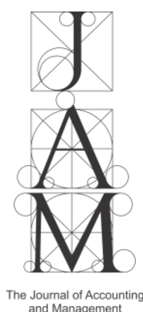

International Corporate Strategic Alliances: Mergers & Acquisitions and Financial Value Creation

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Abstract: Mergers and acquisitions are important financial and economic strategic alliance tools of the modern corporation. Objective: this paper aims to analyse the value creation implication from global strategic mergers and acquisitions. Prior work: the paper inclines on the synergy theory of mergers and acquisitions. Method: reliant on the synergy theory, the paper is quantitative to examine the effectiveness of the number of global alliances on the financial value from mergers and acquisitions. Data were collected from the Institute for Mergers, Acquisitions and Alliances for thirty-nine years (1985 - 2023). The data were analysed with the aid of OLS regression statistics. Results: tested at an alpha value of 0.05, the results show positive and significant effect at a p-value of P<0.0001, which confirms that global mergers and acquisitions produce a highly significant and positive financial value even after a long-term period of thirty-nine years. Implication: the paper has implication for business executives on the value of international alliance; and for business schools as a case that bolsters the synergy theory of merger and paves a new agenda for future research. Value: the paper applies a unique model by using global data on strategic alliances for an extended period of over three decades and debunks uncertainties in research to show that mergers and acquisitions can produce significant financial value into the future when done rightly, which is across international boundaries.

Keywords: business combinations; business alliances; acquisition; merger; financial value; financial restructuring; corporate finance

JEL Classification: G3; G32; G34

1. Introduction

Whilst debt financing remains a form of business capital, its negative effect on corporate financial value and solvency is concerning (Mamaro & Legotlo, 2020; Akhtar et. al, 2016). Accordingly, mergers and acquisitions are important strategic alliance tools of the modern corporation for building equity capital. To this end, it is imperative to evaluate the financial value effect from international strategic corporate alliances through mergers and acquisitions. The growth in international strategic alliances have risen by more than five percent in recent times (Kang & Sakai, 2000), which is an attestation of strategic adaptation to contemporary global business resource cooperation dynamics. International business alliances offer tangible business benefits which includes inter alia, growth in

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equity capital, strategic flexibility, and enhanced global operational scale (Pekár & Margulis, 2003; Kang & Sakai, 2000). In their business strategy insight on international alliances, Pekár & Margulis (2003) highlight the pivotal role of equity in the sphere of international strategic business alliances. They opine that corporate management is required to move quickly, encourage growth, and maximize profits while requiring the least amount of finance and resources. Accordingly, it is not unexpected that alliances, which are predicated on shared risk and the prudent use of finance and sundry resources are becoming more and more important to boost corporate financial value and competitiveness (Pekár & Margulis, 2003).

Thus, several academic disciplines, which includes inter alia, economics, finance, and accounting have examined mergers and acquisitions in detail because of the growing demand for strong corporate assets in the active market. Every field of study looks at M&A transactions from a different angle; some literature stance inclines on the motivations and characteristics of these transactions, and others concentrate on the advantages and disadvantages implicit in M&A (Rahman & Lambkin, 2015). This research, which makes use of a large dataset covering several years of global corporate M&A activity, focuses on the financial value that may be obtained from international mergers and acquisitions.

2. The Problem

As highlighted by Grave et. al. (2012) global financial crisis is changing the landscape of mergers and acquisitions (M&A), which is resulting in the discovery of new M&A. Global business practices are being greatly impacted by new trends in M&A. Hence, more than ever, businesses are concentrating on plans that entail expanding into new regions and new international markets. The three biggest consumer markets in the world—the US, Europe, and Japan—were the focus of M&A activity in the past (Alexandridis, 2017). But as the triad's portion of the global consumer market shrinks, businesses are focusing on emerging consumer markets that are expanding and offering opportunities. In a world of financial instability and the rise of creative deal structures and merger conditions, cross-border acquisitions face greater complexity and hurdles in their global success (Grave et. al, 2012). Therefore, the question, which this paper provides an answer is whether the current rise in international mergers and acquisitions adds to financial value creation as indicated in 2017 by (Alexandridis, 2017).

3. Objective of the Paper

The objective of this paper is to examine the effect of the number of global mergers and acquisitions on the financial value of the alliance companies.

4. The Synergy Theory of Mergers and Acquisitions

The idea underlying synergy theory is that two businesses working together will perform and have more value than anyone could have on its own. The word "synergy" is frequently used in relation to mergers and acquisitions (M&A). It is a symbol for possible financial gains that come from business integration and frequently functions as the impetus for M&A. According to (Tamosiuniene & Duksaite, 2009). Synergy, as it relates to mergers and acquisitions, is the capacity of a combined company to provide higher profitability and stronger financial performance than the individual

businesses. M&A agreements can result in a variety of synergies, such as financial and operational synergies (Tamosiuniene & Duksaite, 2009).

