

A Study of Behavioural Factors Influence on Investment Decision in Mutual Funds - Evidence in Public and Private Banks Mutual Funds

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Abstract

Doing merger analysis can be a daunting task with endless amounts of work involved in building the model and crunching the numbers. The objective of this paper is to understand the financial performance of the Merger of Abbott India - Piramal Health Care deal. The objective is to look at the consequential analysis of the merger through EPS accretion/dilution, Synergies to break-even, Relative PE's and Ownership Dilution. To achieve the abovementioned objective Back of the Envelope, model was considered to do the analysis. This is an expensive deal if one considers the premium on the market price that Piramal Healthcare has demanded one would get a valuation of approximately 12,000 crores, but it paid approximately 15000 crores to acquire the business, this was majorly attributed to the fact that Abbott India wanted to increase its presence in the Indian Market

Keywords: AMC, Fund size, Past Performance, Private and public bank mutual funds, Reputation of the fund manager, Type of fund and Objective of the fund.

Introduction

Mutual fund investors are termed as unit holders monitored by Asset management companies. The investor's behaviour will change according to the market situation. In the present paper few questions have been designed based on the proper interaction with the mutual fund experts. The factors were identified and framed in the questionnaire. The brand equity is that which decides the worth of particular product. Generally branding is considered more for physical products but the evolving researcher's state that it is very important for services.

Fund manager is the key person in mutual fund investment. The past performance of management signifies last five years returns which are compared with benchmarks like NSE, BSE. Past performance consistently ensures the effective and efficient manner of management; the goals are designed according to the investors so as to meet the desired results. Liquidity is conversion of cash whenever you need

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it which serves as major factor of mutual funds. Cash, savings account are some forms of liquid assets which can be transformed easily into cash. The Risk involved in mutual funds in investing in mutual fund can be risky depending on the type of fund you are investing, the famous quote "mutual funds are subject to market risks" tells us about risk involved in mutual funds.

Review of Literature

Ippolito (2002) expressed that fund/scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds.

Sarkar and Majumdar (2005) evaluated financial performance of five close-ended growth funds for the period February 2001 to August 2005, concluded that the performance was below average in terms of alpha values (all negative and statistically not significant) and funds possessed high risk.

Jaydev (2006) evaluated performance of two schemes during the period, June 2002 to March 2004 in terms of returns of benchmark comparison, diversification, selectivity and market timing skills. He concluded that the schemes failed to perform better than the market portfolio (ET's ordinary share price index).

Gupta and Sehgal (2014) evaluated mutual fund performance over a four year period, 2004 to 2014. The sample consisted of 80 mutual fund schemes. They concluded that mutual fund industry performed well during the period of study. The performance was evaluated in terms of benchmark comparison, performance from one period to the next and their risk-return characteristics.

Objectives of the Study

1. To study the factors influencing to invest in schemes of public and private banks mutual funds.
2. To identify the variables preferred by the public and private banks mutual fund investors to invest in mutual funds.

Hypothesis

Null Hypothesis - H₀: The selected factors will not influence the investors of public and private banks mutual funds to invest.

Null Hypothesis - H₀: The investors will not prefer the selected variables to invest in mutual fund,

The Sample Size: The sample data consists of 995 respondents from 10 metro cities of the India. The questionnaire has been framed 9 questions with the interaction of asset management companies fund manager help and few mutual funds experts relating the factors which may have influence on the investors' behaviour to invest in mutual funds.

The Tool for Data Collection: The data is collected through structured questionnaires. It is so designed to collect all required information from investors of mutual funds. Based on their knowledge, information source and investment decision factors related to their selection of a particular scheme fund.

Tools of Data Analysis: The data and information collected will be classified, tabulated and processed and its findings presented in a systematic manner. Statistical tools as mean difference, "t" test, wilks lambda, Discriminant factor, KMO test, Factor analysis.

