

Evaluating the Impact of Merger and Acquisition on Organizational Financial Performance; a Case Study of Fazal and Gadoon Textile Mills

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Received: November 16, 2019

Accepted: January 20, 2020

ABSTRACT

This study is to evaluate the outcomes of merger and acquisition on financial performance of targeted textile mills (Fazal textile mills and Gadoon textile mills). To examine the outcomes of merger and acquisition, ratios analysis was used such as (liquidity ratio, Profitability ratio, leverage ratio and efficiency ratio) for performing ratio analysis MS excel (version 2016) was used. Three years pre and three years' post-merger data was used and data were taken from period of 2012-2017. Secondary data was used to evaluate the outcomes of merger and acquisition and secondary data was collected from annual reports of targeted textile mills. After analyzing the data results are showing negative outcomes of merger and acquisition on financial performance of targeted textile mills, Finally, this is concluded that in the financial performance of targeted textile mills has no any improvement after merger and acquisition and their financial performance decreased after merger and acquisition.

KEYWORDS: *Merger and Acquisition, Financial Performance, Ratio Analysis, Profitability Ratio, Liquidity Ratio, Leverage Ratio, Efficiency Ratio, Targeted Textile Mills*

INTRODUCTION

This investigation is conducted to evaluate the outcomes of merger and acquisition on the financial performance of targeted textile mills (Fazal textile mills and Gadoon textile mills). In today's world competition merger and acquisition is becoming part of every business sector to compete in market and maximize the shareholders wealth (Sharma, 2009). Merger and acquisition is the process of converting two or more than two firms into single form with interest or without interest (Kemal, 2011). The big reason behind the merger and acquisition is that organizations want to expand their businesses (Odeck, 2008). And become competitive in the market, capture maximum share, diversify their business, raise their market share and capital (Sharma, 2009). The merger has four types that are conglomerate merger, concentric merger, horizontal merger and vertical merger (Gaughan, 2005). The horizontal merger occurs with same kind of business companies (Brealey, 2006). The vertical merger occurs when one company is merging with another company which operating many businesses like distribution, supply and production. If a company is merging with a group that is doing business of supplying raw material that kind of merger will be known as upstream merger. If one organization is merging with a group that is operating business of distribution then that kind of merger will be known as downstream merger (Brealey, 2006). Conglomerate merger happens between two different types business operating companies or in between two different sectors this type of merger is big factor to reduce the risk (coyle, 2000). This type of merger is also effective to reduce the cost of operating business from different head office in this different head office of different business combine into one head office (F.Burner, 2004). Concentric merger happens when companies merged with those companies which are not doing same business but are related in marketing and production. Acquisition term means acquire or take over in which bigger company purchase the share or assets of smaller organization or targeted company and all management will be under of acquired firm (Merger and acquisition involving the EU banking industry, 2000). Acquisition can be directly/indirectly taken over the ownership of targeted firm and control over the all management of targeted firm (Chen, 2003) (Jagersma, 2005). There are many investigations have been evaluated on the impact of merger and acquisition in different business sectors with different sources and different techniques, so the outcomes of merger and acquisition can be measured with different sources and in different ways. The need of this research is that there is no any research has conducted before on evaluating the outcomes of merger and acquisition on financial

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Citation: Zubair Ahmed Laghari, Muhibullah Nahrio, Amanullah Parhyar, Mansoor Waqas Askaree, Ahmed Raza Hafeez, Aafaque Ahmed Laghari (2020); Evaluating the Impact of Merger and Acquisition on Organizational Financial Performance; a Case Study of Fazal and Gadoon Textile Mills, Journal of Social Sciences and Humanity Studies, 6(1)8-16.

performance of targeted textile mills (Fazal textile mills and Gadoon textile mills) and in my best of knowledge there is no any research has been conducted on textile mills in Pakistan so there is very huge gap, that's why we are doing this study.

Problem statement

In this era merger and acquisition is very famous strategy to diversify the business and compete in the market (Al-Sharkas, 2008). Many companies are using this strategy to maximize their shareholder wealth. Now problem is that merger and acquisition is helpful for firms to maximize shareholder wealth or not or it is harmful for businesses in term of liquidity, profitability, liquidity and efficiency so this investigation is to evaluate outcomes of merger and acquisition on organizational financial performance.

