The Impact of Corporate Mergers on Greek Firms: Strategic Issues and Accounting Effects

Pazarskis Michail[1,*], Kourtesi Sofia[2], Chasiotou Aikaterini[3] and Konstantinidis Christos[4]

[1]*Associate Professor, Department of Economics, International Hellenic University, Greece.*

[2]*Adjunct Assistant Professor, Department of Economics, International Hellenic University, Greece.*

[3]*PhD Candidate, Department of Business Administration, International Hellenic University, Greece.*

[4]*Assistant Professor, Department of Business Administration, International Hellenic University, Greece.*

Abstract: The purpose of the paper is to investigate the utility of mergers in the business world. Based on this, this paper analyzes the mergers of all Greek companies listed on the Athens Stock Exchange during the years 2017-2019. The analysis of mergers in the Greek market is done using various accounting measures and ratios calculated for the companies in our sample. The results showed important conclusions regarding the strategic choice of the companies involved in mergers in the period in question in Greece.

Keywords: Mergers, accounting performance, accounting ratios, accounting measures, Greece.
JEL classification: D21, G34, M40.

1. INTRODUCTION

One of the business expansion strategies is the implementation of mergers (Kumar, 1984). Mergers have always attracted the interest of the general population, investors and the market at large. Mergers of listed companies have a direct impact on stock market prices and their returns (Alhenawi & Krishnaswami, 2015; Rodionov & Mikhalchuk, 2020). Therefore, the interest of investors is great, regarding mergers and for this reason there is often a lot of information both through the companies themselves and also through the press.

Mergers have been taking place all over the world since the beginning of organized human economic activity. Mergers are used by companies worldwide, as it enables them to expand their resources, for the purpose of their growth, in order to achieve an increase in their revenues (Golubov et al., 2013). There are many reasons that contribute to a company's decision to proceed with a merger, some of which are, their technological development, competitiveness, but also their adaptation to various new external factors (Berrioategortua et al., 2018; Grigorieva, 2020).

The changes in various macroeconomic factors have resulted in the appearance of various waves of business mergers throughout history, some of which have had a global impact (Mueller, 1980). Thus, companies, in order to cope with the various trends and changes in the economic system over the years, make such moves, through which they will manage to strengthen their positions in the market. However, the result of a successful or unsuccessful merger is judged by the course of the company in the following years (Francis & Martin, 2010; Thanos & Papadakis, 2012).

Mergers can have several advantages for businesses. The main ones are related to increasing the value of the company, improving efficiency and expanding it in the market (Tampakoudis & Anagnostopoulou, 2020; Petridis et al., 2022). The merger has the effect of affecting the company's share price, increasing it by greater percentages than the companies' shares had before, resulting in increased profits (Dargenidou et al., 2016). But a company, through a merger, can face possible problems that have arisen during its operation (Pazarskis et al., 2022a;b). If we could distinguish some disadvantages regarding mergers, they would be first of all that the potential debt increasement from the merger deal (Jandik & Lallemand, 2014). Also, the merger process can last for quite a long time, that there are usually difficulties in adapting the human resources of the companies to the new data, and that the cost of management increases significantly immediately after a merger (Healy et al., 1992).

The realization of mergers at an international level is a particular challenge (Pazarskis et al., 2022c). The conditions prevailing in the international environment with the implementation of international capital investments originating from the Chinese market during the last decades created new data. Also, while in the past, in the countries of Europe, there was no single currency market (making the merger a difficult undertaking), this situation changed with the creation of the European Union, and mainly with the use of a single currency, the euro, where intense activity of international mergers was also observed in the European area, even in Greek market (Pantelidis et al., 2018).

*Address correspondence to this author at the End of Magnesias Street, GR-621 00, Serres, Greece, Tel.: 00302321049306, E-mail: pazarskis@ihu.gr

In order to examine the course of companies after a merger in Greece, it was chosen to examine all the mergers of listed companies in Greece for the three years 2017-2019 and to analyze accounting data (accounting measures and ratios) from its accounting statements.

The structure of the paper is as follows: the next section presents the theoretical framework of the present paper (definitions of concepts, impact at the micro- and macro-economic level, applicable legal framework), then follows the literature review. After this section, the methodology used in this work follows and then the results obtained are listed. The last section discusses the findings of the paper and records the conclusions drawn.

2. THEORETICAL BACKGROUND

2.1. Definition of Terms

The term ‘merger’ refers to the joining of two or more businesses in which, after an agreement on share distribution, the absorbing business transfers its fixed assets and liabilities to the acquiring business. Without going through the time-consuming process of liquidation, the firm put under the absorption-merger regime is dissolved (its activity as a legal entity terminates), and its decisions and administrative function are assumed by the acquiring business.