The idea of operating synergy includes economies of scope as well as economies of scale. While economies of scope include using a particular set of skills or assets to generate related products or services, economies of scale involve distributing fixed costs over increasing output levels (Tamosiuniene & Duksaite, 2009). Malmström (2011) asserts that economies of scale, or a greater production size that boosts revenues more than expenses, can arise via mergers and acquisitions. This is frequently accomplished by merging the R&D or marketing departments, which lowers total expenses for the combined company.

Furthermore, Malmström (2011) opines that mergers and acquisitions (M&As) may result in economies of scope because of possible synergies that boost efficiency. It is emphasized that the management of the acquiring company usually improves the combined entity's efficiency after the acquisition. Malmström (2011) emphasizes even more on how firms' efficiency, which can be measured using measures like Tobin's-Q—is directly related to economies of scale. The market value of a company's assets divided by their replacement value yields Tobin's Q ratio. Therefore, to grow through M&A, a purchasing company may choose to acquire a company with a low q-ratio because it may be less expensive than organic expansion (Malmström, 2011).

Theoretically, if the combined companies have uncorrelated cash flows, attain financial economies of scale, or improve the alignment of investment possibilities with domestically generated funds, the cost of capital might be reduced (Tamosiuniene & Duksaite, 2009). A number of potential benefits of mergers and acquisitions are mainly focused on increasing profits and shareholder value by taking advantage of economies of scale that arise from gaining a larger market share. These include among others, expanding the use of an existing distribution network by adding new product capabilities; expanding a strong product capability into new markets; and diversifying product and market risks (Tamosiuniene & Duksaite, 2009).

5. Literature Review

A theoretical framework and a useful method for assessing the degree of value creation in acquisitions is presented by Seth (1990). The study's conclusions imply that value is produced by both linked and unrelated purchases. Furthermore, Seth's (1990) data do not support the idea that linked purchases provide more value than unrelated ones. In a merger scenario, Swaminathan et. al. (2008) investigate how merging organizations' strategic focuses - marketing or research and development—affect value creation. The researchers suggest that a key factor in enabling value creation is strategic emphasis alignment, which is defined as how similar or different the resource arrangements are between target and acquiring organizations. The researchers also propose that when merging companies have low strategic emphasis alignment, value is increased when the merger is driven by diversification, based on their analysis of abnormal stock return data. Conversely, value is enhanced when consolidation is the driving force behind a merger in situations when the merging organizations have a high strategic emphasis alignment (Swaminathan et. al, 2008).

According to Alexandridis (2017), since 2009, mergers and acquisitions have been creating more value for the shareholders of the acquiring firms. While stock-for-stock transactions may not result in value destruction, public purchases provide acquirers with positive and statistically significant abnormal

returns. Megadeals—deals valued at $500 million or more—seem to be the main driver of this observed improvement and are frequently associated with more severe agency issues, investor scrutiny, and media attention. According to their analysis, acquiring shareholders profit more from mergers when they are first announced. Furthermore, they found that synergistic gains have increased to approximately $542 million, demonstrating a broad creation of value because of M&A activity. To ascertain if M&A deals in the European banking industry added value for the banks' stockholders, Starova and Černohorsky (2010) carried out a study through the usage of an event research methodology. They examined 59 M&A deals involving listed European banks that happened between 1998 and 2007. Their analysis's findings show that the targets' stockholders saw a significant increase in value. The bid banks' stockholders, however, saw a large loss of value. In spite of this, the combined entities of the bidders and targets continued to have a significantly positive net wealth effect. In their conclusion, Starova and Černohorsky (2010) highlight that banks M&As were effective during the studied period based on their findings.

A study by Fich et. al. (2018) examined completed mergers and acquisitions (M&A) in which the announcement showed significant dollar worth benefits for the acquiring shareholders. The researchers found that purchases that yield large benefits are usually classified as "bolt-on" acquisitions since they are relatively tiny in relation to the acquirer's size. Furthermore, the study discovered that bidders with large value multiples execute these kinds of acquisitions. Rahman and Lambkin (2015) noted in a separate study that most mergers and acquisitions are horizontal, meaning they involve businesses in the same industry. Cost reductions are typically a secondary goal of these deals, which are primarily motivated by the desire to increase revenue and profit through market expansion or the addition of new product lines. A thorough analysis of 45 M&A transactions was carried out by Rahman and Lambkin (2015) to better understand the effects of mergers and acquisitions on marketing performance. According to their findings, marketing effectiveness improved in two areas: sales revenue increased and the proportion of selling, marketing, and administrative expenses to sales revenue decreased. This points to the development of economies of scale and scope or synergiesin these domains. The study did find, however, that these advantages did not convert into higher returns on sales, suggesting that the cost advantages in other aspects of the organization are greater than the cost reductions in marketing (Rahman & Lambkin, 2015).