Main objectives of this study are:

- To investigate the outcomes of merger and acquisition in term of profitability of targeted textile mills.
- To investigate the outcomes of merger and acquisition in term of leverage of targeted textile mills.
- To investigate the outcomes of merger and acquisition in term of liquidity of targeted textile mills.
- To investigate the outcomes of merger and acquisition in term of efficiency of targeted textile mills.

LITERATURE REVIEW

Merger and acquisition is mostly defined by Manne (1965) combination of two business firms for the purpose of achieving one common goal. Merger may be effective for firms in term of profitability but not in cost reduction (manne, 1965).

There are many studies have been conducted on evaluating the outcomes of merger and acquisition on organizational financial performance but current study to evaluate outcomes of merger and acquisition on financial performance of targeted textile mills in terms of liquidity, profitability, leverage and efficiency.

A study was conducted by Mboroto (2013) on the financial performance with sample of 4 firms and researcher did this study in the era of 2002 to 2013 in petroleum companies in Kenya. The results of that study were showing a huge impact of merger and acquisition (Mboroto, 2013).

Another research was conducted by Abbas et al (2014) to investigate outcomes of merger and acquisition on financial performance of banks in Pakistan. This research was conducted by the help of 10 samples of banks; this research was conducted in the era of 2006-2011. Researcher used ratio analysis technique to investigate the outcomes of merger and acquisition. After this study results were showing progress in some banks and no progress in some banks but overall it was concluded that merger and acquisition not pay that much role in progress of financial performance of banks in Pakistan (Abbas, 2014).

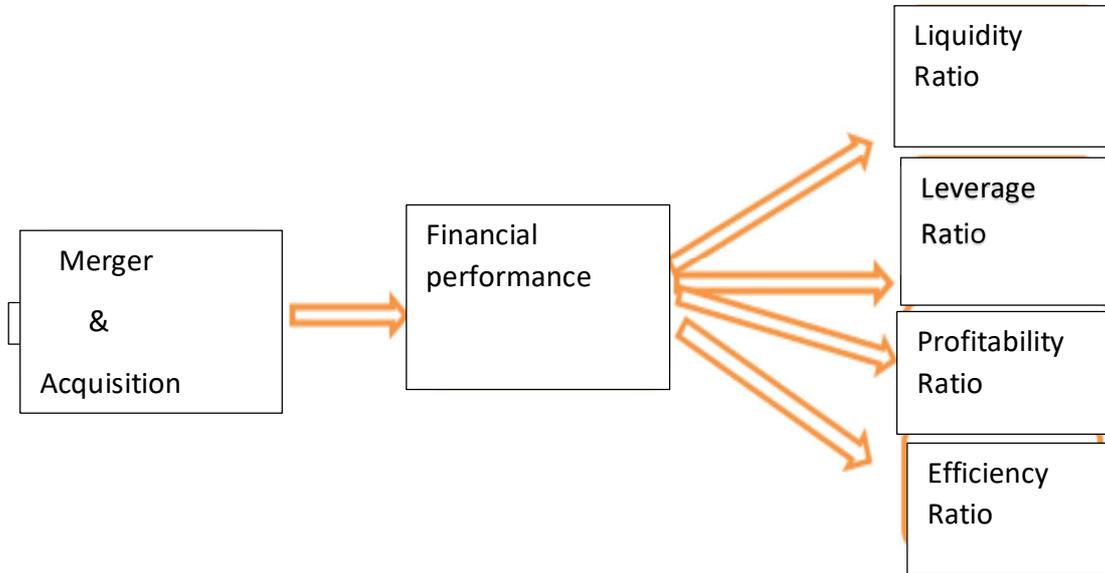
A research was conducted by Mahesh and Prasad (2012) to investigate the outcomes of merger and acquisition on financial performance of airlines with sample 3 Indian airlines, in the era of 2005-2010. Paired t-test was used to analyze the results. After this study researcher concluded that there is no any improvement in financial performance of Indian airlines after merger and acquisition process (Mahesh, 2012).

