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RESEARCH ARTICLE

Impact of Mergers and Acquisitions on Accounting-based Performance of Acquiring Firms in Saudi Arabia

Dr. Abdul Malik Syed[1*], Doaa AlJedani[2], Dr. Mahdy Othman[3]

University of Business and Technology, Jeddah, Saudi Arabia

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***Corresponding Author:**

a.syed@ubt.edu.sa

ABSTRACT

The purpose of this study is to investigate the influence that mergers and acquisitions (M&A) have on the accounting-based performance of acquirer companies in Saudi Arabia. Particular attention is paid to the significance of key financial measures such as free cash flow, cash flow from operations, and net income. Based on the findings of the investigation, it is evident that cross-border, minority, and company agreements are the most prevalent types of financial transactions. Additionally, there is a strong preference for cash payments and friendly bids. Nevertheless, the research is restricted by the fact that it relies on historical data that is accessible to the public, there are problems with presentation, and there may be biases in the classification of the data. This constraint should be addressed in future study, and additional aspects that influence the effectiveness of mergers and acquisitions should be investigated. These factors include strategic alignment and long-term synergies.

INTRODUCTION

Mergers and acquisitions (M&A) stand as the various types of investment that can be made its strategic moves done by the companies, which sometimes change the competitive landscape of industries and can have dramatic effects on the performance of companies, investors, and the global economy. The M&A process requires a merger or acquisition of different companies through various methods like mergers where two companies come together to form a new entity or acquisitions where one company buys another either by absorption or incorporation of the acquired company into the operations of the acquiring company (David, 2021). They are carried out for many reasons like reducing costs through economies of scale, boosting market share, diversifying product portfolios, accessing new technologies or markets or maximizing performance through synergies. M&A has been a trend in all industries and regions around the world. It is commonly caused by conditions such as globalization, technological innovations, regulatory changes, and consumer preferences (Bai, Jin, & Serfling, 2022). The M&A transactions mean both benefits and problems, concerning providing growth opportunities and competitive advantage but also having integration issues, cultural clashes, financial strains, and low shareholder satisfaction. The planners and the managers of the merging companies should use their expertise and communicate effectively to mitigate the risks and enjoy the benefits of the merger. Apart from the diverse outcomes of the M&A, some end up as spectacularly transformative success stories while others are left bankrupt and without profit.

In the current dynamic environment, knowledge about the subtleties of M&A transactions is paramount to corporate executives, investors, policymakers, and other stakeholders to make informed strategic decisions, take advantage of arising opportunities, and avoid any potential pitfalls (Rahman, Lambkin, & Shams, 2021). This introduction is, therefore, an attempt to create a precursor for the discussion on the many aspects of mergers and acquisitions including their drivers, dynamics, and challenges relating to the shaping of businesses and economies worldwide. Furthermore, M&A transactions can cause market competitiveness and concentration problems, and they are frequently found in industries that experience consolidation. In the sphere of mergers and acquisitions, the distribution of market share can be disrupted, which may, in turn, alter the competition dynamics and fuel the growth of monopolies or duopolies (Borodin, Sayabek, Islyam, & Panaedova, 2020). Also, such transactions may be good news for investors who will be confident and have a positive attitude that will result in widening the market optimism and possibly drawing the same in further investments. At the same time, M&A operations might be the source of potential risks and obstacles for the stock market. Another investor mood killer is deals that failed or were poorly implemented which can leave the investors with a feeling that they may never recover. As a result, stocks devalue, which leads to market volatility (Vastola & Russo, 2021). Furthermore, regulators' oversight and antitrust concerns that accompany comprehensive mergers may also hamper market confidence and delay deal completion processes. Most notably, the stock market is affected by an M&A activity through stock prices, trading volumes, market competitiveness, and investor sentiment. The outcomes, however, may depend on many factors such as the deal rationale, implementation quality, regulatory environment, and broader economic indicators.

In Saudi Arabia and other ranked corporations, M&As are utilized as strategic procedures for attaining different corporate targets. The economy of Saudi Arabia is quite competitive and the business environment is vibrant, so M&As are the key to gaining more market share, diversifying the services/products, and exploring new chances. To enhance the competitiveness of listed companies, encourage the development of new technologies, and strengthen their market position within the country and outside the Saudi Arabian market. In addition, mergers and acquisitions of Saudi Arabia-listed companies led to market concentration, industry concentration, and economic progress that are the appropriate setting for investors. Hence, M&A is a strategic tool for public companies in the Saudi Arabian market to bolster the efficiency of their operations, generate value, and increase shareholder wealth.

Saudi Arabian holding companies constitute the agents in the process of economic diversification and prosperity which are associated with the elements of improved stability of the existing industries (Vertakova, Vselenskaya, & Plotnikov, 2021). This is the key role and backbone of the economic growth of Saudi Arabia companies such as Saudi Arabian Holding Company (SABIC), Saudi Telecom Company (STC), Saudi Basic Industries Corporation (SABIC), and many more play the leading role and institute in the economic development of Saudi Arabia Their subsidiary structures aid in the implementation of M&A strategy which is aimed to improve operational efficiency, increase market reach, and take advantage of new trends. They do so through a diverse portfolio of groups that promotes innovation, entrepreneurship, socio-economic development, global competitiveness, and health care through promising sectors such as petrochemicals, telecommunications, and banking (Pillay, Chiba, Verachia, & Mthombeni, 2021). The leadership vision, the rational investment strategies, and the good corporate governance rules make the holding companies of Saudi Arabia the key players in the economic development, sustainable growth, and prosperity of all the stakeholders and society in general.

The research's purpose is to assess the merger's impact on the financial performance of the leading companies in Saudi Arabia. The merger is a strategic business move of the acquirer the performance of the acquiring firm in accounting will be affected. The merger will be judged to be successful if it has resulted in a marked change on the part of the acquiring company, more importantly in the area of accounting performance. It is vital to examine the effect of the classic merger scheme on accounting performance as the firms within the same industry will have some evidential references to refer to if they choose the same strategies for expansion. We have examined the Saudi company's performance in accounting before and after the merger. A creditworthy accounting system has considered the evaluation of accounting effectiveness in both the pre and the post-merger terms. The variable of trading price, volume, and market premium is also studied in the stock exchange to check the market demand and the level of confidence concerning the merger and acquisition.

The data used was from Bloomberg and Tadawul. The data on Tadawul, which we use, will help us to determine the real-time response of the market both before and after the merger and acquisition. Tadawul has been undergoing several reforms which have led to the improvement of market transparency, liquidity, and efficiency (Hughes et al., 2020). Interestingly in 2015, the exchange opened its doors to foreign investors, enabling reputable foreign institutions to directly invest in Tadawul listed stocks. With the change, the objective was to attract foreign capital, diversify the investor base, and put the Saudi market in line with international standards.

In the last few years, Tadawul has been witnessing companies of different sizes, such as state-owned enterprises that are part of Saudi Arabia's Vision 2030 program as a tool for diversifying the economy and reducing the country's dependence on oil. Tadawul's actions and performance are under the spotlight of both domestic and international investors, which proves the importance of the market as one of the key financial sectors in the region and globally (Attah-Boakye, Guney, Hernandez-Perdomo, & Mun, 2021). Investors' perception of the deal's potential gain or loss may lead to the stock rising or falling, which can be interpreted as market optimism concerns or skepticism. Market participants analyze such factors as the strategic rationale, financial consequences, integration risks, and synergy potential to evaluate the effect on the buying company's future performance. Acquiring companies may require raising capital for M&A deals with the issuance of new shares, bonds, or the use of cash reserves. The chosen method of financing the deal can have a significant impact on the acquiring company's stock price and the overall investor sentiment. In addition, issuing new shares may lead to the dilution of existing shareholders' ownership stakes which in turn may result in a drop in the stock price, while using cash reserves or debt financing is likely to result in different implications (Bansal, 2020).

The real impact of M&A transactions on the acquiring company's stock performance might persist after the completion of the deal, which are integration progress, synergy realization, operations performance, and market conditions. Effective integration and value creation efforts are among the reasons for the stock price growth and this is possible as opposed to the case when integration problems arise and expectations.