When a firm transfer all or a portion of its shares to another company in exchange for a fee, the transaction is referred to as a takeover. At this point, the firm that buys another gains the authority to do business even if it may already be a recognized legal entity, i.e., its operation as a company does not cease.

Although the two terminologies above are similar most of the time, there are certain actual variances that are taken into consideration to be significant. In specifically, the merger entails the consolidation of enterprises in order to create a legally united company with shared assets, enhancing its competitiveness. It is not necessary for a business to be dissolved or to function as a separate entity in order to be acquired.

Furthermore, according to how fully the merger transaction has been completed, there are the following sorts as well:

Companies that want to gain market share typically engage in horizontal mergers by making investments in highly competitive business sectors.

Vertical mergers include businesses that are linked to one another (as members of the same supply chain), but which are not in direct competition. This happens when a firm combines with a supplier and extends into the early phases of manufacturing, or when a company merges with a client and expands into the following stage of the supply chain. This approach often aims to grow firms’ market share and make them independent from clients and suppliers.

Concentric mergers are the process of joining two or more businesses that compete in the same market, share the same distribution channels, but provide distinct goods in order to expand their product offerings and gain market share. Such mergers are typical, for instance, when food and beverage industries join together in a circular merger. Both businesses now provide food combinations as a consequence.

Last, conglomerate mergers are when two companies merge but are not in the same industry.

2.2. Macroeconomic and Microeconomic Approach of Mergers

Mergers are particularly significant from a macroeconomic perspective because they have an impact on the two primary macroeconomic forces, supply and demand. The stability of market pricing and other characteristics that do not significantly impact competition is the consequence of consolidation, which is a valid macroeconomic equilibrium of supply and demand. Mergers of businesses with a lesser market share seldom result in distortions of the marketplace. Instead, they promote and defend competition while building successful unit enterprises. However, mergers between major firms with a considerable market share can also reduce competition and lead to oligopoly and monopoly in the industry.

Microeconomically speaking, young entrepreneurs merging their businesses is how concentration is achieved. As a result, the merged businesses have substantial financial resources and technological capabilities, as well as additional assets including a client base, specialized knowledge, and patents. This concentration (i.e., merging) can benefit the company and aid in boosting productivity of the combined company, cutting operational expenses, and increasing economies of scale all at once.

2.3. Legal Framework for Competition Principles and Mergers

In Greece, the general competition directorate of the Competition-Commission is in charge of overseeing mergers and acquisitions made by public S.A. enterprises in accordance with European Law. The investment acquisitions and mergers that occur in the market today are regulated by a collaboration between the competition authorities of each member state and the European competition authority. All mergers of joint stock companies in Greece are subject to the laws set out below: Law 4601/2019, which systematizes the law of corporate transformations by type (mergers, conversions, splits) and by corporate form, regulating transformations from similar but also different corporate forms; Law 4548/2018 on S.A. companies; Law 2992/2002’s Article 9 on providing tax incentives to merging companies; Law 3959/2011 on the Protection of Free Competition; and Law 2515/1997’s Article 16 on regulating mergers between credit institutions. While the merger regulation 139/2004, which was developed at the European level, specifies the guidelines for the control of mergers and acquisitions there. For competition rules, we must refer to the European Competition Regulation (1/2003) which aims to establish rules for the application of articles 101 and 102 in all sectors of the European market in the application of competition rules governing businesses (Perakis, 2001; Avgitidis, 2019).

The aforementioned laws and rules are intended to ensure the efficient operation of the markets and to take appropriate action when actions threaten domestic and international competition similar as: (i) agreements between businesses that limit competition (such as cartels); (ii) misuse of the position of businesses with a significant market share. Particularly when huge companies in the same sector merge, which significantly influences the level of market concentration, raises obstacles to new businesses entering the market and may force out previously established businesses; (iii) business funding, particularly when it involves public assistance; (iv) the assistance of national competition authorities to guarantee application across the whole single market.

The following steps are included in the merger procedure, according the terms of Law 4601/2019 (Avgitidis, 2019):

(a) Implementation of the merger contract draft, which includes the rights of the absorbing firm as well as information about the contracting companies, the investment plan's start date, and the new board of directors' members.

(b) All firms that will participate in the merger must publish the merger's draft contract on Greek General Commercial Register (GEMI). On the websites of the contracting organizations, the draft contract needs to be accessible online as well.

(c) Written report and information on the merger as specified in Article 9 of the Act, describing the link between the corporate ownership in the firm that is being acquired.

