Journal Homepage: - www.journalijar.com

INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)

ISSN NO. 2320-5407

Article DOI: 10.21474/IJAR01/4989
DOI URL: http://dx.doi.org/10.21474/IJAR01/4989

***RESEARCH ARTICLE***

**DOES THE COMMON ADVISOR CREATE VALUE IN MERGER AND ACQUISITION?**

**Arif Hasan Khan[1] and ATM Adnan[2].**

1. Student, MSc in Finance, Bangor University, Bangor LL57 2DG, Wales, UK.
2. Lecturer, BGMEA University of Fashion and Technology (BUFT), Uttara, Dhaka-1230, Bangladesh.

***Manuscript Info***

*Manuscript History*

Received: 27 May 2017
Final Accepted: 29 June 2017
Published: July 2017

***Key words:-***
Investment banks; Goodwill; Bidder; Target firm; Incentives.
**JEL Classification:** G34, G24, G11

***Abstract***

Numerous deal of outcomes has chosen aftereffects of assessing the factors of merging firms' of a similar or discrete selection of mergers and acquisitions adviser. Common advisers seem to be preferred in economically functional ways after enormous example of acquisitions. We understand that agreement with common advisors take much time to accomplish and deliver fewer premiums to the targets after monitoring for further variables and accounting for endogeneity. We uncover certain indication of minor target estimations and upper bidder yields in such agreements. We present some indications presenting that deals with common advisers are fairly good and innovative for acquirers than for targets respects the conflict-of-interest assumption over the agreement enhancements when there is not any key variance in agreements' inclusive superiority. We did not get any proof that merging firms keep away from distributing advisers in the period of 1980s, but over the subsequent two eras, some effective and grow bigger verifications of such dodging have founded. As an evidence on mergers and acquisitions, between 1995 and 2006 nearly one-third of merging firms appointed boutique banks as their advisors. The study observes whether significant investment banks provide worth gains to their clients of merger and acquisition deals like a sample of 6,379. It catches that acquirers directed by tier one advisors lost not less than $42 billion, whereas those recommended by tier-two advisors acquired by $13.5 billion at the merger declaration. Due to tier-one advisors, the consequences were mostly driven by the huge loss agreements. The sign indicates that investment banks might have various incentives when they advise on big deals vs. small deals. The outcomes denote that market share grounded reputation league tables, could be ambiguous and therefore, the choice of investment banks should be grounded on their track record in creating gains to their customers.



## Introduction:-

The term merger and acquisition (M&A hereafter) denotes to a number of various sorts of transactions, where more or less in merger and acquisition transaction has an acquirer firm (hereafter the Bidder) and also an acquired firm (hereafter the target). All or part of Target's stock has been purchased by the Bidder in the acquisition procedure which is called stock acquisition. On the other hand, Target all or part of assets have purchased by the Bidder

**Corresponding Author:- Arif Hasan Khan.**
Address:- Student, MSc in Finance, Bangor University, Bangor LL57 2DG, Wales, UK.

is called asset acquisition. In terminating, total assets and liabilities have procured by the Bidder which is usually happening in the traditional merger that Bidder absorbed Target is called forward merger and in reverse Bidder wrapped up by the Target.

Merger and acquisition activities enhanced strikingly and producing the appropriate number of business for investment banking industry during the last two decades. Investment banks are appointed by the merger applicants (both the Bidder and the Target firm) as financial advisors for helping them to direct the acquisition process. In 2006 only the overall size of worldwide declared M&A raised to more than $3.8 trillion. Moreover, only 10 valuable investment banks were earned more than 38.5% of 32.8 billion dollars which was attributed to advisory charges on finalized transactions and most of them were declared deals. These statistics indicates how hierarchical the investment banking industry is since few impressive investment banks control the merger and acquisition advisory services.

As much we study, there is no strong description of financial advisor goodwill in the perspective of a takeover. Conversely, models of popularity growing in product markets and in investment raising deliver valuable comprehensions for evaluating reputation building by the financial advisors to firms involved in takeovers. We discover that acquiring organizations choose to appoint advisors to reduce transaction costs, and that acquirers are more possible to use an advisor when the acquisition is further complex and once they have a reduced amount of prior acquisition experience. We try to investigate merging firms' choice of advisors from an exclusive angle, concentrating on the freedom and the proficiency of the advisors at the firm level. More significantly, our consequent analysis of the effect of the practice of boutique advisors on agreement outcomes delivers some associate indication that the reputation of boutique advisors will carry on growing.

