studies with ratios

In general, many past studies on M&As performance, that employed accounting data or ratios, were conducted during the last three decades and concluded on ambiguous results. Many of them supported an improvement in the post-merger performance after the M&As action (Cosh et al., 1980; Seth, 1990; Parrino & Harris, 1999; Megginson et al., 2004; Choi & Philippatos, 2005; Abhyankar et al., 2010; and others), while others claimed that there was a deterioration in the post-merger firm performance (Meeks, 1977; Salter & Weinhold, 1979; Mueller, 1980; 1985; Kusewitt, 1985; Ravenscraft & Scherer, 1987; Kaplan & Weisbach, 1992; Dickerson et al., 1997; Sharma & Ho, 2002; and others). Other researchers concluded in confronting results or simply, a "zero" result from the M&As action (Kumar, 1984; Healy et al., 1992; 1997; Chatterjee & Meeks, 1996; Ghosh, 2001; Ramaswamy & Waegelein, 2003; and others).

Concerning the importance of liquidity and profitability levels of a firm, several studies conducted diachronically. Despite the fact that partially from some researchers considered liquidity could be as more important, while some others claimed that profitability is more important even than liquidity, it is true that both (liquidity and profitability) play a vital role for the survive of every firms in the market arena (Ajanthan, 2013).

Regarding performance and liquidity studies after M&As, Prasad V. Daddikar & Arifur Rehman H. Shaikh (2014) examined the impact of M&As on surviving firm's financial performance with a case-study analysis. They have found in the post-merger period that neither the liquidity nor the profitability of the examined firm has been improved.

In reference to M&As studies at liquidity in Greece, Pazarskis et al. (2011) have evaluated the impact of mergers and acquisitions on the post-merger performance of merger-involved firms in Greece in the long-run perspective; their results revealed that, regarding the

liquidity ratios (current ratio, acid test ratio, cash ratio), there is no significant change of any examined variable and they concluded that there is no indication of real improvement in the acquirer firm's liquidity even four years after the examined merger.

Another study in Greece of Alexandrakis et al. (2012), that examined the impact of M&As on the post-merger performance of Greek listed firms at industrial goods and services sector of the ASE, found a decrease at current ratio and acid test ratio. They claimed that this high decrease of current assets could be attributed to the lowest liquidity level due to several business events that was created from the action of unity by the merged firms or to a high increase of current liabilities.

Sample and data

Firstly, in the period from 2008 to 2009, all the M&As activities from firms of Greek interests, listed in the Main market of the Athens Exchange, are tracked, excluding from them the actions of their subsidiaries, as only a parent's M&As action is examined. Secondly, from them for further analysis, are excluded the firms that performed M&As activities in less than a two-year period before and after the several M&As examined events. Also, in case of that some firms from this preliminary sample firms have been de-listed from the ASE for various reasons (bankruptcy, not meeting the standards of the market, etc.), they were excluded from the sample.

Thus, the final research sample consists of nineteen acquiring firms listed in the ASE that executed one M&As action as acquirers in Greece during the period from 2008 to 2009 (2008: 11 firms and 2009: 8 firms). The study proceeds to an analysis only of listed firms as their financial statements are published and it is easy to find them and evaluate from them firm's economic performance.

The M&As activities of the listed Greek firms have been tracked from their announcements on the web sites of the ASE. The available data of this study (financial ratios) are computed from the financial statements of the M&As-involved firms and the databank of the Library of the University of Macedonia (Greece).

Selected accounting variables (financial ratios)

Financial ratios are widely used for modelling purposes both by practitioners and researchers, as their analysis is one of the most valuable tools for the decision-making of many interested parties, stakeholders: owners, management, personnel, competitors, academics, etc. Their analysis facilitates inter-company as well as intra-company comparisons beyond various argumentations (Pazariskis, 2008).