2. LITERATURE REVIEW

It has been noted that a growing number of Saudi Arabian businesses are incorporating themselves, which is indicative of plans, policies, and efforts to diversify the country's mono-economy by reducing its reliance on oil. Led by Crown Prince Mohammed bin Salman, the Saudi Vision 2030 emphasizes the need for medium- and long-term sustainability through the expansion of private enterprises and entrepreneurship. To make things easier for business owners, the Saudi government has put in place several incentives and support systems, such as quick company registration, reduced red tape, and financial incentives for start-ups and small businesses.

In this section, we will provide a brief conceptual background of M&As. We will delve into the reasons and motivations behind M&A activities. Then we will review the literature on M&A in the MENA region and its impact on financial performance. Finally, the literature and relevant empirical studies pertinent to the impact of M&As on financial performance will be critically reviewed in the Saudi Arabia context to identify the gaps.

Mergers and acquisitions (M&As) are calculated, strategic transactions that create synergies and effect market share or competitive advantage by combining two businesses or organizations that want to dominate the other. M&A is a crucial transaction in the Kingdom of Saudi Arabia since it affects the stock market, corporate climate, and economic health of the nation (Shaomeng, Guy, & Gregoriou, 2020). The current essay's literature review covers the determinants, trends, and influence of mergers & acquisitions in Saudi Arabia – a country whose economy is characterized by a particular set of features. They were suggesting that the share prices of the combined firms and those who were the buyers were significantly impacted by the announcement of merger contracts. Growing share prices for both the purchasing business and, in certain situations, the target company may be the result of certain investors' positive market reactions to merger and acquisition agreements, which they view as strategically or value-enhancing. (Bi, Tang, & Tharyan, 2020). On the other hand, some investors would be negatively affected if they think that the merger and acquisition deals are too expensive, not well-structured, or not value-enhancing for the shareholders, and the stock price will be down.

In his definition, Kishore distinguishes between the phrases "merger," "amalgamation," and "absorption," which are commonly used synonymously (2009). When two firms' shareholders choose to combine their resources under one roof, it's called a merger; if one of the companies loses its identity as a separate organization, it's called absorption; if a new company is created, it's called an amalgamation.

The M&A dealings in Saudi Arabia have been developed as a very attractive practice lately because of the conduct of reforms, government initiatives, and market dynamics. M&A transactions are a two-edged sword - they can be a source of value creation, expansion, and strategic reorientation for the companies, yet they also pose problems and risks for companies, investors, and the stock markets. Domestic and international effects of M&A deals on the stock market are substantial and essential for policymakers, regulators, and market players to handle the intricacies of the M&A world so that they have an effective and efficient financial market in Saudi Arabia.

2.1 Motives for mergers and acquisitions:

M&A are driven by a range of incentives, including external and managerial objectives as well as value maximization (Ayadi, 2008). According to strategic literature, mergers are also motivated by managerial and value-maximizing theories (Seth, 1990; Urio et al.al., 2012). According to Hempel et al. (1994), one other justification for M&As in literature is their use as a weapon for averting or resolving banking crises. If banks wish to leave the industry or a particular market, acquisition is thought to be the most effective strategy. Well, it is in addition to being a useful tactic for regulators to prevent bank failure, since bankruptcy and liquidation have a detrimental effect on both individual banks and the nation's financial sector. To prevent bank liquidations, prevent other bank collapses, and ultimately prevent the collapse of the entire banking system, for example, a wave of bank M&As followed the bank failures that began in the early 1980s in the United States.

2.2 Review of related Literature on M&A and Firm Performance

The following paragraphs discuss critically the related literature on M&A and Firm Performance to find the gaps in the Impact of Mergers and Acquisitions on Accounting-based Performance of Acquiring Firms in Saudi Arabia.

(Kumar & Bansal, 2008) discovered that the merger had a major favorable influence on the acquiring firm's profitability and liquidity, but it had no discernible effect on the company's solvency status. In the medium run, companies in the service sector have significantly improved their accounting metrics, outperforming manufacturing companies. (Bi, Tang, & Tharyan, 2020) focuses his research on non-auditing services provided by audit firms and highlights the option of due diligence auditors during the purchase process. (Shaomeng, Guy, & Gregoriou, 2020): in their research argue the case that the opposing viewpoints overlook the lag time between acquisitions. By looking at data from 24,263 purchases made over a 19-year period in 81 countries worldwide.

(Angwin, Urs, N, Vourloumis, & Kastanakis, 2022) in their study looks at the circumstances approach for examining how different forms of mergers and acquisitions affect market performance. identifies eight distinct kinds according to three contexts: the CEO's motive, the acquired company's plan, and the external environment. Whereas (Attah, Guney, Hernandez, & Mun, 2020) investigates the factors leading to the termination of specific M&A contracts and the legal structures within individual countries. This investigation relies on information gathered from over 140 nations from 1977 to 2014.

(Delis, Kazakis, & Zopounjdis, 2021) investigate the impact of management strategies on decisions related to mergers and acquisitions (M&A). M&A, considered among the most crucial corporate choices, demands considerable managerial expertise and resources. Employing a structural equation production model and Bayesian methodologies, the study assesses management practices as an unobservable variable. Based on the study of (Bai, Jin, & Serfling, 2020), implementing more organized management techniques is a major way for mergers and acquisitions to create value.

(Borodin, Sayabek, Islayam, & Panaedova, 2020): examines the impact of mergers and acquisitions on the financial results of US and European businesses. 138 M&A deals that were completed in these two regions between 2014 and 2018 comprised the sample that we examined. (David, 2020) examined changes in the selection process, entrepreneurship, and the size distribution of enterprises in order to develop a theoretical framework for merger activity at the firm level and to establish links between mergers and acquisitions (M&A) and general economic outcomes. Theoretical model in line with several specific micro-level observations about M&A activity in the US, including the classification of combining companies, large merger premiums, and acquisitions in sequence. However, (Hughes, et al., 2020) examines into how, within the context of cross-border mergers and acquisitions, actions (organizational entrepreneurship) and frameworks (integration) manage knowledge transfer activities at the organizational and micro-foundational levels. This is made possible by an examination of 143 international M&A deals carried out by UK acquisition companies.

(Khan, Uddin, & Hossain, 2023) study employs a model of merger and acquisition announcements involving companies in the UK (Home Takeover) and other countries (Cross-Border Takeover) that spans the period from January 1, 2019, to June 30, 2022. The research focuses on the outcomes of 50 Home Takeover companies (UK companies acquiring other UK companies) and 50 Cross-Border companies (UK companies acquiring foreign companies) in order to understand the after-effects of merger and acquisition announcements on the stock prices of target and acquiring firms. Furthermore, (Klok, Kroon, & Khapova, 2023) in their study examines how emotions play a part in mergers and acquisitions at various stages.

According to (Kuvandikov, Pendleton, & Higgins, 2020) considering the "wealth transfer" approach, this article investigates whether profits gained by shareholders via business takeovers come at the expense of workers. It examines how anomalous share price movements, and the takeover premium are affected by employee layoffs, employment, and wage changes.

In their research results (Pillay, Chiba, Verachia, & Mthombeni, 2021) confirmed the multidimensional nature of absorptive capacity and found a positive correlation between a target firm’s knowledge flow and productivity and its absorptive capacity. Additionally, their results indicated that knowledge flow and operational processes will support the introduction and integration of external knowledge into a target firm. Thus, understanding the absorptive capacity of target firms is central to the ability of new and existing knowledge to be assimilated.

(Rahman, Lambkin, & Shams, 2021) examines the motivations behind the acquisitions of cross-border acquiring firms by businesses in developing nations, most of which are in industrialized nations. The corporations are acquiring this business to access new markets and capitalize on the cross-border transfer of administrative and knowledge skills. This essay examines this topic using the experiences of 34 emerging-market businesses that have purchased established businesses in developed nations.

(Survaningrum, Abdul rahman , Meero, & Cakarnegara, 2023) attempts to shed light on the management aptitude of the acquirer in mergers and acquisitions by analyzing both the type of M&A and its short- and long-term performance. The study sample comprises 153 mergers and acquisitions (M&A) instances carried out by Indonesian enterprises registered with the Business Competition Supervisory Commission between 2010 and 2017, with performance data extended until 2020.

(Tanna, Yousef, & Nandi, 2021) examines whether the underlying traits that typically impact acquirers' shareholder returns have an impact on the likelihood of deal success or failure in merger deals. These attributes include the mode of payment (cash versus stock), the target status (listed against non-listed targets), the degree of diversity (local versus international and sector-wide transactions), and the bidders' track record.

