

THE USE OF ACCOUNTING-BASED MEASURES IN MEASURING M&A PERFORMANCE: A REVIEW OF FIVE DECADES OF RESEARCH

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ABSTRACT

The main aim of this chapter is to review the use of accounting-based measures of merger and acquisition (M&A) performance. To do so, we conducted a keyword search in 28 leading management journals and one edited book (i.e., Advances in Mergers & Acquisitions). To complement our review, we draw on very recent literature reviews of M&As (e.g., Haleblan, J., Devers, C. E., McNamara, G., Carpenter, M. A., & Davison, R. B. (2009). Taking stock of what we know about mergers and acquisitions: A review and research agenda. Journal of Management, 35(3), 469–502; Kolev, Haleblan, & McNamara, 2012; Meglio, 2009). Results indicate that accounting-based measures of performance have been used in 36 studies. Also, in these studies, there exists much heterogeneity with respect to the operationalization of M&A performance, the time lag, and the level of analysis. Next, the chapter proceeds with the discussion of the advantages and disadvantages of accounting measures and the proposition of four substantive priorities for future research in the area.

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INTRODUCTION

Mergers and acquisitions (M&As, hereafter) have been the most popular method of corporate growth. This phenomenon has triggered the attention of academics from various fields, that is, economics, finance, strategic management, accounting, and organizational behavior. Recent reviews on aspects of M&As such as *acquisition performance* (Zollo & Meier, 2008), *acquisition waves* (Kolev et al., 2012), *experience/learning* (Barkema & Schijven, 2008a), *cultural issues* (Stahl & Voigt, 2004; Teerikangas & Very, 2006), and meta-analytic efforts (King, Dalton, Daily, & Covin, 2004; Stahl & Voigt, 2008) clearly indicate that a significant body of knowledge has been accumulated over the past decades. However, there exist still important areas that have received scant theoretical and empirical attention. One of these is the use of accounting-based measures as a viable metric of M&A performance. Several important research questions remain unanswered. For example, how often are accounting measures of M&A performance used in the literature? What are the success/failure rates of M&As reported in these studies? What are the advantages and disadvantages of accounting-based measures of M&A performance? How can a researcher overcome these drawbacks and obtain more robust performance data?

With these considerations in mind, we conducted a comprehensive review of the available empirical research that appeared in the top 29 management journals. Our aim is to help future scholars improve their measures of M&A performance and open up new research avenues.

The rest of the chapter follows a traditional path. The next section is devoted to the methodology followed for collecting relevant papers to be included in the review. In the third section, we review the literature by grouping the available studies with respect to the *accounting measure* used (e.g., return on assets (ROA, hereafter), cash flows, and growth in sales), their *temporal horizon* (short term vs. long term), and their *level of analysis* (acquiring firm, target, or combined). In this section, we also discuss the advantages and drawbacks of the available measures and the success/failure rates of M&As. Finally, in the fourth section, we provide ideas for the way forward.

METHODOLOGY

To review the literature regarding the use of accounting-based measures in gauging M&A performance, we followed a four-step process. First, we