Data Analysis

1. To study the factors influencing to invest in schemes of public and private banks mutual funds.

Impact of factors influencing to invest in mutual funds				
No.	Factors	Mean Score of the Investors		
		Public Banks	Private Banks	Pooled
1	Public banks mutual fund schemes	0.175	0.192	0.278*
2	Private banks mutual fund schemes	0.293	0.271	0.026*
3	Fund size	0.037	0.163	0.017*
4	Reputation of fund manager	0.491	0.357	0.183*
5	Schemes Portfolio	0.283	0.264	0.251*
6	Liquidity Factors	0.188	0.153	0.489*
7	Past performance	0.721	0.581	0.612*
8	Current market Situations	0.253	0.374	0.386
9	Risk Involved	0.381	0.273	0.309*
	Constant	0.274	1.528	1.163
	R ²	0.835	0.725	0.785
	F- Statistics	4.692	3.711	6.885

*significant at five percent level, Source: Primary data.

The influencing variables on investors investment decisions on mutual funds among the public bank mutual funds investors signifies that past performance factor constitutes higher co-efficient value 0.721 compared with other factors, which is similar among the private banks mutual funds investors with past performance factor with a unit increase of 0.581 respectively. Among all the public banks mutual fund investors and private banks mutual funds investors of 10 metro cities of the country factors such as public bank mutual fund schemes, private bank mutual fund schemes, reputation of manager, schemes portfolio, liquidity factors, past performance and risk involved among which 0.612, 0.489 and 0.386 are the highest co-efficient values as their respective regression co-efficient is significant at five percent level.

The analysis of pooled data reveals that the regression coefficient is to a greater extent by public banks mutual funds investors with resulted regression 0.835 units and which is very low in private banks mutual fund investor segment with 0.725 units respectively. And also, it depicts that important influencing variables for the investment decisions of 10 metro cities of the country investors on mutual funds are public bank mutual fund, type of funds, reputation of fund manager, schemes portfolio, liquidity factors, past performance, and risk involved since their regression co-efficient are significant at five percent level.

2. To identify the variables preferred by the public and private banks mutual fund investors to invest in mutual funds.

The investor investment decision on mutual fund lays upon many factors. In spite of the existing 9 factors few more factors are included for further analysis. The variables considered for the study are past performance of funds, disclosure of NAV, public banks mutual fund schemes, reputation of fund manager, dividend history, prompt delivery of documents, grievance and redressal machinery, schemes portfolio, redemption facilities, good customer dealing, prompt settlement, fringe benefits, and frequent communication. The investors belonging to 10 metro cities of the country are advised to rank the above variable at likelihood five-point scale. The mean difference is calculated with mean scores of public banks mutual fund investors and private banks mutual fund schemes investors and t-statistics is examined.

Variables considered for the Study

No.	Factors	Means Score of the Investors		Mean Difference	T-Statistics	Wilks Lambda
		Public Banks	Private banks			
1	Past performance of funds	3.482	3.152	0.33	2.648	0.361
2	Disclosure of NAV	3.715	3.819	-0.104	-2.846	0.274
3	Reputation or Brand name	4.614	4.386	0.228	3.795	0.187
4	Reputation of Fund Manager	3.788	3.918	-0.13	-2.795	0.285
5	Rating by rating agency	2.619	3.661	-1.042	-2.615	0.472
6	Dividend History	3.896	3.905	-0.009	-4.538	0.277
7	Prompt delivery of documents	2.115	2.658	-0.543	-3.862	0.164
8	Grievance & redressal Machinery	3.714	4.527	-0.813	-2.649	0.482
9	Scheme's portfolio	3.596	4.371	-0.775	-3.472	0.471
10	Redemption facilities	3.378	3.714	-0.336	-3.638	0.285
11	Good customer dealing	3.124	3.618	-0.494	-4.528	0.174
12	Prompt settlement	2.105	2.649	-0.544	-3.618	0.025
13	Fringe benefits	3.614	3.774	-0.16	-2.946	0.358
14	Frequent Communication	3.558	3.968	-0.41	-3.582	0.152

Exploratory factor analysis (EFA)