In merchandising markets, the firm sells the products to clients repetitively and improves “a decent reputation if users consider its products to be of high quality” (Shapiro (1983), p. 659). Theoreticians modelling merchandise markets debate that they wish to construct a good reputation, delivers a firm that proposals high class goods with the incentive to carry on providing these high-class products (Klein and Leffler (1981), Shapiro (1983), and Allen (1984)). The incentive to construct a goodwill arises because organizations can sell advanced quality goods at rates above the average cost of production and consequently produce greater upcoming cash flows.

**Literature Review: -**

Bowers and Miller (1990) examined the relationship between stock returns of an acquiring firms’ and the selection of investment bank to agree on either investment banks of first-tier engender strong deals in relation of creating any value. They listed and sort out some first-tier investment banks as following: Merrill Lynch, Salomon Brothers, First Boston, Morgan Stanley, and Goldman Sachs. They published that, In the case of using first -tier investment bank, total assets gains are larger than before. Their outcomes refer the importance of the advisor trustworthiness and goodwill in terms of acquisitions. It seems positively as investment banking charges and other commissions for their determination by Hunter and Walker (1990). However, reports published by McLaughlin (1990, 1992) that some conflicts of interest due to incentive structures of IB (Investment Banking) deals in between an IB and clients and advised about the potential conflicts creating between common advisors and clients in merger and acquisition.

Servaes and Zenner (1996) emphasis about comparing acquisition that which were accomplished in-house versus those who uses investment bank advisors. They also find out some extra complex transactions which have more asymmetric information are used by an investment bank and also important to set a procedure of information collecting in M&A. Constricting a theoretical model by James (1992), Srinivasan (1999) discover that Advisory fees of merger including a connection premium that acquirers accept switching costs due to existence with consistent and new advisors were hired to them who has no previous relationship. Setting merger fess competitively, a description about connection of premium is an authorization effect, banks collect the rents based on greater information obtained throughout former relationship. Srinivasan also found that top-tier advisors charged higher fees compare to investment banks (lower tier). On the other hand, relationship premium is paid by acquirers which is maximum for top-tier advisors.

Even though Rau (1999) does not find any impact on acquirer returns (abnormal) by advisors, he demonstrates that there is a constructive relationship between market share & fees of investment bank and deals accomplishment rates. Top-tier IB advisors are creating value by maximizing the probability that the deal will be accomplished. These studies observe only about those mergers accomplished by investment banks.

Beyond the comprehensive empirical literature on M&A, a consequence is extremely robust. This is the empirical result that target companies have a habit of experiencing positive abnormal revenues upon merger declarations while acquirers get zero or negative abnormal revenues after post-merger. Consequently, target firms seem to obtain maximum gains of merger and acquisition which was anticipated and target gains positive stem from numerous sources.

Beyond the comprehensive empirical literature on M&A, a consequence is extremely robust. This is the empirical result that target companies have a habit of experiencing positive abnormal revenues upon merger declarations while acquirers get zero or negative abnormal revenues after post-merger. Consequently, target firms seem to obtain maximum gains of merger and acquisition which was anticipated and target gains positive stem from numerous sources. For controlling business in the marketplace merger increases the discount in agency costs discovered and explained by Franks and Mayer (1996), Harris and Raviv (1988), Amihud, Lev and Travlos (1990) and Stulz (1988) in the business Control Hypothesis. The market power hypothesis stipulates that merger progress the competitive circumstances of the target. Relationship purpose signal in merger and acquisition founded by Berkovitch and Narayanan (1993). Hubbard and Palia (1990) invented in the formation of internal capital markets within conglomerates created by a package of differentiating mergers and acquisitions which called collaborative gains. The managerial risk diversification hypothesis [see Amihud and Lev (1981), Amihud and kamin (1979), Lloyd, Hand and Modani (1987) hypothesizes that acquiring firm managers accept (value dropping) mergers to diminish their undiversifiable human principal investment in their firm. Indication of this is revealed in Amihud, Kamin, and Ronen (1983). In the winner's expletive or hubris hypothesis, excessively positive acquirers overbid for targets.

For instance, roll (1986) illustrations that acquirers who overrate the price of the target are more possible to successfully accomplish a merger, resulting in a weakening in the acquirer's price to stockholders. The question, uninspected preceding to this paper, is how the selecting of a financial advisor effects the allocation of gains among targets and acquirers upon the declaration of a merger.