The post-merger operating performance of a firm is evaluated with its performance at some accounting ratios. For the purpose of this study, after the analysis of accounting data (financial statements) sixteen financial ratios are employed, which are the following ratios (see, Table 1).

There are many other approaches for accounting evaluation performance, different from the above. Return on investment (ROI) type of measures are considered as the most popular and the most frequently used when accounting variables are utilised to determine performance. However,

in considering Kaplan's (1983) arguments against excessive use of ROI types of measurements, the above referred ratio selection of this study is confirmed as better, as:

"...any single measurement will have myopic properties that will enable managers to increase their score on this measure without necessarily contributing to the long-run profits of the firm" (Kaplan, 1983, p. 699).

Thus, an adoption of additional and combined measures is believed to be necessary in order to provide a holistic view of the long-term profitability and performance of a firm, in accordance with the short-term one (Pazarskis, 2008; Pazarskis et al., 2011).

Table 1: Classification of financial ratios

Code	Variable Name	Description
<i>Liquidity/Structure ratios</i>		
V01	Current ratio	current assets/current liabilities
V02	Solvency ratio	shareholders funds/total assets
V03	Liquidity ratio	(current assets-stocks)/current liabilities
<i>Profitability ratios</i>		
V04	Return on total assets	earnings/total assets
V05	ROE - Return on equity	earnings/equity
<i>Cash flow/Sales ratios</i>		
V06	Cash flow/Operating revenue	cash flow / operating revenue
V07	Cash flow (mil EUR)	cash flow (mil eur)
V08	Operating revenue (mil EUR)	operating revenue (mil eur)
V09	Sales (mil EUR)	sales (mil eur)

Research Methodology and hypothesis

The M&As action of each company from the sample is considered as an investment that is evaluated by the NPV criterion (if $NPV \geq 0$, the investment is accepted). Based on this viewpoint, the study proceeds to its analysis and regards the impact of an M&A action similar to the impact of any other positive NPV investment of the firm to its ratios over a specific period of time (Healy et al., 1992; Pazarskis, 2008).

In order to evaluate the relative change with ratio analysis of the sample of the Greek firms that executed M&As actions, the form of the examined hypotheses are the following:

H_1 : There is no relative change of the financial ratios of the acquiring firms from the M&As event.

H_2 : The post-merger performance of the acquiring firms is not affected by their particular business sector.

The crucial research question that is investigated by examining the above mentioned ratios is the following: "Post-merger performance (profitability) and liquidity in the post-merger period is greater than it is in the pre-merger period for the listed firms involved in M&As and if there is any impact according to their business industry?" (Pazarskis, 2008).

Firstly, the selected financial ratios for each company of the sample over a two-year period before (year T-2, T-1) or after (year T+1, T+2) the M&As event are calculated, and the mean from the sum of each ratio

for the years T-2, and T-1 is compared with the equivalent mean from the years T+1, and T+2, respectively¹.

Furthermore, the study does not include in the comparisons the year of M&A event ($T=0$) because this usually includes a number of events which influence firm's post-merger operating performance in this period, as one-time M&As transaction costs, necessary for the deal, etc. (Healy et al., 1992; Pazarskis, 2008; Pazarskis et al., 2011).

Last, to test this hypothesis two independent sample mean t-tests for unequal variances are applied, which are calculated as follows:

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}}$$

where,

n = number of examined ratios

\bar{X}_1 = mean of post-merger ratios

\bar{X}_2 = mean of pre-merger ratios

s = standard deviation

1 = group of post-merger ratios

2 = group of pre-merger ratios

Finally, the research results are presented in the next section.

Analysis of Results

The results revealed that over a two-year period before and after the M&As event only two (return on total assets; ROE;) out of the nine accounting ratios had a statistically significant change due to the M&As event; and both of them present a deterioration. The rest seven ratios (current ratio; solvency ratio; liquidity ratio; cash flow/operating revenue; cash flow; operating revenue; sales), including several examined liquidity ratios, did not change significantly and they did not have had any particular impact (positive or negative) on post-merger operating performance of merger-involved firms. So, as there is, in general, a worsening at the post-merger performance of all the acquiring firms, the above stated proposition of the hypothesis H_1 is rejected.