A study was conducted by Jain, 2011 to investigate the outcomes of merger and acquisition on financial performance of manufacturing industries in India with 13 samples of manufacturing industries in the period of 2004-2009, accounting ratios were used to investigate the outcomes of merger and acquisition. After this study results were showing minor outcomes of merger and acquisition on financial performance of manufacturing industries in India (Jain, 2011).

A study was conducted by Sulaiman and L.A. to investigate the outcomes of merger and acquisition on financial performance of oil and gas industry in Nigeria, four oil and gas industries listed from Nigerian stock exchange were selected as a sample, financial ratios and t-statistics techniques were used in this study and results were showing improvement in the profitability, efficiency, capital, liquidity and in leverage (Sulaiman, 2012).

Another research was conducted by Secluk E. and A.A. Yilmaz to evaluate the outcomes of merger and acquisition with the sample 62 turkey acquiring companies in the period of 2003 to 2007, ratio analysis and t-test were used to analyze the results. After analyzing the outcomes of merger and acquisition on financial performance of select turkey companies' results were showing negative outcomes of merger and acquisition (Selcuk, 2011).

Conceptual framework diagram



METHODOLOGY

This investigation is conducted to evaluate the outcomes of merger and acquisition on the financial performance of targeted textile mills (Fazal textile mills and Gadoon textile mills). Ratio analysis is used to analyse the outcome of merger and acquisition we used three years before and three years after merger and acquisition data of targeted textile mills, data was era of 2012-2017. Data was taken from annual reports of targeted textile mills. For performing ratio analysis we used MS Excel (version 2016). After analyzing the results we have compared the pre and post-merger results with help of tables and graphs also.

Data Analysis

Ratio analysis is used to investigate the outcomes of merger and acquisition on financial performance of targeted mills (Fazal and Gadoon textile mills). Ratios are classified into four main categories (1) Liquidity ratio (2) Leverage ratio (3) Profitability ratio (4) Efficiency ratio. In this study to measure the liquidity ratio one accounting ratio is used that is current ratio, in this study three accounting ratios are used to examine the leverage ratio these are debt ratio, debt to equity ratio and equity multiplier ratio, four accounting ratios are used in this study to measure the profitability ratio these are return on sale, return on equity, return on assets and gross profit ratio and one accounting ratio is used in this study to measure the efficiency ratio that is total asset turnover ratio.

**Table-1
Targeted textile mills**

Firm	Merged into	Name after merger	Date of merger
Fazal textile mills	Gadoon textile mills	Gadoon textile mills	04-12-2015

RESULTS AND DISCUSSIONS

Descriptive Statistics Analysis: Data was taken from annual reports of targeted textile mills. In the table-2 we have calculated the pre and post current ratio of targeted textile mills from 2012-2017 and targeted textile mills merged in 2015 the data of merging year used as post-merger. Pre ratios were 0.701, 0.903 and 0.563 of Fazal textile and 1.15, 0.993 and 0.978 of Gadoon textile mills from year of 2012 to 2014 and post ratios were 0.824, 0.800 and 0.875 of Gadoon textile mills because after merger name is Gadoon textile mills. The table-2 is showing negative outcomes of merger and acquisition.

In table-3 we have calculated the debt ratio of pre and post-merger and acquisition from year 2012 – 2017 the ratios of pre-merger were 0.666, 0.712 and 0.711 of Fazal textile mills and 0.493, 0.552 and 0.596 of Gadoon textile mills from year of 2012 to 2014 and the post-merger ratios were 0.668, 0.662 and 0.636 from year of 2015 to 2017 of Gadoon textile mills after merger and acquisition. Table-3 is showing negative outcomes of merger and acquisition activity.

In table-4 we have calculated debt to equity ratio from year of 2012-2017 pre-merger ratios were 1.995, 3.467 and 2.464 of Fazal textile mills and 0.979, 1.232 and 1.478 of Gadoon textile mills from year of 2012 to 2014 and 2.014, 1.955 and 1.750 of Gadoon textile mills after merger from year of 2015 to 2017. Table-4 is showing negative outcomes of merger and acquisition.