The Kaiser-Meyer-Olkin (KMO) measure verified the sampling adequacy for analysis. The KMO calculated is found to be 0.784. This indicates that the sample is "meritorious" for factor analysis. The correlations between the items were sufficient for factor analysis. Both these results indicate the validity of data for EFA. The factors influencing investors investment decisions in mutual funds is extracted from principal component analysis of preferred mutual funds with factor analysis and rotated component matrix as shown in the below table

No	Variables	1	2	3	4
1	Past performance of funds	0.7841			
2	Scheme's portfolio	0.7258			
3	Reputation of Fund Manager	0.6235			
4	Reputation or Brand name		0.8518		
5	Rating by rating agency		0.7824		
6	Grievance & Redressal Machinery		0.6853		
7	Disclosure of NAV		0.5814		
8	Dividend History			0.8113	
9	Prompt delivery off documents			0.8161	
10	Good customer dealing			0.7636	
11	Redemption facilities			0.5838	
12	Frequent Communication				0.7713
13	Prompt settlement				0.6637
14	Fringe benefits				0.5633
	Eigen values	5.2859	4.0163	3.8615	3.1693
	Percent of variance Explained	28.5152	17.2935	12.8153	6.2835
Extraction Method: Principal component analysis					

The above table reflects the principal component analysis of preferred public and private banks mutual funds with 14 variables, among which the four loading factors namely past performance of funds, Reputation or Brand name, Dividend History, and Frequent Communication are seemed to be highly affecting to 10 metro cities investors.

Variables considered for selecting the mutual fund

No.	Factors	No. of Variables	Reliability Coefficient	Eigen Value	Percent of variables Considered	Cumulative Percentage of variables considered
1	Service Quality	3	0.8417	5.2859	28.5152	28.5152
2	Portfolio	4	0.7851	4.0163	17.2935	45.8087
3	Performance	4	0.7185	3.8615	12.8153	58.624
4	Reputation	3	0.8182	3.1693	6.2835	64.9075

The important factors effecting the investors' decision for selecting mutual funds for investment are service quality, portfolio, performance, reputation considering their eigen values 5.2859, 4.0163, 3.8615, and 3.1693 respectively. Service quality factor consists of 3 variables with percent of variation 28.5152 followed by portfolio, performance and reputation factors with 17.2935, 12.8153 and 6.2835 % respectively.

Discriminant Factors among the investors

The discriminant factors considered among the 10 districts of Telangana state investors are service quality, portfolio, performance and reputation analyzed in order to find the most important discriminant factors among the group of investors mean scores, mean differences, t-statistics and strength of association wilks lambda. The following table is resulting analysis.

No.	Factors	Mean Score Among Investors		Mean Difference	T-Statistical	Wilks Lambda
		Public Banks Investor	Private Banks Investor			
1	Service Quality	3.6914	3.9715	-0.2801	-2.681*	0.178
2	Portfolio	3.5189	3.8836	-0.3647	-2.496*	0.249
3	Performance	3.8914	4.2845	-0.3931	-2.104*	0.268
4	Reputation	3.2847	3.6913	-0.4066	-2.581*	0.116

The significant mean difference is found in all the factors service quality, portfolio, performance, and reputation among all the public banks mutual funds investors and private banks mutual funds investors as their respective t-statistics are significant at five percent level. The higher mean difference is noticed at reputation factor with -0.4066 and the highest discriminant power is identified in case of performance factor since their respective wilks lambda is 0.268 respectively.

Findings of the Study

1. The study observed that the factors influencing the mutual fund investments in metro cities investors, the significance difference among the public banks investors and private banks investors mean score are identified in the case of Liquidity factors (1.253), Reputation of the fund manager (0.345) and past performance (-0.374).
2. The Discriminant factor has been applied to identify the most important discriminant factors among the two groups of investors, the higher discriminant power has been identified among the factors are past performance (31.52), Liquidity factor (24.61) and brand equity (14.15).
3. The study of pooled data result reveals that the important factors which are influencing are past performance (0.612), liquidity factors (0.489), and current market situation (0.386). Thus it states that the public and private banks mutual fund investors decision making is getting influenced by highly by the past performance.