¹ In this study, the mean from the sum of each accounting ratio is computed than the median, as this could lead to more accurate research results (Pazarskis, 2008). This argument is consistent with many other researchers diachronically (Philippatos et al., 1985; Neely & Rochester, 1987; Cornett & Tehnarian, 1992; Sarri, 1996; Sharma & Ho, 2002; Pramod Mantravadi & A. Vidyadhar Reddy, 2008; Pazarskis et al., 2006; 2011; 2014a; 2014b; Agorastos et al., 2011; Eleftheriadis et al., 2010; etc.). Despite this, the study presents the research results with a median analysis performing the Mann-Whitney test, as a non-parametric alternative test to the two-sample t-test, without emphasizing on them, but only for comparison with past studies (Healy et al., 1992; Ramaswamy & Salatka, 1996; Alexandrakis et al., 2013; 2014; etc.) or other ratio studies that employ a methodology with the use of median for ratio calculations.

More analytically, the research presents over a two-year period before and after the M&As event that none of the liquidity ratios had changed significantly due to the M&A event (see, Table 2-3). Also, this result of no change or decrease of liquidity could be attributed to the higher liquidity level that was created or maintained from the action of unity by the merged firms. This could be true as without the merger transaction the examined listed firms could have as a result after the outbreak of the sovereign debt crisis a high decrease of their liquidity level.

Furthermore, regarding the examined profitability ratios (variables V04-V05), there is observed a negative significant change. This result is not consistent with the results of some studies such as Kumar, 1984; Healy et al., 1992; 1997; Chatterjee & Meeks, 1996; and Ghosh, 2001. However, it is consistent with the results of some other studies whereby: Neely & Rochester (1987) found a decline of the profitability ratios, especially the ROA, in the post-merger period, for the US market for the year 1976. Sharma & Ho (2002) also found a decline for the ROA and the ROE ratios. Similar results, with a decline of the profitability ratios, have been found by Meeks (1977), Salter & Weinhold (1979), Mueller (1980; 1985), Kusewitt (1985), Mueller (1985), Ravenscraft & Scherer (1987), Kaplan & Weisbach (1992), Dickerson et al. (1997).

Last, these results for the Greek market, since there is no significant profitability improvement, do not support the hypothesis of market power (Lubatkin, 1983; 1987). According to this approach, the market power that was gained by the acquirer after the merger or the acquisition should increase the new firm's profit margins and therefore, its profitability (Pazarskis et al., 2011).

Table 2: Pre-merger and post-merger ratios with T-test

Variable	Pre-merger (2 years avg.)	Post-merger (2 years avg.)	T-statistic (Two-tail)	P-Value	Confidence Interval 95%
V01	1,478	1,55	0,27	0,787	(-0,477; 0,627)
V02	42,6	41,0	-0,26	0,794	(-13,70; 10,52)
V03	1,098	1,046	-0,30	0,764	(-0,403; 0,297)
V04	3,05	-0,91	-3,09	0,003***	(-6,50; -1,41)
V05	7,1	-3,8	-3,57	0,001***	(-16,93; -4,77)
V06	10,91	7,86	-1,37	0,177	(-7,50; 1,42)
V07	65,44	37,48	-0,63	0,534	(-117,46; 61,54)
V08	273,03	284,7	0,08	0,934	(-269,38; 292,72)
V09	270,1	282,8	0,09	0,928	(-266,69; 292,2)

Notes:

1. ***, **, * indicate that the mean change is significantly different from zero at the 0.01, 0.05, and 0.10 probability level, respectively, as measured by two independent sample mean t-tests.