(Vertakova, Vselenskaya , & Plotnikov, 2021) lists the primary risks associated with mergers and acquisitions, ranks them according to significance, chooses the best risk management instruments, and creates a computer program that handles tool selection for each unique merger and acquisition procedure. (Mohammed & Jalal, 2022) understand that the phenomenon of domestic M&A is a phenomenon of big cities and know the participation of small and medium enterprises. The political variable, the trade agreements and the socioeconomic weight of the countries influence the cross-border M&A in to out. Sharing a border and common culture has no impact on cross-border M&A but the history of colonization has an impact.

(Mohammed, Mohammed , & Abdellatif, 2021) use multiple regression and the event study approach to analyze value creation in mergers and acquisitions and its determinants in the MENA area. Overall, our findings suggest that targets benefit more from mergers and acquisitions than do acquirers. The acquirers gain the most from domestic transactions, whereas the targets gain the most from cross-border transactions. (B, 2011) suggested M&A risk management model takes risk variables into account and seeks to manage and minimize related risks to maximize the likelihood of success in M&A activities.

(Douglas, Varun, Satish, & Nitesh, 2023) in their study examined publishing trends and key issues in the literature on mergers and acquisitions in accounting. They found that major themes of research in the finance area include takeovers as governance mechanisms, drivers of mergers, mechanisms of mergers, bank mergers, cross-border mergers, shareholder wealth effects of mergers and related events, the role of financial experts, and ownership structure. In the accounting area, major themes include corporate governance and accounting outcomes, valuation, financial reporting and takeover decisions, and financial reporting and performance.

(Desheng, Cuicui, Haofei, & John , 2014) stressed that operational efficiency is a crucial factor for businesses thinking about combining internal and external business units, this study creates a leader-follower game model to assess operational efficiency. An algorithm and profit-sharing plan are presented to solve the model while preserving coherence with the stimuli in each unit's decision-making process. The study also demonstrates the efficiency of a supply chain based on graph analysis, where a leader is at the top and followers are at the bottom.

According to the (Neelam, Surendra, & P, 2015) study, investors can make big returns if they buy the acquiring company's shares two days before the announcement and sell them two days later. Selling early also indicates that profits are higher, and issuing shares for mergers and acquisitions is not good news. The study also demonstrated that declaring cross-border mergers yields significantly larger profits than local mergers, with the cumulative excess gains in the former case being finalized while in the latter case being transient. A full takeover of the target company yields larger returns than a partial takeover, according to the research, which also showed that announcing a takeover financed by cash payment yields very big returns.

(Kavitha & Poonam, 2018) examines the impact of 52-week pegging on the Indian buyout market. They concluded that even in cases where lower reference prices are the focus of regulation, buyers are nevertheless prepared to pay a bigger premium during peak pegging. Centers for regulatory control are further areas of emphasis.

Internal Effects of Mergers and Acquisitions on the Stock Exchange in Saudi Arabia:

Due to market dynamics, government initiatives, and the implementation of reforms, M&A deals have become increasingly lucrative in Saudi Arabia. M&A transactions are a double-edged sword for businesses; while they can help them grow, expand, and reorient strategically, they can also provide challenges and hazards to investors, businesses, and the stock markets (Ade, Dominicus, Nimmi, & Roy, 2021).Policymakers, regulators, and market participants must navigate the complexities of the M&A world to ensure that Saudi Arabia has a functional and efficient financial market. The implications of M&A agreements on the stock market, both domestically and internationally, are significant.

2.3.1 Stock Price Movements:

The announcement of M&A deals in the Saudi Arabian market is what drives significant fluctuations in stock prices, both for the acquiring and target companies. The stock price may move in the company's favor if positive news is announced, such as plans to acquire another business to improve its position in the market or seek new business diversification (Kuvandikov, Pendleton, & Higgins, 2020). Positive reactions can drive up stock prices, but negative reactions—such as those resulting from commercial contract conditions, integration difficulties, and regulatory obstacles—can drive down stock prices. Furthermore, because their responses carry more weight, moves pertaining to the participation of big investors and government agencies in M&A transactions in the Saudi market may be accentuated.

2.3.2 Trading Volumes:

With the least significant news on mergers and acquisitions, investors can engage in a multitude of activities. If the deal is big, investors might be very interested in it and there will be more activity because people and businesses would want to take advantage of the opportunities or reallocate their portfolios to take advantage of the circumstances (Tanna, Yousef, & Nandi, 2021). It is possible to highlight that the product is not the only factor influencing the search for meaning through investment activities; other factors include market liquidity, investor trust, and the availability of information.

2.3.3 Market Liquidity:

In Saudi Arabia, market liquidity is influenced by M&A transactions, which establish how simple it is to dump assets without having to pay premium pricing. Increased trade volumes may boost market liquidity temporarily, but when ambiguity or disruptions surrounding particular agreements emerge, market liquidity typically deteriorates (Sterin, 2020). Tadawul has been working to fortify the market infrastructure and tighten regulatory monitoring to make the market structure more efficient and transparent. However, challenges constantly arise, particularly when managing liquidity during periods of heightened volatility or uncertainty.

2.3.4 Volatility:

M&A announcements would have a big impact on the Saudi stock market because investors usually react to new information by adjusting their expectations about how the companies will perform going forward and how the deals will affect their strategic direction. While some volatility is inevitable in the stock market, excessive volatility can be detrimental to investors and market stability (Angwin et al., 2022). Effective risk management techniques, along with frameworks from governance and regulatory agencies, are used to reduce the detrimental effects of volatility on the Saudi stock exchange. Furthermore, establishing market transparency, educating investors, and practicing good corporate governance are all important since they will help to stabilize and lessen uncertainty.

External Effects of Mergers and Acquisitions on the Stock Exchange in Saudi Arabia

The dynamics of the Saudi Arabian stock exchange are shaped by the M&A (mergers and acquisitions) activity, which also has significant external repercussions on the currency and financial markets. The emphasis on the external impacts is on how the Saudi stock exchange (Tadawul) and the broader economy are affected by changes in competition, sector concentration, rules, and regulations. Market Competitiveness:

Since business dynamics are always shifting and there is competition within significant sectors, M&A acquisitions in Saudi Arabia have an impact on market competitiveness. By engaging in M&A activity, businesses can consolidate, leading to a rise in market concentration as a smaller number of companies hold bigger market shares.

2.4.1 Sector Concentration:

There has been a lot of merger and acquisition activity in certain industries. To give an example, the banking industry in Saudi Arabia has recently seen significant consolidation, with the larger banks acquiring smaller ones in order to increase their market share and diversify their product offerings, As an illustration, Al-Ahli Bank and Samba Bank 2022.

2.4.2 Regulatory Environment:

In Saudi Arabia, M&A transactions must have clearance from the CMA and SAMA, two regulatory bodies that oversee the industry. The regulatory climate has a significant impact on the M&A deal structure and compliance challenges, as it determines whether a deal will require clearance (Klok, Kroon, & Khapova, 2023). The legal frameworks governing mergers and acquisitions are in place to protect investors, foster orderly and fair markets, and ensure openness and justice in trading. Changes to corporate governance or merger control laws, for example, can impact the type and volume of these transactions and investors' perceptions of regulatory predictability and market stability.

Investor Sentiment: The market's assessment of the business and economic conditions, as well as investor sentiment, are impacted by the external effects of MER activity on the Saudi stock exchange. Effective M&A communications can boost investor confidence and contribute to market optimism. Examples of such communications include strategic acquisitions or merger arrangements that investors view as adding value (Survaningrum, Abdul rahman , Meero, & Cakarnegara, 2023) .Conversely, unfavorable reactions to M&A announcements, such as concerns about the terms of the deal, integration hazards, or regulatory obstacles, can exacerbate market turbulence and breed uncertainty. Global markets, geopolitical developments, macroeconomic conditions, and M&A activity that affects market dynamics and performance all have an impact on investor mood generally.

In a nutshell, the competitive effect, sector concentration, regulatory environment, and investor sentiment are the external repercussions of mergers and acquisitions of the Saudi stock exchange. To address the complexities of the Saudi stock market and ensure that the system is stable, resilient, and dependable, it is imperative that all market participants—investors, regulators, policymakers, and others—interpret external repercussions (Survaningrum, Abdul rahman , Meero, & Cakarnegara, 2023). The primary stakeholders will be able to understand the broader effects of M&A activity for the Saudi economy and capital markets and take the required actions to ensure sustainable economic growth and development by keeping an eye on sectoral dynamics, regulatory developments, and investor sentiment.