(d) The proposed contract is next examined by specialists to see whether the exchange connection between the firms is equitable for both parties to the agreement.

(e) The papers must be accessible to shareholders of the businesses for at least one month prior to the general meeting of the joint stock companies in order for them to be examined.

(f) Upholding the rights of creditors and workers.

(g) The merger must be approved by the partners taking part in the merger, as specified in the articles of association for the firm.

(h) The merger agreement's conclusion and publishing for a preliminary legality review.

In addition to the stringent regulatory environment for mergers and acquisitions in Greece that it just has been described, it has been established that the Greek state has created strong incentives, especially in recent years, and this is because a sharp drop in investments has been observed. A variety of tax benefits and facilities are offered for the investments made if the mergers are carried out in accordance with the development rules. The loan financing cap, five-year tax breaks, and income tax exemptions are three examples of these advantageous incentives (Perakis, 2001; Avgitidis, 2019).

3. LITERATURE REVIEW

Mergers have been the subject of study and analysis by many researchers (Thanos & Papadakis, 2012; Dargenidou et al., 2016; Berrioategortua et al., 2018; Pantelidis et al., 2018; Grigorieva, 2020; Pazarskis et al., 2022a). Then, various studies related to the subject of this paper's research and prepared in recent years are examined.

Alhenawi & Stilwell (2017) examined 454 mergers and acquisitions that happened in the US between 1998 and 2010. They came to the conclusion that, although being the most evident criterion for evaluation, the worth of the target firm is not the sole factor determining the success of the investment. Alhenawi & Stilwell (2017) argued that the economic value of the acquirer is crucial to the success of the merger or acquisition. This study is based on the acquirer's pre-investment financial indicators and Altman-type prediction models (Altman 1968, 1984).

In a study, Rao-Nicholson et al. (2016) examined the accounting performance of combined enterprises for Southeast Asian nations by looking at data from the years 2001 to 2012. Additionally, they examined information on merged firms, dividing it into mergers that happened before and after the 2007–2008 global financial crisis. In contrast to other studies, Rao-Nicholson et al. (2016) found that mergers that occurred during the aforementioned crisis period tended to be more lucrative than those that occurred in the pre- and post-crisis eras. Additionally discussing the causes of this distinction using empirical studies, they contend that the good accounting results three years following the merger agreement are attributable to the synergies between the size of the size of the merged firms and the friendly climate of the managers that make them up.

Regarding the relationship between merger performance and the size of the enterprises involved, Berrioategortua et al. (2018) were unable to come to any definitive conclusions. Despite the fact that many mergers have been studied in various marketplaces throughout the world and over various time periods, they claim that there is no consensus in the literature on the success of the merger in relation to the researched characteristics of the firms. Therefore, Berrioategortua et al. (2018) believe that it is necessary to examine the earlier investigations in tandem in order to reevaluate them and offer collective conclusions from the information now accessible. This retrospective study may provide guidance for future merger studies.

Another analysis conducted by Ramaswamy & Waegelein (2003) examined mergers of American firms for the period 1975-1990. Specifically, they studied 162 US companies, where they examined the financial performance of the combined companies five years after their merger, compared to their performance five years before the merger. Ramaswamy & Waegelein (2003) concluded that post-merger accounting returns are negatively correlated with the relative size of the target firm. Firm returns are also more positive if the managers of the merged firms were included in long-term compensation plans.

According to operating performance, Sharma & Ho (2002) assessed 36 acquisitions made in Australia. Sharma and Ho (2002) came to the conclusion that when acquisitions were based on the cash flow performance of the target firms, they did not increase the operating performance of the companies. Additionally, they found that in the sample they looked at, none of the characteristics they studied -including financing strategy and target firm size- had an impact on the acquisition's return on investment. Sharma & Ho (2002) suggest that the investment should be analyzed over a longer time horizon, such as five years old, in order to derive more sig-

Table 1. Quantitative Variables - Financial Ratios.

Variable	Accounting Measure and Ratio	Analysis of Accounting Measure and Ratio
V01	Earnings before taxes	Earnings before taxes
V02	Earnings after taxes	Earnings after taxes
V03	Total assets	Total assets
V04	Shareholders funds	Shareholders funds
V05	Total liabilities	Total liabilities
V06	Shareholder equity ratio	Shareholders funds / Total assets
V07	Debt ratio	Total liabilities / Total assets
V08	Return on Equity - ROE (before taxes)	Earnings before taxes / Shareholders funds
V09	Return on Assets - ROA (before taxes)	Earnings before taxes / Total assets
V10	Return on Equity - ROE (after taxes)	Earnings after taxes / Shareholders funds
V11	Return on Assets - ROA (after taxes)	Earnings after taxes / Total assets

nificant results because the time horizon they investigated is three years following the merger.

