

### A STUDY ON MERGER AND ACQUISITION IN ADVERTISING INDUSTRY

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#### Abstract

*This study develops and tests theory about the context-specifying and outcome-dependence of experiential learning in acquisition processes. First, we investigate whether learning from experience gained in different acquisition context is limited to influencing subsequent outcomes of same-context transactions. Second, we analyze whether learning patterns in response to prior successes and failures differ across acquisition context, depending on two properties of these contexts—the degree of structural variance and the level of stimulation of deliberate learning. Learning is assessed with respect to an underexplored organizational goal variable in acquisitions: completion of a publicly announced transaction. An analysis of 4,973 acquisition attempts in the newspaper industry in 1981–2008 largely supports our theory.*

**Keywords:** organizational learning; experiential learning; contextualization; acquisition completion; newspaper industry

#### INTRODUCTION

Merger and acquisition are the two broad concepts which is widely used in today's world. As the world is changing the concepts of M&A is also changing. At some point both are treated to be different term and some point both the are treated to be equal theoretically.

Merger means where two or more companies mergers together and forms one company where the both merging companies can take there decision on the mutual consent and the Board of Directors does not change they remain the same.

Acquisition means whereby the two or more companies becomes one. Here in acquisition along with the assets of the company Board of directors are also changed and is acquired by the acquiring company.

The advertising industry is the global industry of public relation and marketing companies, media services and advertising agencies - largely controlled today by just a few international holding companies. It is a global, multibillion-dollar business that connects manufacturers and consumers. The industry ranges from nonprofit organizations to Fortune 500 companies.

Revenues of U.S. advertising agencies were \$166.8 billion in 2014. In 2016, global advertising sales reached \$493 billion. For 2017 it was estimated that digital ad sales were first to surpass the TV market.

#### LITERATURE REVIEW

In line with prior work (King et al., 2004) we use the terms 'acquisition' and 'merger' one over the other to refer to interfirm activities resulting in shared ownership in a new firm, or in one party acquiring stakes in another firm. In practice, the choice of terminology is often strategically or politically motivated (Weston et al., 2004) (Finkelstein, 1999). Organizational learning theory holds that experienced-based learning promotes performance through its effects on knowledge creation and transfer, and by inducing changes to organizational strategies, and structures (Cyert and March, 1963). *Context-Specific Learning toward M&A Completion* 939 as a function of cumulative output—rests firmly on the psychological theory of reinforcement learning through repetition. However, outside of operational settings, the effects of experience on learning and outcomes have proved to be more elusive. Complex, unstructured task environments—as typical of corporate-level administrative and strategic activities—reinforcement learning and the identification of links between current actions and observed outcomes (Denrell, et al., 2004). Fowler and Schmidt, (1989), for example, found a positive effect of total cumulative M&A experience on subsequent acquisition performance, while Hayward (2002) and Kusewitt (1985) reported a negative relationship.

A free and independent press is vital to society and to democratic government. Advertising plays an important role as a major source of media funding. This paper studies how advertising aspects the ability and incentives of media to provide high quality, independent news. There are two contrasting views. The liberal view of media history claims advertising has a positive effect on the media, highlighting how the revenues enable newspapers to be independent from states and political parties. The regulatory view, on the other hand, argues that media may distort their coverage to accommodate advertiser concerns, even claiming that excessive commercialism in news and media content weakens the participatory foundations of democracy.

Bagdikian (2000) offer detailed accounts of the history of suppression of news on tobacco-related diseases. Complementing this evidence, Warner and Goldenhar (1989) statistically identified tobacco advertising as causing the reporting bias. Another more recent case is misreporting on anthropogenic climate change.

**Boykoff and Boykoff (2004)** demonstrate a clear bias in the US quality press over 1988-2002. Automotive advertising has been signal as a key ex-planatory factor: in the US in 2006, automotive advertising alone accounted for \$19.8 billion of which nearly 40% went to newspapers and magazines (Advertising Age, 2007). Within each of the contexts, we further distinguish between experience with successes and failures. The way in which experiential learning is conditional on prior outcomes has received little empirical attention compared with the literature on learning from aggregate experience (**Argote, 1999**). A limited body of work has investigated distinct effects of failures and successes. Few of these studies have included both types of outcomes. Only one has directly compared learning from failure with learning from success (**Madsen and Desai, 2010**), and none has analyzed the context specificity of experiential learning from success and failure, as we have done over here.

### HYPOTHESIS

We have identified six acquisition contexts that we expect to confer structural similarity. We argue that experience—both with successes and failures—gained in each of them significantly affects the completion of likelihood of subsequent same-context deals, in contrast to experience gained in a structurally dissimilar, alternative context.

Hypothesis : Completion likelihood of a focal M&A is affected only by prior success experience gained in the same context, as opposed to experience gained in a structurally dissimilar, alternative context.

Hypothesis : Completion likelihood of a focal M&A is affected only by prior failure experience gained in the same context, as opposed to experience gained in a structurally dissimilar, alternative context.