3. RESEARCH METHODOLOGY

The methodology for the study on the effect of mergers and acquisitions (M&A) on the accounting-based performance of the acquirer firms in Saudi Arabia involves a systematic transaction of data collection, sample selection, analysis, interpretation, and deliberation of limitations.

Data

Data collection was mainly from the Saudi Stock Exchange (Tadawul), to guarantee transparency and credibility, directing our attention only to publicly listed acquiring firms as these provide financial reports that are reliable and openly available. M&A deals statistics data was extracted from the UBT Bloomberg lab.

Sampling technique

The criteria sample base will include acquiring companies with M&A activity in Saudi Arabia during the ten-year period 2014-2023. Some samples criteria will be transaction size, industry relevance, and availability of complete financial data that will guide the selection process.

Data analysis and Estimation techniques

Besides using the statistical methods mentioned, we will reflect upon the performance of the company by accounting-based performance metrics like profitability, liquidity, and solvency before and after M&A transactions. Controlling variables will factor in external factors that influence financial performance aside from the economic conditions and company-specific trends to have a solid analysis.

By computing and analyzing quantitative data, the study's findings will highlight how the effect of mergers and acquisitions (M&A) on the accounting-based performance of the acquirer firms in Saudi Arabia. As a result, the current study uses a descriptive design (Khalil et al., 2023b).

4. DATA ANALYSIS AND RESULTS

An examination of merger and acquisition activity in Saudi Arabia throughout the previous ten years may be able to shed light on the country's economic circumstances, predict business actions, and demonstrate the market's dynamic nature. The 522 deals that were executed in that time span show how important it is for researchers, analysts, and decision-makers to have precise and trustworthy data when attempting to comprehend the trends, causes, and outcomes of mergers and acquisitions in the Kingdom. The fact that 522 acquisitions have been completed in Saudi Arabia in the last 10 years shows how important M&A is to the country's economy. The industries that the covered transactions fall under include healthcare, banking, communication, and electricity.

Table 1: M&A Deals in the Kingdom of Saudi Arabia (KSA)

Year	Number of Acquisitions	Value of Acquisitions (USD)
2014	30	4,583,288,388
2015	24	2,403,009,365
2016	24	3,323,877,441
2017	38	3,531,643,322
2018	32	7,862,444,069
2019	41	71,876,931,020
2020	32	18,767,192,244
2021	102	37,130,147,717
2022	100	7,981,369,757
2023	93	7,924,706,945
2024	6	1,589,209,799

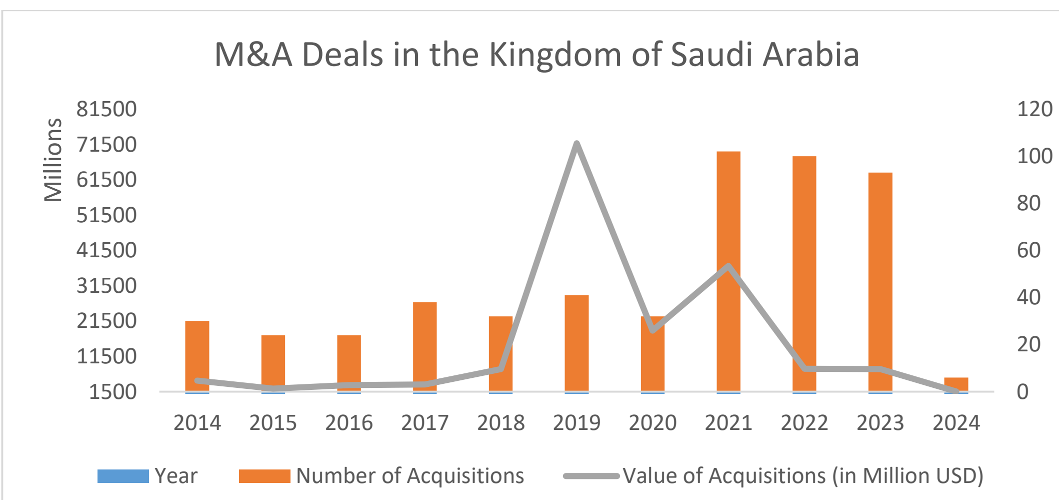


Figure 1: M&A Deals in the Kingdom of Saudi Arabia

Table-1 and Chart-1 presents the basic information about M&A transactions in Saudi Arabia during the last decade demonstrating the main metrics and characteristics of acquisitions for investigation. The total number of M&A transactions fulfilled in any year provide instances of M&A activity volumes and frequencies throughout different timeframes, which in turn inform analysts about the state of market activity and investor sentiment (Bi, Tang, & Tharyan, 2020)

Table 2: M&A Deals in KSA by Industry in 2023

Industry	Value of Acquisitions (USD)
Chemicals	79.6
Banks	25.27
Oil&Gas	17.23
Pipelines	12.4
Telecommunications	5.09
Others	27.38

The table gives the disaggregation of M&A deals in Saudi Arabia by their corresponding industries and the highest dollar values of acquisitions. This disintegration factor is the most important in terms of learning the vectors of driving M&A operations and seeing the role of each industry in the Saudi M&A landscape.

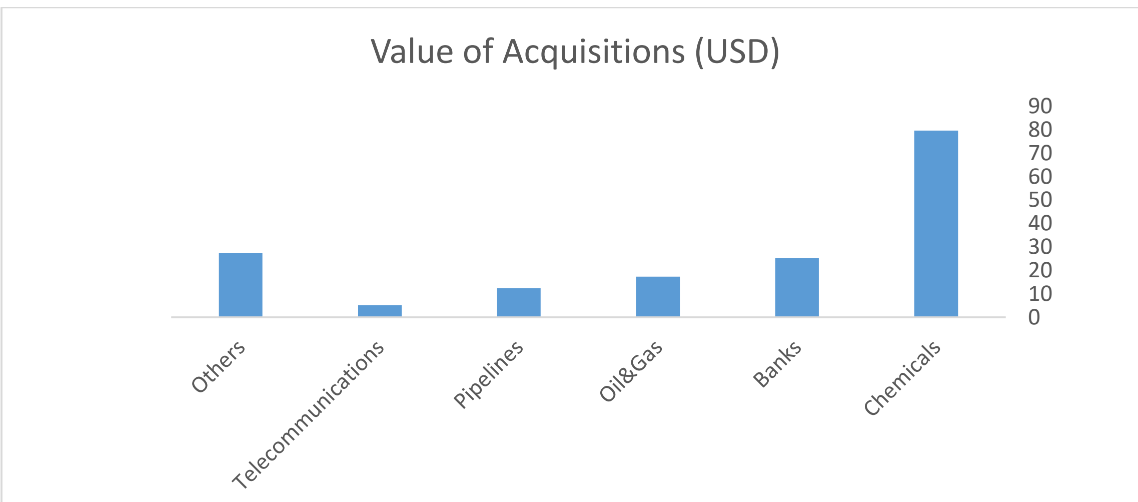


Figure 2: M&A Deals in KSA by Industry in 2023

Chemicals: $79.6B

With $79.6 billion in completed M&As, the chemical sector leads. This number indicates substantial chemical industry investments and transactions, including petrochemicals, fertilizers, and specialty chemicals. Due to its abundant oil, the Saudi economy relies on the chemicals industry. M&A activity in the chemicals business can emerge from new integration and expansion prospects, market consolidation, and entering new geographical or product lines (Borodin, Sayabek, Islayam, & Panaedova, 2020).

Banks: $25.27 Billion With $25.27 billion in M&A value, the banking sector ranks second. The Saudi banking industry lends to businesses, people, and the government, making it vital to the economy. Other variables that may influence banking mergers and acquisitions include regulatory changes, technology advances, and consumer needs.

Oil & Gas: $17.23B. The Saudi oil and gas business, worth about $17.23 billion, routinely undergoes mergers and acquisitions (M&A). Domestic and foreign investors want to explore, produce, distribute, and refine energy resources in the Kingdom due to its huge natural gas and oil deposits. M&A acquisitions may target the oil and gas sector for portfolio simplification, asset divestments, or strategic alliances to improve operational efficiency and competitiveness.

Pipelines: $12.4B Pipeline companies, a key oil and gas transportation and distribution sector, acquired $12.4 billion. Energy products are transported from manufacturing sites to end-use centers via pipelines, supporting many businesses and sectors. Pipeline M&A may be driven by infrastructure construction, capacity growth, and transportation network optimization to meet expanding needs and increase supply chain efficiency.