Further research on the effect of mergers and acquisitions on shareholder value in the European Union between 1998 and 2000 was carried out by Campa and Hernando (2004). They analysed shareholders' cumulative anomalous returns after merger announcements and found expected value from possible synergies or wealth redistribution among stakeholders. Within a month centred on the announcement date, target firm stockholders enjoy a statistically significant cumulative abnormal return of 9% on average. In addition, they found that cumulative anomalous returns of acquirers are zero on average. However, Campa and Hernando (2004) findings further showed that when looking at the geographic and sectoral elements of merger negotiations, M&A announcements in uncontrolled industries tend to produce higher value than mergers in businesses that were previously under government control or tightly regulated. When two companies from different nations merge, there is a particularly noticeable decline in value generation in regulated industries. The conclusions of Campa and Hernando (2004) provide credence to the idea that the effective completion of such transactions is impeded by a number of impediments, such as cultural, legal, and transactional restrictions. These barriers eventually reduce the possibility that the proposed merger will be completed, which lowers the merger's expected value (Campa & Hernando, 2004). In contrast, Bhattacharya and Biswas (2021) examine how mergers and acquisitions affect the stock prices and financial results of the acquiring Indian banks. Their

conclusions show that mergers and acquisitions (M&As) were met with resistance by the Indian banking industry, and with no significant financial benefit from the merger, which resulted in a downturn in the acquiring banks' performance following the merger (Bhattacharya & Biswas, 2021). A related result was found by Bianconi and Tan (2019) who looked at the effect of M&As on the value of acquiring companies in a different study. They used a large dataset comprising 65,521 M&A transactions from the Communications, Technology, Energy, and Utilities sectors between 2000 and 2010. Their research produced strong evidence of the detrimental consequences of M&A activity on firm value over the medium term.

This current research contributes to the existing research literature on the benefits of mergers and acquisitions. The preceding review of the literature show a gap in existing research, which amongst other includes lack of current study which evaluates the financial value from cross-border mergers and acquisitions by different global companies from different countries. This paper bridges this gap in existing literature by studying the financial value implication from increasing number of mergers and acquisitions in global M&As across national borders. The followings sections present the method, results and implications.

6. Method

The paper applies a quantitative approach and uses mergers and acquisitions (M&As) data for 39 years covering (1985 - 2023) from the Institute for Mergers, Acquisitions and Alliances [IMAA] (IMAA, 2024). The paper's global data coverage contributes exclusively to the literature and theory on mergers and acquisitions since the data cuts across national and international boundaries.

Accordingly, the OLS model used is in the form of: $Y = \alpha + \beta \times + \varepsilon$

Where: Y = dependent variable, which is value of mergers; α = constant term or intercept; β = regression coefficient; $\times$ = independent variable, being the no of mergers; and ε = the error term (accounting for other independent factors not measured in this analysis).

7. Results

The results of the data analysis are in alignment with the paper's objective, which is to examine the effect of the number of global mergers and acquisitions on the value of merger. The OLS result in Table 1 show that, whilst keeping other variables that may impact the value of merger constant and focussing on the number of mergers, the P-value is highly significant at $P<0.00001$, which shows that current increases in global corporate alliances by way of mergers and acquisitions provide high value to these businesses following mergers and acquisitions. This reveals that on a global scale, within the years of 1985 – 2023 (39years), global mergers and acquisitions have proved to be a veritable source of corporate financial synergy as it has bolstered the highly needed corporate financial capital, which helps to enhance the operations of the business corporations. This finding is corroborative of the synergy theory of mergers and acquisitions as propounded experts such as (Tamosiuniene & Duksaite, 2009; Malmström, 2011). Furthermore, these results, which used a global data confirms some previous empirical findings on the value implication of mergers and acquisitions. As an instance, Rahman and Lambkin (2015) reported value increase in the form of economies of scale; Campa and Hernando (2004) reported significant boost in financial performance for unregulated companies after merger; but

non-significant effect for companies that fall under heavy government regulation. The negative effect of government regulated companies is further confirmed in (Hazelkorn et. al, 2004).

This indicates that companies under free market may tend to reap value advantage of mergers and acquisitions. This makes this current research finding to be informative for practitioners and researchers because it pools companies from diverse characteristics across international boundaries. However, this finding is contrary to those of Bhattacharya and Biswas (2021), which failed to find any significant impact of merger and acquisition on financial performance. Perhaps the positive and significant finding of this current research may be attributed to the usage of broader global data that covers 39 years. It thus becomes worth considering by future authors to diversify and expand their data to enhance broader consideration and potentially more encompassing results. This current paper's findings also differ from the findings of Bianconi and Tan (2019), which found that mergers and acquisitions may create immediate increase in firm value but that the value wanes within the medium term. This currently analysis thus shows that even after a long period of 39 years, mergers and acquisitions continues to provide significant value to merging companies.