More analytically, the P-value interpretation levels for the above referred three cases are described below:

$p < 0.01$ strong evidence against H_0 (see, ***)

$0.01 \leq p < 0.05$ moderate evidence against H_0 (see, **)

$0.05 \leq p < 0.10$ little evidence against H_0 (see, *)

$0.10 \leq p$ no real evidence against H_0

2. At the variables V06, V08 and V09, the amounts are in millions euro.

Table 3: Pre-merger and post-merger ratios with Mann-Whitney-test

Variable	Pre-merger (2 years median)	Post-merger (2 years median)	P-Value	Confidence Interval 95%
V01	1,2550	1,3740	0,8946	(-0,4239;0,2781)
V02	42,60	41,00	0,8071	(-14,32;11,61)
V03	0,9370	0,8525	0,3995	(-0,3842;0,1439)
V04	3,281	-0,016	0,0006	(-6,351;-1,599)
V05	4,002	-0,015	0,0002	(-13,691;-3,211)
V06	7,577	5,739	0,1468	(-6,628;0,690)
V07	3068,1	1773,0	0,1752	(-4805,4;1177,0)
V08	33101	58939	0,7991	(-16129;39565)
V09	29986	58939	0,7991	(-15424;40447)

Notes:

1. ***, **, * indicate that the mean change is significantly different from zero at the 0.01, 0.05 and 0.10 probability level.

2. At the variables V06, V08 and V09, the amounts are in millions euro.

Interpretation of results and further evidence

After the examination of a sample of Greek listed firms, Agorastos et al. (2013) concluded that the post-merger performance of the acquiring firms is affected by their different industry type. For the examination of this approach and at the beginning of the economic crisis in Greece, the study proceeds to an analysis of the sample acquiring firms with the stated hypothesis H_2 of this research that is: "The post-merger performance of the acquiring firms is not affected by their particular/different business sector".

In order to examine if the success of merger decision in Greece among different business industries of the acquiring firms (according to the ASE categorization) has any impact for the acquirers at the post-merger business performance with the research examined nine ratios, the study analyses the data of the sample firms and categorize them in four groups from this respect:

- 32% (6 firms) are firms that their business activities are in the IT sector,
- 21% (4 firms) are firms that their business activities are in the Food industry and Agriculture,
- 15% (3 firms) are firms that their business activities are in the Industry of Metals, Mining and Constructions,
- 32% (6 firms) are firms that their business activities are in any other business sectors than the above.

Next, the differences between the means of post-merger and pre-merger ratios (ratios V01 to V09) are computed as below:

$$\Delta VX_i = \bar{X}_{2i} - \bar{X}_{1i}$$

where,

ΔVX = difference between the means of post- and pre-merger ratios

i = examined ratios {V01, V02, ..., V09}

\bar{X}_1 = mean of pre-merger examined ratios

\bar{X}_2 = mean of post-merger examined ratios

Then, for these data (see, ΔVX_i), after the rejection of the null hypothesis that the data sample has the normal distribution, a non-parametric test is applied, as non-parametric tests imply that there is no assumption of a specific distribution for the data population: the Kruskall-Wallis test.

The Kruskall-Wallis test is a nonparametric test alternative to a one-way ANOVA. The test does not require the data to be normal, but instead uses the rank of the data values rather than the actual data values for the analysis. The general calculation form of the Kruskall-Wallis test statistic is for H:

$$H = \frac{12 \sum n_j [\bar{R}_j - \bar{R}]^2}{N(N+1)}$$

where,

- n_j = the number of observations in group j
- N = the total sample size
- \bar{R}_j = the average of the ranks in group j,
- \bar{R} = the average of all the ranks.

The results reveal that one variable ($\Delta V04$, see ratio: Return on total assets) presents a significant change due to the M&As events (see, Table 4). Thus, it signalizes a slightly better performance among the acquiring firms in the examined sample period for the firms that their business activities are in the Industry of Metals, Mining and Constructions. This result is consistent with the above referred study of Agorastos et al. (2013). So, as there is, in general, a different result among the acquiring firms in different business sectors at their post-merger performance, the above stated proposition of the hypothesis H_2 is rejected.