Telecom: $5.09B

Telecommunications, which focuses on consumer demands and technology growth, is worth $5.09 billion. Economic growth and innovation depend on connectivity, communication, and information and service availability, which the communications business provides. M&A interest is rising in the telecom business due to market liberalization, technology convergence, and the desire for market dominance.

Others: $27.38B

With $27.38 billion in investments, "Others" includes unnamed industries. This section includes medicine, construction, consumer products, and services, demonstrating the diversity of Saudi market sectors and occupations. These industries' market dynamics, trends, regulatory changes, and strategic needs may drive M&A.

We have examined the success of selected corporations in certain industries based on mergers and acquisitions, considering accounting performance as one of the determinants. The results are presented in Table-3.

Upon analyzing the mergers and acquisitions (M&A) events in Saudi Arabia and MENA region over the past decade, it is evident that M&A activities have an impact on the timing, sectors of activity, and M&A deal attributes in the Kingdom. To fully understand this insight, we will conduct a thorough examination of the tables above to obtain a precise understanding of the implications for investors, market participants, and policymakers.

3.1. Timing of Mergers and Acquisitions

Saudi Arabia's M&A scene is unique from others due to the large fluctuations in the number of deals that occur there each year, and this dynamic can be interpreted as such. For example, increased investor confidence, favorable market circumstances, and companies' plans to make strategic acquisitions are believed to have played a role in the growth of M&A agreements in 2021. On the other hand, the M&A market may see a fall in deal activity in 2024 due to macroeconomic variables, regulatory constraints, or periods of economic instability that may erode investor appetite.

Table 3: Selected M&A deals for Acquiring Firms and their accounting-based performance in year 2023

Company Name	Industry	Increase in Revenue 2019-2023 (USD)	Consolidated ROE	ROCE	Return on Assets	Debt Equity Ratio	Interest Coverage Ratio	Current Ratio	Liquidity Ratio

SABIC	Chemical	15.2 billion	12%	15%	8%	0.5	5	2	1.5
Saudi National Bank	Banking	9 billion	18%	20%	2.5%	0.8	10	2.5	2
Saudi Telecom Company	Telecommunication	2.5 billion	10%	12%	6%	0.6	8	3	2.2
Saudi Aramco	Oil and Gas	42.7 billion	15%	18%	7%	0.4	6	1.8	1.2
Saudi Aramco	Pipeline	2.9 billion	14%	16%	5%	0.7	7	2.3	1.8
NESMA	Construction	1.2 billion	8%	10%	4%	0.3	4	2.2	1.7
SNB Capital Co	Finance-Invest Bnkr/Brkr	270 million	20%	25%	12%	0.9	12	4	3
Alinma Bank	Commercial Banks Non-US	8.9 billion	16%	18%	5%	0.5	8	2.8	2.1

3.2 Analysis of M&A deal attributes in MENA region

The following section discusses the M&A deal attributes in MENA region:

The study employs a quantitative approach, analyzing data from multiple financial deals. The key deal attributes considered include Free Cashflow, Cashflow from Operations, Net Income, EBIT, Income Before Extraordinary Items (B/F XO), Net Income Plus (Net Income +), EBITDA, Revenue, Book Value, Stockholder Equity, Enterprise Value, Market Capitalization (Market Cap), and Total Assets.

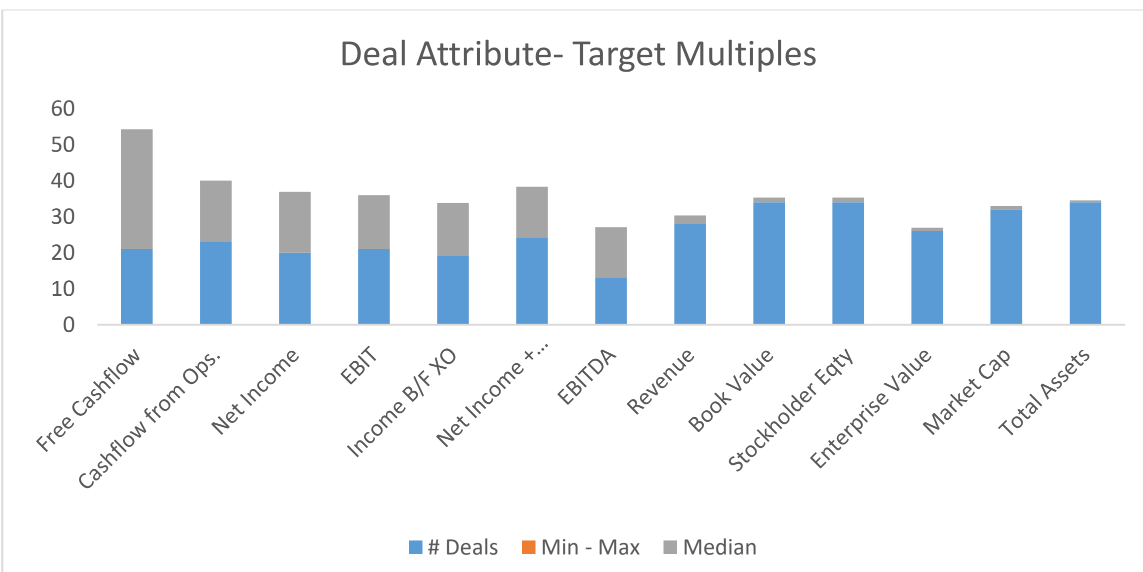
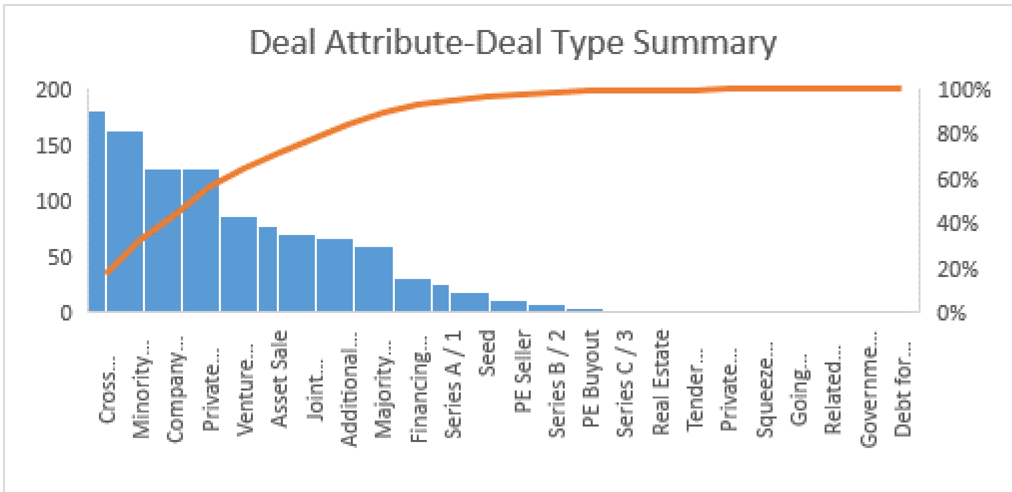


Figure 3: Deal Attribute - Target Multiples

Figure 3 shows three different metrics: the number of trades, the minimum-maximum range, and the median value. It shows information on several financial factors that are looked at when deals are being evaluated. The analysis reveals significant variations in the median target multiples across different deal attributes. The findings are presented in a bar chart, as depicted in Figure 3.

The results indicate that Free Cashflow, Cashflow from Operations, and Net Income are the most significant attributes in terms of median target multiples. These attributes likely reflect the core financial health and performance of the entities involved in the deals. The absence of visible Min - Max bars in the chart suggests potential issues in data visualization, which requires further investigation.



Data from numerous financial transactions were analyzed to identify the frequency of each deal type. The deal types included in the study are Cross Border, Minority, Private Equity, Venture, Asset Sale, Joint Venture, Financing, Series A / 1, Series B / 2, Series C / 3, Seed, PE Seller, PE Buyout, Real Estate, Tender Offer, Private, Squeeze Out, Going Private, Related Party, Government, and Debt for Equity. The analysis focuses on the number of deals and the cumulative percentage to provide a clear view of the distribution.

Key Observations:

High Frequency: Cross Border, Minority, and Company deal types have the highest frequencies.