Reliable with the literature study to date, we understand that both the commercial bank and top-tier IB recommended deals get target irregular returns are on mostly statistically important and positive, but abnormal returns for acquirer are on mostly negative. Three-day acquirer abnormal returns would essentially negative (at the 10% level) to bargains prompted Toward top-tier speculation banks, recommending that a portion of the positive increases with focuses might turned in the charge about acquirers. Conversely, business bank advisors seem to create critical positive unusual returns for targets, without producing statistically important negative unusual returns for acquirers. In capital floating, issuing firms have private data with respect to the estimation of the security that they plan to issue and budgetary mediators go about as data makers or go between whose capacity is to guarantee the estimation of the security (Beatty and Ritter (1986), Stall and Smith (1986), Titman and Trueman (1986), and Chemmanur and Fulghieri (1994)

**Bank Advisor Returns:-**

Any synergistic additions produced by a commercial bank's recommendation to a merger counterparty ought to be replicated in the advisor's profits, and in the returns to the objective or the acquirer, since such picks up are probably going to add to the reputational estimation of the bank as a M&A advisor. Subsequently, we also observe the advisors' returns due to the influence of merger declarations. The methodology working to inspect this outcome varies from the methodology castoff to compute abnormal returns from M&A for targets and acquirers. Not at all like targets and acquirers, advisors contribute in deals as an ordinary piece of their business, and, consequently, the qualification amongst "normal" and "abnormal" returns is not significant. For instance, JP Morgan went about as an advisor in 53 distinct mergers bargains in our specimen. We evaluated the market display over the period January 1, 1994 through December 31, 1998 for the six (traded on an open market) commercial bank guides most dynamic in our example: Chemical, Bankers Trust, JP Morgan, Chase Manhattan, Bank of America and Nations Banc. Late confirmation in back research proposes that it doesn't. For example, Servaes and Zenner (1996) discover no connection between advisor notoriety and bidder wealth. Rau (2000) presumes that advisor notoriety impacts the probability of finishing the deal and on the advisor's Share, however not on the customer association's stock price. The failure of researchers to archive a connection between advisor notoriety and riches impacts in takeover challenges is appalling since the speculation keeping banking industry is to a great degree various levelled in nature and a couple of prestigious investment bankers keep on dominating admonitory administrations to firms required in takeover challenge.

**Measurement of Wealth Gains:-**

Our investigation obliges us to develop measures of both supreme and relative riches picks up. We can't utilize cumulative abnormal returns (CARs) because it is impractical to build an important measure of the relative riches pick up utilizing rate returns. Besides, since procuring firms are by and large significantly bigger than target firms, a similar dollar riches pick up results in an excessively huge CAR for the normal target firm when contrasted with the normal bidder's CAR. We figure dollar-named riches picks up as in Bradley, Desai, and Kim (1988) and modify for the bidder's foothold possession. The collective abnormal wealth increase from a positive takeover (CWLTH) is characterized as the aggregate of the anomalous riches pick up to the objective (TWLTH) and the bidder (BWLTH). We initially evaluate the company's every day anomalous stock profits based for market display parameter gauges for the company's arrival producing process figured for 240 days, starting 300 days before the declaration of the initial delicate offer in the challenge. We compute the objective's combined anomalous return, TCAR, by summing these day by day strange comes back from five exchanging days before the date of the primary offer and through the end of the fifth exchanging day after the declaration of the effective offer. The bidder's combined unusual return, BCAR, is figured by summing the everyday strange comes back from five exchanging days before the date of the principal declaration by that bidder and through the end of the fifth exchanging day after the declaration of the effective offer.

Finally, target Furthermore bidder riches positive would sure over 95. 4% What's more 50.6% of the transactions, separately. Those joined together riches additions would certain done 74. 4% of the transactions, demonstrating that A large portion of the takeovers make quality. The abnormal riches addition of the bidder is more excellent over that of the focus Previously, 26. 9% of the transactions. Those routine faiths in the expositive expression may be that the vast majority of the takeover additions accumulate with focuses. Nine studies for those sooner findings, the average abnormal (dollar) capital increase of the bidder done our test of takeovers is in unimportant. The truth that bidder riches increase will be more amazing over that of the target over 26. 9% of the takeovers, however, proposes that the division from claiming takeover additions the middle of bidder What's more target organizations merits further examination.