In table-5 we have calculated equity multiplier ratio from year of 2012-2017 pre-merger ratios were 2.994, 3.467 and 2.464 of Fazal textile mills and 1.973, 2.232 and 2.478 of Gadoon textile mills from year of 2012 to 2014 and post ratios were 3.014, 2.995 and 2.750 after merger and acquisition from 2015 to 2017 of Gadoon textile mills. Table-5 is showing negative outcomes of merger and acquisition on targeted textile mills.

Table-2
Current ratios

Targeted textile mills	2012	2013	2014	2015	2016	2017
Fazal textile mills	0.701	0.903	0.563			
Gadoon textile mills	1.151	0.993	0.978			
Gadoon Textile mills				0.824	0.800	0.875

Table-3
Debt ratios

Targeted textile mills	2012	2013	2014	2015	2016	2017
Fazal textile mills	0.666	0.712	0.711			
Gadoon textile mills	0.493	0.552	0.596			
Gadoon textile mills				0.668	0.662	0.636

Table-4
Debt to equity ratios

Targeted textile mills	2012	2013	2014	2015	2016	2017
Fazal textile mills	1.995	2.467	2.464			
Gadoon textile mills	0.973	1.232	1.478			
Gadoon textile mills				2.014	1.955	1.750

Table-5
Equity multiplier ratios

Targeted textile mills	2012	2013	2014	2015	2016	2017
Fazal textile mills	2.995	3.467	2.464			
Gadoon textile mills	1.973	2.232	2.478			
Gadoon textile mills				3.014	2.995	2.750

In table-6 we have calculated return on sale ratio from the year of 2012-2017 pre-merger ratios are 0.28, 0.074 and 0.018 of Fazal textile mills and 0.48, 0.061 and 0.029 of Gadoon textile mills from year of 2012 to 2014 and post-merger ratios are -0.017, -0.013 and 0.035 after merger and acquisition from the year of 2015 to 2017. Table-6 is showing negative impact of merger and acquisition on targeted textile mills.

In table-7 we have calculated return on assets ratio from 2012-2017 pre-merger ratios are 0.025, 0.059 and 0.015 of Fazal textile mills and 0.048, 0.061 and 0.029 of Gadoon textile mills from 2012 to 2014 and post-merger ratios are -0.019, 0.019 and 0.040 after merger and acquisition from 2015 to 2017. Table-7 is showing negative influence of merger and acquisition.

In table-8 we have calculated return on equity ratio pre-merger ratios are 0.075, 0.203 and 0.053 of Fazal textile mills and 0.125, 0.184 and 0.89 of Gadoon textile mills and post-merger ratios are -0.058, -0.042 and 0.110 after merger and acquisition this table is also showing negative impact of merger and acquisition.

In table-9 we have calculated gross profit ratio from 2012-2017 pre-merger ratios are 0.084, 0.139 and 0.087 of Fazal textile mills and 0.082, 0.121 and 0.096 of Gadoon textile mills from 2012 to 2014 and post ratios are 0.049, 0.034 and 0.058 after merger and acquisition from 2015 to 2017. This table is showing negative impact of merger and acquisition.

In table-10 we have calculated total assets turnover ratio from 2012-2017 pre-merger ratios are 0.899, 0.795 and 0.848 of Fazal textile mills and 1.316, 1.357 and 1.246 of Gadoon textile mills from 2012 to 2014 and post ratios are 1.119, 1.102 and 1.148 after merger and acquisition from 2015-2017. This table is showing also negative impact of merger and acquisition on targeted textile mills.

Table-6
Return on sale ratios

Targeted textile mills	2012	2013	2014	2015	2016	2017
Fazal textile mills	0.028	0.074	0.018			
Gadoon textile mills	0.048	0.061	0.029			
Gadoon textile milld				-0.017	-0.013	0.035

Table-7
Return on assets ratios

Targeted textile mills	2012	2013	2014	2015	2016	2017
Fazal textile mills	0.025	0.059	0.015			
Gadoon textile mills	0.063	0.082	0.036			
Gadoon textile mills				-0.019	-0.014	0.040

Table-8
Return on equity ratios

Targeted textile mills	2012	2013	2014	2015	2016	2017
Fazal textile mills	0.075	0.203	0.053			
Gadoon textile mills	0.125	0.184	0.089			
Gadoon textile mills				-0.058	-0.042	0.110