### RESEARCH METHODOLOGY

#### Estimation techniques

We estimated a binary logistic regression model with *M&A completion* as the dependent variable. While the unit of analysis is the announcements were made by a sample of firms that made multiple acquisitions over the sampling period. Thus, this data make up an unbalanced panel, as the number of M&As differs by firm. If we were to treat the data as a pooled cross-section, we would ignore the within-firm correlation in the error term, treating this observation as independent. Yet, our data are technically not a panel dataset—that is, we do not follow firms over time and observe firms only when they engage in M&A activity, we implemented a Hausman test to choose between a fixed and random effects specification. We could not reject the null hypothesis of no correlation between the right-hand side variables and the error term. Hence, a random effects estimation technique would be acceptable in this case. An alternative approach applicable in this case, which is adopted, is estimating models using clustered standard errors that account for within-firm correlation. This is similar to using a random effects estimation, as it also addresses the issue of lack of independence due to multiple acquisitions by the same firm. Its advantage over a random effects estimation is that it gives continuous estimates across a broad range of possible correlations.

### RESULTS

Model 1 adds the ratio of the sum of failures to the sum of successes. This serves as a proxy of a firm's historical failure rate. Sign and significance of the term suggest that a record of failures negatively impacts completion probability. In robustness tests, we estimated this models including 'one-timers'—firms that attempted only one deal during 1981–2008—and included an indicator for firms that attempted several acquisitions. The experience variables were interacted with this indicator and appeared only for those firms that had attempted at least one M&A in the past. This method allowed the subgroup of firms with experience to have a different baseline probability of completion. The indicator was not significant and its inclusion did not change the results substantially. As to the control variables, cash-financed M&As were more likely to be completed, whereas other deals involving public acquirers and public targets, and subsidiaries were less likely to be completed. Model 1 does not allow us to account for the separate effects of positive and negative prior outcomes. Therefore, in Model 2, experience is decomposed into successes and failures. The results indicate that composite success experience had a positive influence on the likelihood of completion ( $p < 0.01$ ) with diminishing returns, as predicted by Hypothesis 1a. Unlike hypothesized, we found evidence of an inflection point at three past completed M&As. Failures has a important negative impact up to a turning point at around six failures, and a positive effect beyond this ( $p < 0.01$ ). This suggests partial support for Hypothesis 1a and full support for Hypothesis 1b. In robustness tests, we investigated whether it was one type of firm driving the successes and another type driving the failures. To this end, we examined the break-down of successes and failures per firm. Of the 1,964 firms in his sample, only 310 firms experienced solely failed or solely completed M&As. These firms contributed in total 839 attempts. The remainder of the announcements was made by firms that experienced a mix of failures and successes. This is because firms that exclusively experienced failures (successes) typically made two, at most three, acquisitions over the sample period. Omitting these 839 cases did not change the significance of the coefficient estimates, but their magnitude varies slightly.

Variables	Model 1 Ratio composite failures to composite successes	Model 2 Composite success and failure experience
Intercept	1.955*** (0.199)	1.345*** (0.120)
Cash payment	0.490*** (0.128)	0.532*** (0.096)
Public status acquirer	-0.386*** (0.128)	-0.235*** (0.081)
Public status target	-1.165*** (0.1777)	-0.869*** (0.118)
Divestiture	-0.077 (0.161)	0.002 (0.161)
Target subsidiary	-0.341** (0.157)	-0.329*** (0.106)
Previous quarter M&A successes	0.019*** (0.004)	-0.022*** (0.002)
Previous quarter M&A failure	-0.069*** (0.008)	-0.064*** (0.006)
Total experience	-0.020 (0.021)	
Total experience <sup>2</sup>	0.0006 (0.001)	
Ratio composite failure to composite successes	-0.182** (0.081)	
Composite success experience		0.092*** (0.024)
Composite success experience <sup>2</sup>		-0.003** (0.001)
Composite failure experience		-0.217*** (0.047)
Composite failure experience <sup>2</sup>		0.0158*** (0.004)
Cases in the analysis	3,666	4,973
Wald chi-square	150.00**	218.90***
-Pseudo log-likelihood	1,408.68	2,836.16

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1 (standard errors in parentheses).

## CONCLUSION

This study answers significant questions concerning distinct learning processes in response to success and failure, with context as a powerful moderating influence. The results suggest that learning from success can enhance future performance but in more complex ways than suggested by, self-limiting process traditionally conceptualized in experiential learning theory. It reveals that prior successes had a positive and non-diminishing influence in some contexts, whereas in other contexts, and at the average level, the impact was positive for small numbers of completed transactions but turned negative for larger numbers. These results may help reconcile ambiguities discussed in the literature. On the one hand, success experience appears to subsequent performance by facilitating the refinement of successful routines. The results suggest that which of the effects dominates may depend on the specific context and its properties, such as the degree of structural variance and extent of stimulation of deliberate learning. In most contexts, the predicted U-shaped pattern prevails, indicating that after a long failures, firms reach a turning point beyond which they are able to successfully encode lessons from further terminated attempts into their routines and ultimately improve the chances of completing future deals. Yet, in domestic and hostile M&A contexts, the adverse effects of failures dominate, suggesting that certain contextual characteristics, such as a high degree of structural variance within a context, obstruct learning.

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