Significant Contributions: The initial steep slope of the cumulative percentage line indicates that the top deal types make up a large portion of the total deals.

Diverse Deal Types: There is a wide variety of deal types, though many are relatively infrequent.

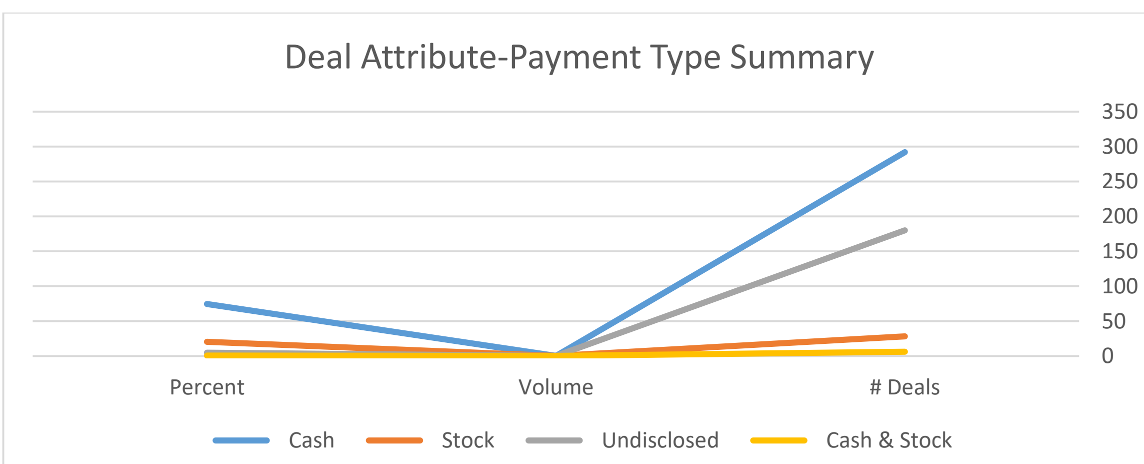


Figure 4: Deal Attribute - Payment Type Summary

Payment types in financial transactions can significantly impact the structure and outcome of deals. We analyze and summarize the usage of different payment types, including Cash, Stock, Undisclosed, and Cash & Stock, across various metrics such as percentage, volume, and the number of deals. Data is analyzed to determine the distribution of these payment types based on three criteria: percentage, volume, and the number of deals.

Figure-5 helps in understanding the distribution and preference of payment types in deals, indicating a strong preference for Cash in terms of the number of deals. The results indicate that cash is the most prevalent payment type in terms of the number of deals and volume, suggesting a preference for liquidity in financial transactions. Undisclosed payment types also show significant volume, reflecting instances where deal specifics are not publicly revealed. Stock and cash & stock combinations are less common, indicating these methods are used less frequently in financial transactions.

Key Observations:

Cash payments dominate the number of deals.

Cash & Stock payments have a significant increase in the number of deals but are lower in percentage and volume.

Stock and Undisclosed payments show less variation and remain lower across all attributes compared to Cash and Cash & Stock.

The nature of bids in financial transactions significantly impacts deal dynamics and outcomes. This research aims to analyze the distribution of hostile and friendly bids, providing a summary of their frequency, volume, and percentage.

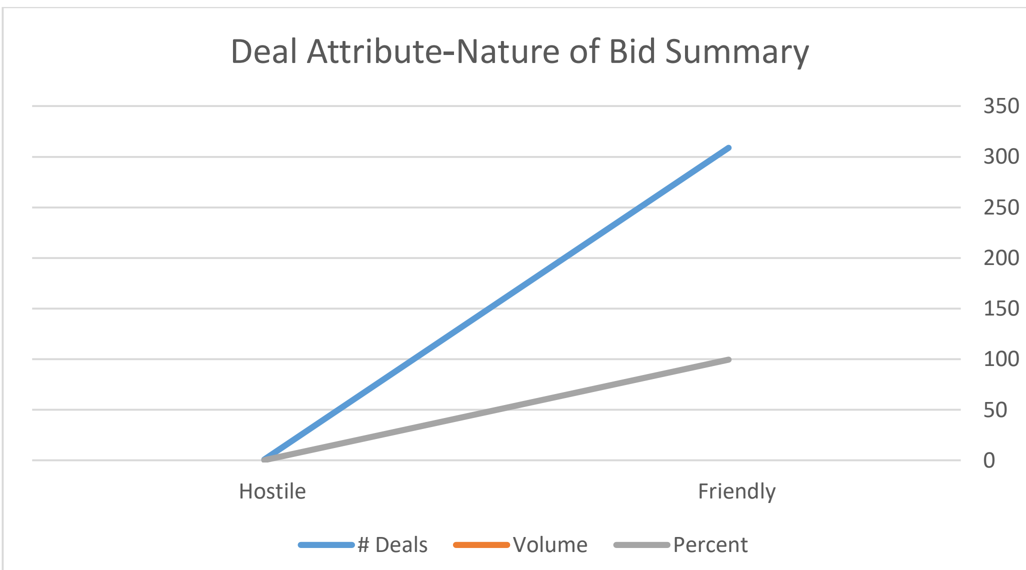


Figure 5: Deal Attribute - Nature of Bid Summary

The analysis results are presented in Figure-6. The nature of bids in financial transactions significantly impacts deal dynamics and outcomes. This research aims to analyze the distribution of hostile and friendly bids, providing a summary of their frequency, volume, and percentage. Understanding these attributes can help stakeholders better navigate and strategize in the context of mergers and acquisitions.

The results indicate a strong preference for friendly bids in financial transactions. The steep increase in the number of deals and volume for friendly bids highlights their dominance in the market. Hostile bids, on the other hand, are rare and constitute a minimal portion of the total transaction volume and frequency.

The dominance of friendly bids suggests that most transactions are cooperative and mutually agreed upon, which can lead to smoother transitions and integrations post-deal.

Implications for Deal Strategy:

Given the high success rate and prevalence of friendly deals, companies may prefer pursuing friendly bids to increase the likelihood of successful acquisitions.

Hostile bids, while less common, might still be pursued in specific strategic scenarios where a friendly approach is not viable.

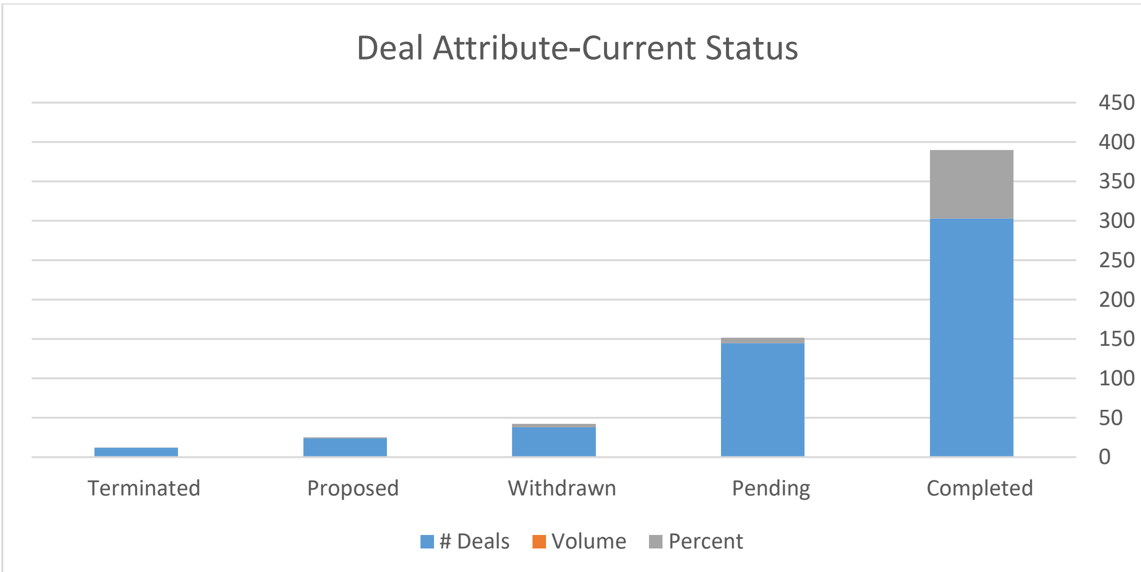


Figure 6: Deal Attribute-Current Status

Figure-7 summarizes the status of deals based on their attributes, categorized into five statuses: Completed, Pending, Withdrawn, Proposed, and Terminated. Here's a breakdown of the chart:

Deals completed are evaluated in 303 deals, with a volume of 145.04B and percent 86.86. Pending is evaluated in 145 deals, with a volume of 11.32B and percent 6.78. Withdrawn is evaluated in 38 deals, with a volume of 7.38B and percent 4.42. Proposed is evaluated in 24 deals, with a volume of 2.42B and percent 1.45. Terminated is evaluated in 12 deals, with a volume of 815.08M and percent 0.49.