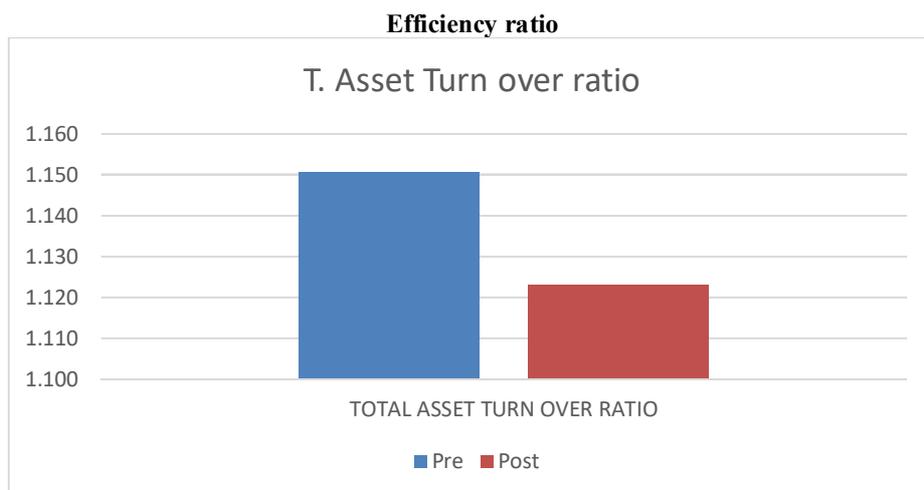
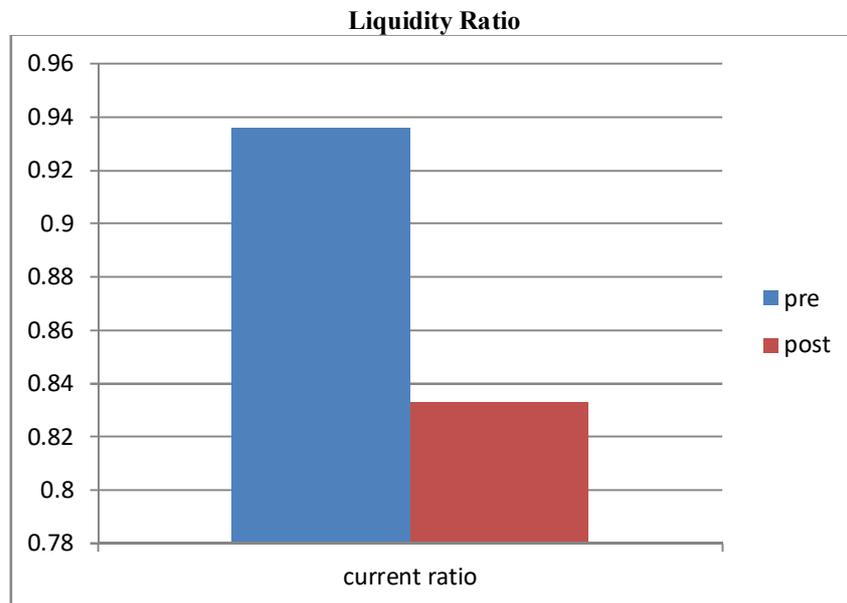
Table-9
Gross profit ratios

Targeted textile mills	2012	2013	2014	2015	2016	2017
Fazal textile mills	0.084	0.139	0.087			
Gadoon textile mills	0.082	0.121	0.096			
Gadoon textile mills				0.049	0.034	0.058