Last, Tanna & Yousef (2019) investigated the impact of mergers and acquisitions on systematic risk, in a sample of 34,221 deals worldwide in various sectors of the economy, during the period between 1977 and 2012. Their study showed that cash payments for listed in listed target companies helped reduce risk, while share-exchange payments increased post-merger risk.

4. MATERIALS AND METHODOLOGY

4.1. Sample Selection

All listed firms in the Athens Stock Exchange that merged with other public or unlisted companies between 2017 and 2019 are originally included in the study sample. Then, businesses like banks that focused primarily on finance and financial activities were excluded from them (Hoshino, 1982; Ramaswamy & Waegelein, 2003; Pazarskis et al., 2022a). The enterprises for which no data were available (such as those that went out of business along the route) were then excluded from the final sample (Mueller, 1980; Pantelidis et al., 2018). 24 Athens Stock Exchange-listed firms that combined with other listed or unlisted businesses between 2017 and 2019 make up the research's final sample. The financial statements and annual reports of the public listed companies on the internet (their websites), as well as the website of the Athens Stock Exchange, were used to gather the accounting information for the companies in the study sample.

4.2. Research Data and Analysis

The analysis of the financial statements will be carried out using accounting measures and ratios. Accounting measures and ratios are frequently used to analyze financial accounts because they provide important insights into a company's future (Healy et al., 1992; Alhenawi & Krishnaswami, 2015; Pantelidis et al., 2018). Accounting (financial) ratios are particular fractions made up of correlations between accounting measures. Their use provides the chance to more fully comprehend the actual state of enterprises through the use of financial ratios and accounting measures, which are an invaluable tool (Ramaswamy & Waegelein, 2003; Rao-Nicholson et al., 2016).

The analysis of the sample of mergers that took place between 2017 and 2019 will be based on the assessment of six financial ratios and five accounting measures, which are frequently used to assess how well merged firms' function (Hoshino, 1982; Sharma & Ho, 2002; Dargenidou et al., 2016; Alhenawi & Stilwell, 2017). Above is a presentation and analysis of the financial ratios chosen for study and evaluation of the sample.

The primary goal of this study is to examine the company's performance before and after the merger transactions, which have frequently been used in previous research (Mueller, 1980; Francis & Martin, 2010; Pazarskis et al., 2022a). There are several accounting and financial methods to determine this change as a result of mergers, including examining the change in the share prices of the companies involved (event studies), speaking with merger executives about the results (interviews), or analyzing their financial statements, the latter of which is thought to be more reliable by many researchers (Sharma & Ho, 2002; Ramaswamy & Waegelein, 2003). To determine if this course of action was advantageous for the firm, eleven accounting criteria (five accounting measures and six financial ratios) are assessed two years prior to the merger and two years following it (Golubov et al., 2013; Berrioategortua et al., 2018; Grigorieva, 2020).

For the years 2017 to 2019, all of the sampled firms' financial ratios and accounting measures were examined two years before (t - 2) and two years after (t + 2) the merger. The average of each financial ratio's total was also determined for the years t - 2 and t + 2, and a matching comparison was made (Healy et al., 1992; Pazarskis et al., 2022a;c). The aforementioned is verified using tests that compare the averages of two independent sample mean t-tests on the financial ratios of the sampled firms before and after the merger (Mueller, 1980; Pantelidis et al., 2018).

Table 2. Descriptive Statistics of Examined Variables in the Pre-merger and Post-merger Period.