ANALYSIS

High Completion Rate:

The completed deals category shows the highest number and percentage, indicating that a large majority of deals reach completion. This suggests a high success rate for deals that progress beyond the initial stages.

Significant Pending Deals:

The pending deals category also shows a substantial number, indicating that a considerable number of deals are still in the process and have not yet reached completion or termination.

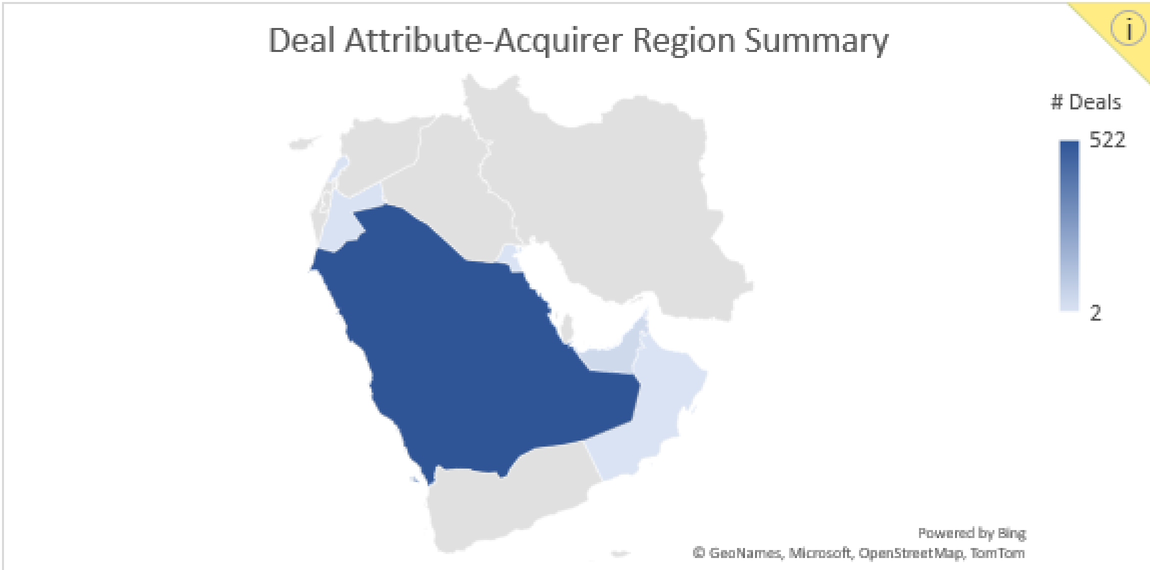
Lower Termination and Withdrawal Rates:

The terminated and withdrawn categories have relatively low numbers, suggesting that fewer deals are being abandoned or rejected compared to those that are proposed and completed.

Proposed Deals:

The proposed deals category is low but significant, indicating initial interest or intentions that may or may not progress to later stages.

Figure-8 is a geographic heat map that shows the number of deals in different countries within a specific region, likely the Middle East based on the geography. The color intensity represents the number of deals, with darker shades indicating a higher number of deals.



Asia Pacific is evaluated in 37 deals, with a volume of 16.46B and percent 9.86. Europe is evaluated in 31 deals, with a volume of 419.16M and percent 0.25. Middle East & Africa are evaluated in 522 deals, with a volume of 166.97B and percent 100. Jordan is evaluated in 4 deals, with a volume of 40.99M and percent 0.02. Kuwait is evaluated in 3 deals, with a volume of 52.95M and percent 0.03. Oman is evaluated in 2 deals, with a volume of 21M and percent 0.01. United Arab Emirates is evaluated in 39 deals, with a volume of 15.85B and percent 9.49. Lebanon is evaluated in 5 deals, with a volume of 86.5M and percent 0.05. Saudi Arabia is evaluated in 522 deals, with a volume of 166.97B and percent 100. Latin America & Caribbean are evaluated in 6 deals, with a volume of 44.5M and percent 0.03. North America is evaluated in 61 deals, with a volume of 29.27M and percent 17.53.

Saudi Arabia:

The darkest shade of blue is over Saudi Arabia, indicating it has the highest number of deals (522 deals). This shows that Saudi Arabia is a major hub for deals in this region.

Neighboring Countries:

Other countries with varying shades of blue indicate fewer deals compared to Saudi Arabia but still some level of activity.

Countries like UAE and possibly Kuwait show a moderate shade of blue, indicating a moderate number of deals.

Countries with the lightest blue shade have the fewest deals, such as Oman and Jordan.

Countries with No Deals:

Some countries are not shaded, indicating no recorded deals in the dataset for those regions. These could include countries like Yemen and Syria based on their geographic location in the chart.

High Activity Area:

Saudi Arabia is the central hub for deals in this region. Businesses and investors may find Saudi Arabia to be a fertile ground for new deals and opportunities.

Moderate Activity Areas:

UAE and Kuwait also show significant deal activity, suggesting these are secondary hubs with considerable market activities.

Low Activity Areas:

Oman, Jordan, and other light blue shaded regions have less deal activity, which could either mean smaller market sizes or untapped potential.

No Activity Areas:

The countries with no shading might be areas of political instability or smaller economies, making them less attractive for deals currently.

Thus, the heat map provides a visual representation of deal distribution in the Middle East, highlighting Saudi Arabia as the most active market. It helps in identifying key areas of interest and potential opportunities based on the deal activity intensity.

Figure-8 summarizes the attributes of deals based on the acquirer's industry. It presents three metrics: the number of deals (Deals), the volume of deals (Volume), and the percentage of total deals (Percent). Here's a breakdown of the chart:

Government is evaluated in 6 deals. Basic Materials are evaluated in 30 deals, with a volume of 7.63B and percent 4.57. Communications are evaluated in 21 deals, with a volume of 3.17B and percent 1.9. Consumer, Cyclical is evaluated in 29 deals, with a volume of 1.34B and percent 0.81. Consumer, non-cyclical is evaluated in 118 deals, with a volume of 6B and percent 3.59. Diversified is evaluated in 14 deals, with a volume of 624.85M and percent 0.37. Energy is evaluated in 30 deals, with a volume of 71.14B and percent 42.61. Financial evaluated in 276 deals, with a volume of 79.26B and percent 47.47. Industrial evaluated in 61 deals, with a volume of 1.46B and percent 0.87. Technology evaluated in 23 deals, with a volume of 372.13M and percent 0.22. Utilities evaluated in 7 deals, with a volume of 15.57B and percent 9.32.

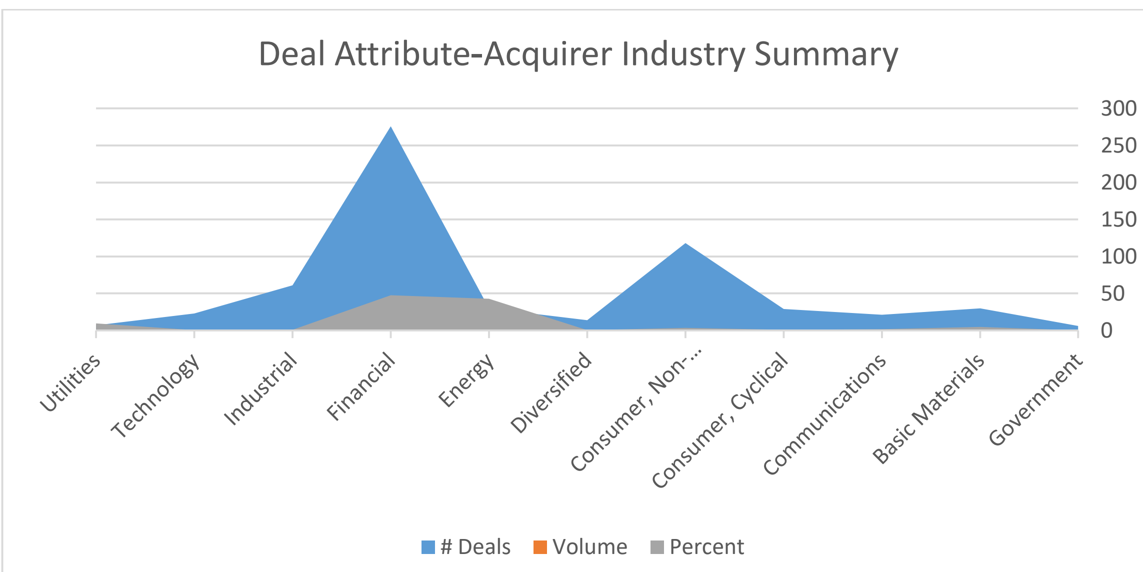


Figure 7: Deal Attribute-Acquirer Industry Summary

Financial Sector Dominance:

The financial sector is the most active in terms of the number of deals, indicating a high level of transaction activity in this industry. This sector also holds a high percentage of the total deals, signifying its importance in the market.