## Conclusions:-

This paper scrutinizes the investment bank’s effectiveness to merger participants as an advisor. In a merger, the main role is to mobilize the information by the financial advisor, whereas commercial banks have possible relative advantages to advise banking clients in comparison with non-bank advisors. Through passing the information to different parties involved in merger enhance their abnormal return by creating a lending and credit relationship, which refers as a bank authorization effect. Sometimes bank cannot depend on the information about the value of a merger counterparty due to concerning about the merger used by the bank to diminish their lending exposure to clients. Which may create an effect in merger and acquisitions predeterminants through increasing or decreasing abnormal returns of acquirers or targets company. Omesh Kini, and Harley E. Ryan, Jr. examine empirically in their research paper of 238 merger sample deals by collecting 4 years’ data during early of 1995 to end of 1998. Out of them, 196 was utilizing data about commercial bank who advise only to the target or the acquirer and in sometimes to both. Except 196 sample, other 42 merger sample deals examine the control group in which no commercial advisor did not find out and in that case investment bank advisors were hired by the both of targets and acquirers. Additionally, bank advisors themselves likewise seem to profit by confirmation increases to merger counterparties, especially when they use their information production and accreditation capacities to exhort targets. Thusly, small target firms which has not enough data and information appears to be valued.

## References:

1. Agrawal, A., Jaffe, J.F. and Mandelker, G.N., 1992. The post-merger performance of acquiring firms: a re-examination of an anomaly. The Journal of finance, 47(4), pp.1605-1621.
2. Allen, L., Jagtiani, J., Peristiani, S. and Saunders, A., (2002). The role of bank advisors in mergers and acquisitions.
3. Andriosopoulos, D. and Yang, S., 2015. The impact of institutional investors on mergers and acquisitions in the United Kingdom. Journal of Banking & Finance, 50, pp.547-561.
4. Bao, J., & Edmans, A. (2011). Do investment banks matter for M&A returns?. The Review of Financial Studies, 24(7), pp. 2286-2315.
5. Bauer, K.J., Miles, L.L. and Nishikawa, T., 2009. The effect of mergers on credit union performance. Journal of Banking & Finance, 33(12), pp.2267-2274.
6. Chang, X., Shekhar, C., Tam, L.H. and Yao, J., 2016. Industry expertise, information leakage and the choice of M&A advisors. Journal of Business Finance & Accounting, 43(1-2), pp.191-225.
7. DeYoung, R., Evanoff, D.D. and Molyneux, P., 2009. Mergers and acquisitions of financial institutions: a review of the post-2000 literature. Journal of Financial services research, 36(2-3), pp.87-110.
8. El-Khatib, R., Fogel, K. and Jandik, T., 2015. CEO network centrality and merger performance. Journal of Financial Economics, 116(2), pp.349-382.
9. Ertugrul, M. and Krishnan, K., 2011. Advisor skill and acquisition performance: Do investment bankers make a difference?.
10. Ferreira, M.P., Reis, N.R. and Serra, F.A.R., Mergers & Acquisitions research: A bibliometric study of top strategy journals, 2000-2009.
11. Gjörup, A. and Sarmes, A., 2014. The Relationship Between Target and Its Financial Advisor in Mergers and Acquisitions--Are There Still Benefits to Gain?.
12. Griffin, J.M., Shu, T. and Topaloglu, S., 2012. Examining the dark side of financial markets: Do institutions trade on information from investment bank connections? Review of Financial Studies, pp 58.
13. Gulamhussen, M.A., Hennart, J.F. and Pinheiro, C.M., 2016. What drives cross-border M&As in commercial banking?. Journal of Banking & Finance, 72, pp.S6-S18.
14. Kale, J.R., Kini, O. and Ryan, H.E., 2003. Financial advisors and shareholder wealth gains in corporate takeovers. Journal of Financial and Quantitative Analysis, 38(03), pp.475-501.
15. Kale, J.R., Kini, O. and Ryan, H.E., 2003. Financial advisors and shareholder wealth gains in corporate takeovers. Journal of Financial and Quantitative Analysis, 38(03), pp.475-501.
16. Knapp, M., Gart, A. and Chaudhry, M., 2006. The impact of mean reversion of bank profitability on post-merger performance in the banking industry. Journal of Banking & Finance, 30(12), pp.3503-3517.
17. Rhoades, S.A., 1998. The efficiency effects of bank mergers: An overview of case studies of nine mergers. Journal of Banking & Finance, 22(3), pp.273-291.
18. Song, W., Wei, J.D. and Zhou, L., 2013. The value of “boutique” financial advisors in merger s and acquisitions. Journal of Corporate Finance, 20, pp.94-114.
19. Vander Vennet, R., 1996. The effect of mergers and acquisitions on the efficiency and profitability of EC credit institutions. Journal of Banking & Finance, 20(9), pp.1531-1558.
20. Walter, T.S., Yawson, A. and Yeung, C.P., 2008. The role of investment banks in M&A transactions: Fees and services. Pacific-Basin Finance Journal, 16(4), pp.341-369.