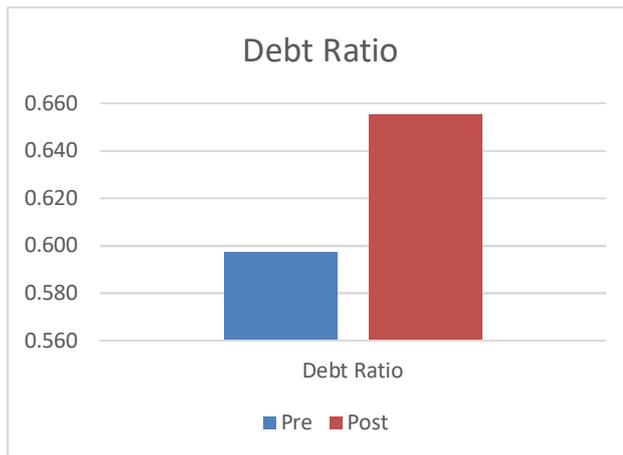
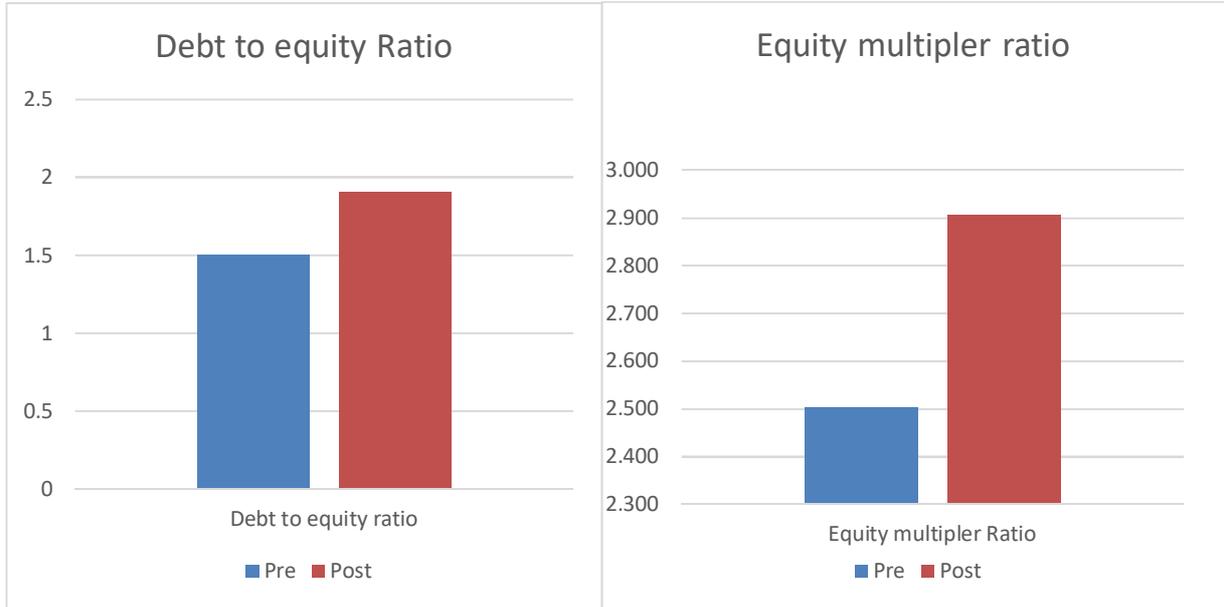
Table-10
Total assets turnover ratios

Targeted textile mills	2012	2013	2014	2015	2016	2017
Fazal textile mills	0.899	0.795	0.848			
Gadoon textile mills	1.316	1.357	1.246			
Gadoon textile mills				1.119	1.102	1.148