Table 1 Model 1: OLS, using observations 1985-2023 (T = 39)

Dependent variable: M&AValue

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
const	-325.812	229.481	-1.4198	0.16404	
M&ANumber	0.0821904	0.00630392	13.0380	<0.00001	***

Mean dependent var	2363.453	S.D. dependent var	1465.997
Sum squared resid	14598373	S.E. of regression	628.1326
R-squared	0.821247	Adjusted R-squared	0.816415
F(1, 37)	169.9890	P-value(F)	0.00001
Log-likelihood	-305.5794	Akaike criterion	615.1587
Schwarz criterion	618.4858	Hannan-Quinn	616.3524
rho	0.493200	Durbin-Watson	0.999347

The result equation

^M_AValue = -326 + 0.0822*M&ANumber

(229) (0.00630)

T = 39, R-squared = 0.821

(standard errors in parentheses)

7.1. Implication

The paper offers implications for corporate executives and academics. Firstly, there is a potential immediate value from mergers and acquisitions to the company. Secondly, they can equally realise a long-term value benefit of mergers and acquisitions by looking forward beyond immediate value. This result offers insights for corporate executives to target international corporate alliance which cuts across national boundaries as these options has shown to offer more significant value arising from new markets. The paper also offer theoretical implication for academics in business schools for extended exploration of the synergy theory of mergers and acquisitions with a view to promotion of

international acquisitions and mergers to enrich further academic discussions on finding avenues to boosting corporate capital based and financial solvency in these current period global financial uncertainties and challenges.

7.2. Value

The value of this paper inclines within its global coverage of international alliances with long-term time series, which surpasses other closely research in this area. It offers results that settle mixed results in previous papers, by showing that mergers and acquisitions that cut across international boundaries yield significant financial value both within the immediate period and after a long term period spanning up to 39 years. It thus offers a new model which dwells on global mergers and acquisitions and using it to debunk uncertainties in previous findings. This paper thus shows that even after a long period of 39 years, mergers and acquisitions of international nature continues to provide significant value to merging companies. Therefore, future researchers should use a global data on mergers and acquisitions with an extended time series to replicate this research in view of further developments in global mergers and acquisition.

8. Conclusion

As global corporate capital and financial performance continues to be intractable in the wake of unfavourable environmental, social, economic, and political uncertainties, the corporate continues to adopt dynamic strategies that could strengthen their capital structure and solvency (Reverte, 2012). Accordingly, mergers and acquisitions have recorded some growth amongst global corporations as a vital cross-border business strategic alliance for pooling varied types of corporate synergy, but importantly, financial synergy (Reverte, 2012). The synergy theory of mergers and acquisitions provide support for research in corporate engagement in mergers and acquisitions. Accordingly, this paper's foundation was inclined on the synergy theory of mergers and acquisitions to establish if the data from global mergers and acquisitions for 39 years would corroborate the theory of mergers and acquisitions. The results from the analysis substantiated the synergy theory as the findings showed that the increase in international mergers and acquisitions resulted to attendant increases in the financial value of the merging companies.

The novelty, which is overt in this paper is its inclination on the usage of diverse global data of companies, which has engage in international alliances cutting across international boundaries and spanning diverse characteristics. The paper is also unique given the usage of long-term time series of thirty-nine years. Hence the global nature of this paper and the long-term time series embeds a distinctiveness from existing related research. Therefore, the nature of the data coverage brings unique findings that are of vital significance to global companies in search of strategies for building financial capital and obtaining diverse synergies for corporate competitive advantage. The results of this paper firmly confirms that mergers and acquisitions can yield financial value and concurs with the sentiments of Hazelkorn et al (2004) who assert that amid economic uncertainties, the "right" M&A transaction can still have the capacity to create substantial value for merging companies and/or acquirers. This current papers suggests that one of the proactive approach to mergers and acquisitions is to target cross-country acquisitions and mergers because global alliance attracts more synergy than local alliance. This is because global alliance creates new opportunities for new markets and new

consumers – which in combination helps to boost sales revenue (Benchmark, 2019; Global-E, 2021). This paper thus offers a new model which inclines on international mergers and acquisitions, and has contributed to some extent in demystifying some uncertainties inherent in previous research findings. The result of this paper is practically and academically important because it has shown that even after a longer period of time, mergers and acquisitions of international nature has a significant propensity to endure a substantial yield in in financial value to merging companies or acquiring company. The paper recommends that to produce a stronger finding, future researchers should focus on the usage of an international alliance data on mergers and acquisitions than focussing on local alliances. The paper offers theoretical insight to academic and to businesses as it provides insight on the benefits of going global with M&A than national focus.

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