Variable	Minimum	Q1	Median	Q3	Maximum	IQR	stdev	skewness	kurtosis
PreV01	-90,033	-3,623	173	6,306	101,717	9,930	29,863	0.844	5.917
PreV02	-87,543	-6,626	14	2,055	74,663	8,682	25,854	-0.051	4.731
PreV03	18,626	47,942	187,046	438,188	3,512,534	390,247	759,997	2.995	9.756
PreV04	972	20,680	78,767	209,099	1,243,006	188,419	286,792	2.462	5.943
PreV05	-280,231	6,106	66,998	262,927	2,330,891	256,821	527,495	2.771	8.041
PreV06	0.003	0.274	0.487	0.772	2.498	0.498	0.408	2.376	9.894
PreV07	-1.498	0.228	0.513	0.726	0.997	0.498	0.408	-2.376	9.894
PreV08	-18.990	-0.079	0.010	0.093	0.443	0.172	3.299	-4.902	24.122
PreV09	-0.147	-0.026	0.005	0.044	0.329	0.069	0.074	1.574	6.076
PreV10	-21.679	-0.098	0.00003	0.037	0.155	0.135	3.605	-5.151	27.227
PreV11	-0.147	-0.028	0.00002	0.027	0.101	0.055	0.047	-0.339	0.900
PostV01	-14,299	-67	2,187	11,927	151,112	11,994	37,633	2.446	5.243
PostV02	-17,136	-1,218	781	9,837	134,914	11,055	35,530	2.169	3.900
PostV03	18,028	47,062	210,592	981,549	3,684,089	934,487	879,686	2.065	4.344
PostV04	-5,519	23,408	75,174	249,322	1,239,136	225,914	358,837	1.721	1.719
PostV05	0	23,378	116,792	529,701	2,477,971	506,322	570,095	2.336	5.879
PostV06	-0.015	0.232	0.466	0.659	0.926	0.428	0.242	0.108	-1.064
PostV07	0.074	0.341	0.534	0.768	1.015	0.428	0.242	-0.108	-1.064
PostV08	-0.666	0.008	0.045	0.114	1.345	0.106	0.250	2.352	16.462
PostV09	-0.135	0.002	0.019	0.058	0.119	0.056	0.047	-0.680	2.121
PostV10	-0.535	-0.005	0.033	0.074	1.379	0.079	0.232	3.795	24.223
PostV11	-0.109	-0.002	0.020	0.036	0.101	0.037	0.038	-0.626	1.990

Table 3. Comparison Results for Examined Variables in Pre- and Post-merger Period.

Variable	Mean Pre-Merger (2 years avg.)	Mean Post-Merger (2 years avg.)	p-value
V01	-204.29	18,722,46	0.013***
V02	-3.689.66	15,132.78	0.005***
V03	467,921.9	636,272.4	0.337
V04	189,861.2	250,481.6	0.382
V05	278,060.6	377,582.4	0.393
V06	0.562	0.464	0.174
V07	0.438	0.536	0.173
V08	-0.682	0.050	0.141
V09	0.014	0.024	0.481
V10	-0.766	0.046	0.135
V11	-0.004	0.016	0.136

NOTE: According to calculations made by contrasting the average of two separate subassemblies (two independent sample mean t-tests at ratios of sample), ***,**,* indicates that the change of the mean is statistically different from zero at a significance level of 0.01, 0.05, and 0.10, respectively. More specifically, the categorization levels for the three aforementioned examples are as follows in relation to the p-value:
Strong evidence rejecting H_0 is indicated by $p<0.01$ (denoted by ***).
Moderate evidence opposing H_0 (denoted by **) is $0.01 \leq p<0.05$.
Minimum evidence on H_0 (denoted by *) is $0.05 \leq p<0.10$
No meaningful proof is presented against H_0 by $0.10 \leq p$.

5. RESULTS

"The table **2** tabulates an analytical presentation of the data survey as a whole over the period 2017–2019 of the sample firms, showing the descriptive statistics in the pre-merger period and the post-merger era (PostV01-PostV11).

The findings of the statistical survey overall for the years 2017 through 2019 are presented in detail in the table **3** using the t-test of the sample firms."

The results revealed that two profitability accounting measures (earnings before taxes and earnings after taxes) of the eleven accounting metrics (five accounting measures and six financial ratios) saw a statistically significant increase, according to the statistical study done during the 2017-2019 examined merger period. These findings are consistent with other research (Mueller, 1985; Dargenidou et al., 2016; Alhenawi & Stilwell, 2017) that discovered improved performance following mergers. The findings of this study, however, differ from those of earlier research that found a decline in post-merger performance (Harford et al., 2009; Jandik & Lallemand, 2014; Harrison et al., 2014), or even no change in the post-merger period (Healy et al., 1992; Sharma and Ho, 2002; Pantelidis et al., 2018).

6. DISCUSSION AND CONCLUSION

Every organization wants to lower operational costs and boost revenue. Businesses frequently merge as part of a strategic development in order to strengthen itself, offer new products and services, and win over customers in a cutthroat market. Mergers do not always result in success, though. Previous research has demonstrated that mergers in many historical eras and nations did not provide the desired outcomes. Management, owners, and employees should approach the new investment systematically and with a comprehensive business strategy because this procedure will have a direct impact on the purchasing company's future.

From the examined sample of this study for the Greek market, it has been found that two profitability accounting measures (earnings before taxes and earnings after taxes) were significantly from the merger event: more precisely there is an improvement in their performance. Thus, it is partially supported that mergers could be a successful model of business development in the business world.

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