Graphically comparison of pre and post-merger ratios in average form

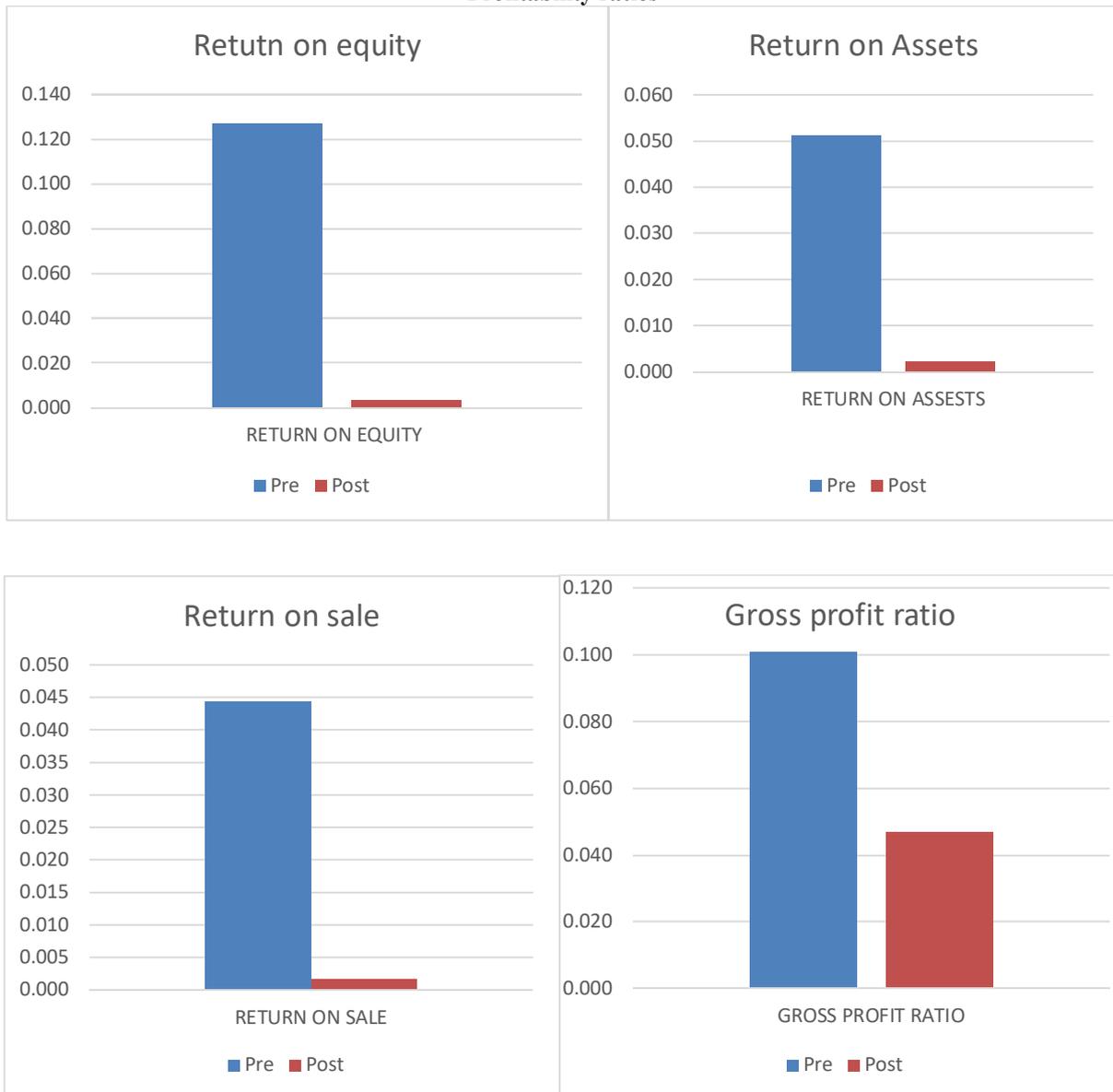


Leverage Ratios



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Profitability ratios



CONCLUSION

This investigation is to evaluate the outcomes of merger and acquisition on financial performance of targeted textile mills (Fazal textile mills and Gadoon textile mills). To examine the outcomes of merger and acquisition ratios analysis was used as (liquidity ratio, Profitability ratio, leverage ratio and efficiency ratio) for performing ratio analysis MS excel (version 2016) was used. Three years pre and three years' post-merger from period of 2012-2017 data was used. Secondary data was used in this study and data was collected from annual reports of targeted textile mills. In this study we have compared pre and post-merger results with the help of table and graphs also. After analyzing the data results are showing negative outcomes of merger and acquisition on financial performance of targeted textile mills, Finally, this is concluded that in the financial performance of targeted textile mills has no any improvement after merger and acquisition and their financial performance decreased after merger and acquisition. Many researches have been conducted on financial performance of merger and acquisition in different industries all

have different results some studies were showing negative impact, some were showing positive impact and some were showing no any impact of merger and acquisition. Recommendation is that further researcher can study on impact of merger and acquisition on financial performance of different companies there are many merger companies on which research is not conducted. This study is conducted only targeted mills due to limitation of time further researcher should take many companies as a sample to generalize the results.

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