

## Contents

Abstract.....	3
Chapter 1.....	4
Introduction .....	4
1.1 Purpose of the Study.....	6
1.2 Problem Statement.....	7
1.3 Research Objectives.....	7
1.4 Research Question .....	7
1.5 Significance of study .....	8
1.6 Scheme of study.....	8
Chapter 2.....	10
Literature review.....	10
2.1 Effects of mergers on rival firms .....	12
2.2 A model of the creation of economic value.....	13
2.3 A classification of scarce resources by synergies.....	14
2.3 Study of different variables used .....	16
2.5 Variables used in this study .....	20
2.6 Summing up .....	24
Chapter 3.....	25
Theoretical framework .....	25
3.1 Explanation of theoretical framework.....	25
3.2.1 Tobin's Q .....	26
3.2.2 Excess value .....	27
3.3 Independent variables .....	27
3.3.1 Firm size .....	28
3.3.2 Profitability.....	28
3.3.3 Market Power .....	28
3.3.4 Internal capital markets .....	29
3.3.5 Industry Herfindahl .....	31
3.3.6 Type of merger.....	32

3.3.7 Operating economies of scale and scope .....	32
3.4 Independent variable .....	33
3.4.1 Type of merger .....	33
3.5 Dependent Variables.....	34
3.5.1 Firm size .....	34
3.5.2 Profitability.....	34
3.5.3 Tobin's Q .....	34
3.5.4 Excess value .....	35
3.6 Summing up .....	36
Chapter 4.....	37
Methodology.....	37
4.1 Unit of analysis.....	37
4.2 Data and sampling .....	37
4.3 Data Analysis Methodology .....	37
4.5 Regression Analysis.....	38
4.4 Logit model of study .....	39
Summing Up .....	39
Chapter 5.....	40
Results and Discussion .....	40
5.1 Descriptive Analysis .....	40
5.2 Measure relatedness and unrelatedness of merger using Logit model.....	43
5.3 regressions Analysis to check synergy effect after merger using Tobin's Q .....	41
5.4 regressions Analysis to check synergy effect after merger using Excess value.....	42
5.7 Summing up .....	44
Chapter 6.....	45
Conclusion and Recommendations .....	45
Reference .....	47

## Abstract

Merger and acquisition is an integral part of today's business world because it provides a medium through which organizations thirst for their growth and expansion can be appeased. This study attempts to investigate the strategic factors that play a significant role in contributing towards the impact of the merger on financial performance and value of Pakistani companies chosen from financial and non-financial sector sample of 20 companies. We track a sample of merging firms to study whether and to what extent synergies affect Tobin's Q and excess value in a five-year post-merger period. We also employ a Logit model to account for potential endogeneity between the merger decision and excess value and Tobin's Q across related mergers and unrelated mergers. We show evidence that merger synergies materialize over time. We also present strong evidence that related and unrelated mergers differ in many aspects including motivation, post-merger synergies, and endogeneity biases. Both excess value and Tobin's Q increase in the first year following the merger then improve systematically each year in the four years after, but with a greater increase in unrelated compared to related mergers. Annual changes in market power, economies of scale and scope, and internal capital market activity significantly affect Q and excess value only in unrelated mergers.

**Key words: Mergers, Acquisitions, Related Mergers, Unrelated Mergers, Synergies, Diversification**