Energy Sector Significance:

The energy sector, while having fewer deals compared to the financial sector, still shows significant activity. This highlights its importance as a major industry for deals.

Other Industries:

Other sectors such as Technology, Industrial, Diversified, Consumer (Non-Cyclical and Cyclical), Communications, Basic Materials, and Government show relatively low activity. This could indicate fewer opportunities or less focus in these industries compared to Financial and Energy sectors.

Figure-9 summarizes the deal attributes based on the target regions, specifically comparing the Middle East & Africa with Saudi Arabia. It includes three metrics: Percent, Volume, and # Deals, shown as a percentage distribution across these two regions.

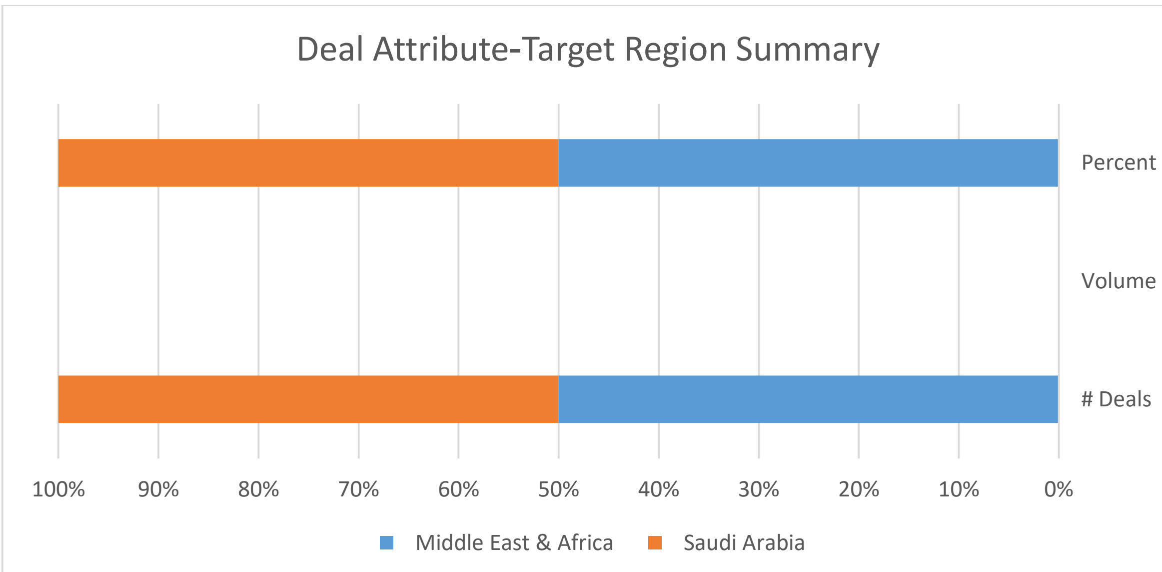


Figure 8: Deal Attribute-Target Region Summary

Middle East & Africa are evaluated in 522 deals, with a volume of 166.97B and percent 100. Saudi Arabia is evaluated in 522 deals, with a volume of 166.97B and percent 100.

Equal Distribution:

The 50-50 split for both percent and # deals suggests that Saudi Arabia constitutes a significant portion of the deals within the Middle East & Africa region. Essentially, half of the deal activity in the broader region is concentrated in Saudi Arabia.

Focus on Saudi Arabia:

Given that Saudi Arabia alone accounts for half of the deals in the Middle East & Africa, it indicates a highly active market within this specific country. This concentration of deal activity highlights Saudi Arabia as a key player in the region.

Implications for Strategy:

For businesses and investors targeting the Middle East & Africa, focusing on Saudi Arabia can be particularly strategic due to its significant share of deal activity.

Conversely, the rest of the Middle East & Africa also holds an equal share of deals, suggesting opportunities in other countries within the region.

5. CONCLUSION

This study on the effect of mergers and acquisitions (M&A) on the accounting-based performance of acquirer firms in Saudi Arabia involves a systematic process of data collection, sample selection, analysis, interpretation, and consideration of limitations. The findings underscore several key insights and implications for financial professionals and investors.

Firstly, the importance of key financial metrics such as Free Cashflow, Cashflow from Operations, and Net Income in financial deal evaluations is evident. These metrics provide a valuable reference for stakeholders involved in financial transactions, indicating the financial health and performance potential of acquirer firms post-M&A. Understanding these metrics can help in making informed decisions and in evaluating the true value and impact of a merger or acquisition.

Secondly, the study highlights the dominance of certain deal types. Cross Border, Minority, and Company deals are the most frequent, reflecting the most common transaction structures in financial markets. The steep increase in the cumulative percentage line for these deal types further emphasizes their prevalence and strategic importance. In contrast, deal types such as Real Estate, Tender Offer, and Debt for Equity are less frequent, suggesting they are less common transaction structures. This clear depiction of the distribution of various deal types aids financial professionals in understanding market trends and making strategic decisions.

In terms of payment types, cash is the dominant form used in financial transactions, followed by undisclosed payment methods. The preference for cash payments indicates a market trend towards liquidity and transparency in transactions. This insight is crucial for financial professionals to structure deals effectively and anticipate market behavior. Understanding the implications of undisclosed payment types is also critical, as these can affect the perceived value and security of a transaction.

The study also underscores the prevalence of friendly bids in financial transactions, suggesting a market preference for cooperative and mutually agreed-upon deals. Friendly bids were evaluated in 309 deals with a volume of 45.01 billion, constituting 99.68% of the total deals. Hostile bids, on the other hand, are rare and represent only 0.32% of the total deals. This trend highlights the importance of amicable negotiations and agreements in the M&A landscape, facilitating smoother transactions and better post-merger integration.

For businesses and investors targeting the Middle East & Africa, particularly Saudi Arabia, focusing on key financial metrics such as Free Cashflow, Cashflow from Operations, and Net Income can provide a strategic advantage. Given the dominance of Cross Border, Minority, and Company deals, stakeholders should prioritize these transaction structures in their strategic planning and market entry strategies. Additionally, maintaining liquidity and transparency by preferring cash payments can enhance deal attractiveness and market position.

Overall, this study provides a comprehensive depiction of the M&A landscape in Saudi Arabia, offering valuable insights for financial professionals to make informed decisions and strategize effectively in the dynamic market environment.

Policy implications and contributions

For firms and investors aiming at the Middle East & Africa, focusing efforts on Saudi Arabia might be especially advantageous because of its substantial portion of deal activity. These findings indicate that Saudi Arabia holds a prominent position in the area as a lucrative market, presenting abundant prospects for financial transactions and investments. Additionally, the remaining countries in the Middle East & Africa region also have a significant number of deals, suggesting that there is considerable potential available in those countries as well. Investors and enterprises should expand their emphasis to cover additional markets in the Middle East & Africa to take advantage of the wide range of transaction activities that are accessible.

Future recommendations

Future research should address the visualization issues identified in this study and explore the underlying factors influencing the target multiples of other deal attributes. Investigating the reasons behind the market's preference for cash payments and the implications of undisclosed payment methods will further aid in understanding transaction dynamics. Moreover, examining the factors driving the preference for friendly bids can enhance the strategic approach towards M&A activities.

Limitations

This study is limited by its reliance on publicly available and historical data, which may not capture all nuances of M&A transactions in Saudi Arabia. Visualization issues and potential biases in data classification could affect the accuracy of the findings. Additionally, the focus on accounting-based performance metrics may overlook other crucial factors influencing M&A success, such as strategic alignment and long-term synergies.

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