Table 4: Kruskal-Wallis test with business performance/industry sector

Code	Median				P-Value
	IT sector	Food industry & Agriculture	Metals, Mining & Constructions	Others	
$\Delta V01$	0,01850	-0,06125	-0,20250	0,49575	0,227
$\Delta V02$	-1,6253	-1,7055	3,2985	0,3398	0,592
$\Delta V03$	-0,14400	-0,08250	-0,07800	0,31850	0,101
$\Delta V04$	-3,439	-1,564	1,766	-6,941	0,065*
$\Delta V05$	-9,9973	-6,2575	0,8275	-12,6390	0,275
$\Delta V06$	-1,8848	-1,3038	0,1180	-9,9347	0,342
$\Delta V07$	-1244,1	270,2	2080,2	-4490,9	0,186
$\Delta V08$	-5596	37882	38809	-2640	0,350
$\Delta V09$	-5547	39618	38809	-2672	0,350

Notes:

1. ***, **, * indicate that the mean change is significantly different from zero at the 0.01, 0.05 and 0.10 probability level.
2. At the variables $V06$, $V08$ and $V09$, the amounts are in millions euro.

Summary and Conclusions

M&As have been a worldwide business development tactic and commonly accepted as one of the mechanisms by which firms gain access to new resources and, via resource redeployment, increase revenues and reduce cost. It is obvious that after the outbreak of the U.S.'s crisis in mid 2007 and the debt crisis in our country in the end of 2009, the lack of liquidity and the reduction of profitability dominated almost in every business section in Greece.

Many economists believe that liquidity and profitability, as conduct tools of basically macroeconomic research, give the opportunity in many cases to draw conclusions for the firms' abilities and if these end up in business arena at right decisions. This study focuses on the latter issue and tries to obtain new insights on the research subject of the business performance and liquidity at listed firms of the ASE after M&As at the beginning of the economic crisis in Greece.

In order to examine the post-merger performance of Greek firms after M&As activities, this study proceeds to an analysis of the post-merger performance of a sample of firms, listed at the Athens Stock Exchange (ASE) in Greece that executed one merger or acquisition in the period from 2008 to 2009, using accounting data (financial ratios), and attempts to investigate the M&As effects on their post-merger performance concerning their liquidity and profitability.

The results revealed that over a two-year period before and after the M&As event only two profitability ratios out of the nine accounting ratios had a statistically significant change due to the M&As event; and both of them present a deterioration. This result is not consistent with the results of some past studies (Kumar, 1984; Healy et al., 1992; 1997; Chatterjee & Meeks, 1996; and Ghosh, 2001), while is consistent with many others (Neely & Rochester, 1987; Sharma & Ho, 2002; Dickerson et al., 1997; Kaplan & Weisbach, 1992; Ravenscraft & Scherer, 1987; Mueller, 1985; Meeks, 1977; etc.). Last, this result for the Greek market, since there is no significant profitability improvement, do not support the hypothesis of market power (Lubatkin, 1983; 1987).

Also, the rest seven examined ratios, including several liquidity ratios, did not change significantly and they did not have had any particular impact (positive or negative) on the post-merger operating performance of merger-involved firms. Furthermore, this result of none change or decrease of liquidity could be attributed to the higher liquidity level that was created or maintained from the action of unity by the merged firms.

In addition, the research reveals the existence of different post-merger results at their performance among the acquiring firms in different business sectors after M&As, and also, a slightly better performance among the acquiring firms in the examined sample period for the firms that their business activities are in the Industry of Metals, Mining and Constructions. This result is consistent with another past study for Greece (Agorastos et al., 2013).

Last, future extensions of this study could examine a larger sample that could include not only M&As-involved Greek firms listed in the ASE, but also non-listed firms and within other or larger time frame periods.

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