

THE INFLUENCE OF CORPORATE LIFE CYCLE ON M&A ACTIVITY OF THE COMPANY IN DEVELOPING CAPITAL MARKETS

Ilya Partin,

Lecturer at department of economics and finances of the firm, NRU HSE

Alexey Vasin,

Student at department of economics and finances of the firm, NRU HSE

Abstract

For today in academic literature there is no consensus about what factors determine the probability of a company to participate in M&A deals. Determinants of company's M&A activity seem to be the issue of current importance.

During the corporate life cycle there are changes in most company's financial indexes. That is why the corporate life cycle stage may have a significant influence on the possibility of a company to take part in M&A. Thus, the main aim of this study is to analyze the influence of corporate life cycle stages on the probability of a company to participate in M&A deal from the perspective of acquiring firms in the developing capital markets. The analysis was provided for BRICS companies as the main drivers of M&A market.

In this study for the identification of corporate life cycle stage the modified methodology of Anthony and Ramesh (Anthony, Ramesh, 1992) has been used. The application of this methodology to the emerging capital markets requires some specific adjustments of the indicators which are used in the original model. To study the influence of corporate life cycle stages on the probability of a company to participate in M&A two logistic regressions have been used.

The empirical evidence from the sample of BRICS listed companies during the period from 2010 to 2013 shows the significant differences in the probability to participate in M&A deal as a buyer on the different life cycle stages. The possibility of a company to participate in M&A declines from stage to stage during the corporate life cycle. Moreover, the different influence of the same factors at various life cycle stages has been proved empirically.

The research reveals the necessity of taking into account the company's life cycle stage while investigating the probability of participation in M&A deal.

Key words: corporate life cycle, mergers, acquisitions, M&A activity, M&A determinants.

JEL: G34

References

1. Adizes, I. (1979), Organisational passages: Diagnosing and treating life-cycle problems in organisations, *Organisational Dynamics*, 8 (1979) 3–25.
2. Anthony, J., Ramesh K. (1992), Association between accounting performance measures and stock prices-A test of the life cycle hypothesis, *Journal of Accounting and Economics*, 15 (1992) 203–227.
3. Arikan, A., Stulz, R. (2011), *Corporate Acquisitions, Diversification, and the Firm's Life-cycle*, Ohio State University, Working paper.
4. Foster, R., Lajoux, A. (1989), *The Art of M&A: A Merger Acquisition Buyout Guide*. – N.Y.: The McGraw-Hill Comp.
5. Baird, L., Meshoulam, I. (1988), Managing Two Fits of Strategic Human Resource Management, *Academy of Management review*, 1 (13) (1988) 116–128.
6. Chandler, A. D. (1962), *Strategy and structure: Chapters in the history of the American enterprise*, Massachusetts Institute of Technology Cambridge.

7. Cherkasova, V., Smirnova, I. (2012), Zavisimost' investicionnoj aktivnosti kompanij ot stadij korporativnogo zhiznennogo cikla, *Journal of Corporate finance*, 2(22) (2012) 45–57.
8. Cherkasova, V.A. (2013), Issledovanie problem nedoinvestirovaniya i pereinvestirovaniya rossijskih kompanij v zavisimosti ot stadij ih zhiznennogo cikla, *Journal of Audit and financial analysis*, 6 (2013) 267–275.
9. Davis, G., Stout, S. (1992), Organization theory and the market for corporate control, *Administrative Science Quarterly*, 37 (1992) 605–633.
10. Dong, M., Hirshleifer, D., Richardson, S., Hong Teoh, S. (2006), Does investor misevaluation drive the takeover market? *Journal of finance*, 61 (2006) 752–762.
11. Downs, A. (1967), *Inside bureaucracy*. Boston: Little, Brown.
12. Espahbodi, H., Espahbodi, P. (2003), Binary choice models and corporate takeover, *Journal of Banking and Finance*, 27 (2003) 549–574.
13. Greiner, L. (1972), Evolution and revolution as organizations grow, *Harvard Business Review*, 50 (1972) 37–46.
14. Hay, D., Liu, G. (1998), When do firms go in for growth by acquisitions? *Oxford bulletin of economics and statistics*, 60 (1998) 143–164.
15. Ivashkovskaja, I. (2006), Zhiznennyj cikl organizacii-vzgljad finansista, *Journal of Corporate management*, 11 (2006) 60–66.
16. Ivashkovskaja, I., Yangel, D. (2007), Zhiznennyj cikl organizacii i agregirovannyj pokazatel' rosta, *Journal of Corporate finance*, 4 (2007) 97–110.
17. Jensen, M. (1986), Agency costs of free cash flow, corporate finance, and takeovers, *American Economic Review*, 76 (1986) 323–329.
18. Kengelbach, J., Klemmer, D. (2013), BRICs versus Mortar? Winning at M&A in emerging markets, M&A report, The Boston Consulting Group.
19. Lippitt, G., Schmidt, H. (1967), Crises in a developing organization, *Harvard Business Review*, 45(6) (1967) 102–122.
20. Luypaert, M., Huyghebaert, N. (2007), Determinants of growth through mergers and acquisitions: An empirical analysis, In 25th Erasmus finance day, Rotterdam (The Netherlands), Working paper.
21. Lyden, F. (1975), Using Parsons' functional analysis in the study of public organizations, *Administrative science quarterly*, 1(20) (1975) 59–70.
22. Martin, K. (1996), The method of payment in corporate acquisitions, investment opportunities, and managerial ownership, *Journal of Finance*, 51 (1996) 1227–1246.
23. Miller, D., Friesen, P. (1984), A longitudinal study of the corporate life cycle, *Management Science*, 30 (1984) 1161–1183.
24. Owen, S., Yawson, A. (2010), Corporate life cycle and M&A activity, *Journal of Banking & Finance*, 34 (2010) 427–440.
25. Shimizu, K., Hitt, M. (2005), What constrains or facilitates divestitures of formerly acquired firms? The effects of organizational inertia, *Journal of Management*, 31 (2005) 50–72.
26. Trahan, E. (1993), Financial characteristics of acquiring firms and their relation to the wealth effect of acquisition announcements, *Journal of Economics & Finance*, 17 (1993) 21–35.
27. Vyas, V., Narayanan, K., Ramanathan, A. (2012), Determinants of Mergers and Acquisitions in Indian Pharmaceutical Industry, *Eurasian Journal of Business and Economics*, 5 (9) (2012) 79–102.
28. Walker, M. (2000), Corporate takeovers, strategic objectives, and acquiring-firm shareholder wealth, *Financial Management*, 1 (29) (2000) 53–66.