4. The study found that the preferred mutual fund among the metro cities investors means score result reveals that among the public sector banks mutual funds investors Sector specific scheme is having the high mean value (4.624) and among the private banks mutual funds investors Gold ETF has been give high priority (4.825) comparing with other types of mutual fund schemes.
5. The factor analysis has been applied and principle component method had extracted high load factors among the variables which were considered by the both banks mutual fund investors. The 3 load factors from service quality, 4 load factors from schemes portfolio, 4 load factors from funds past performance and 3 load factors from reputation of the fund has been extracted.
6. The mean score has been calculated on the extracted variables from service quality, portfolio, performance and reputation among the small and large investors. The analysis result reveals that the mean difference is found to be high for the factor Reputation of the fund (-0.4066), performance (-0.3931), portfolio (-0.3647) and least difference has been observed for the service quality (-0.2801).

Conclusion of the Study

The study concludes the titled on 'Behavioural Factors Influence on Investment Decision in Mutual Funds - Evidence in Public and Private banks Mutual Funds investors' has been analysed based on the primary data collected from the ten districts investors. The main focus of the paper is to explore the factors which having the high influence on the investors' decision making and the variables which were considered by the investors of public and private banks mutual funds investors. The study result reveals that the past performance is playing the vital role in influencing the investors' decision making. The reputation of the fund manager, portfolio (fund objective) and service quality are the main variables which were preferred by the investors. Hence there is a need to do further research in this area by considering the perception of the investor and secondary market influence on the decision making, so that the public and private banks mutual fund investor will get the proper product from the asset management company which suits them.

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Financial Information('000)	2010
Revenues in current year	279,87,200
Operating Expenses	207,25,200
Operating Expenses as % of Revenues	74.05%
Tax Rate on income	30.00%
Interest Expenses	5,63,300
Current Depreciation	9,22,200
Current Capital Spending	16,87,700
Total Current Assets	146,44,800
Total Current liabilities	51,51,400
Working Capital	95,81,680
Working Capital as % of Revenue	34.236%
Projections of growth in earnings	
Expected growth rate - next 5 years	22.00%
Expected growth rate - after 5 years	9.00%

Certain assumptions are taken in the computation regarding the growth rate of the company in the long run, which has been either taken as the expected industry growth or the expected GDP growth rate of India. The beta of Abbott India is taken as 0.66 and for Piramal it is taken as 0.54. For combined entity the beta is taken as 0.54. The required rate of growth for Abbott India is taken as 10.02% and for Piramal it is taken as 9.36. For the combined entity required rate of growth is taken as 9.36%. (Table 4)

Based on the financials of the companies, the projected free cash flow for both the firms for the next five years is calculated. The growth rate for the firms was taken from the annual report. For Abbott India the growth rate was close to 15% as the company expected to double its operations in the next 5 years commencing from 2011, while the growth rate for Piramal Healthcare was taken from its report, wherein they expected the business to grow by 22% in the coming years. The growth rate for the companies after the 5 years is taken as 9%, which was the expected industry growth rate in 2015 for computation of the terminal value (Table 5).

Table 4: Projected Free Cash Flow

Particulars('00)	Abbott India (A)	Piramal (B)	A+B: No synergy	A+B (Synergy)
Free Cash flow to Equity	3,95,784.43	14,95,746.07	18,91,530.49	18,91,530.49
Growth rate first 5 years	15%	22%	17.21%	20.21%
Growth rate after 5 years	9%	9%	9.00%	9.00%
Beta	0.66	0.54	0.54	0.54
Req. rate of return	10.02%	9.36%	9.36%	9.36%
Risk-free Rate	6.39%			

Table 5: FCF and Terminal Value

YEAR	FCF (A)*	Term Val (A)*	FCF (B)**	Term. Val (B)**
1	4,54,636.92		18,24,810.20	
2	5,22,240.68		22,26,268.44	
3	5,99,897.01		27,16,047.50	
4	6,89,100.71		33,13,577.95	
5	7,91,568.86	845,89,220.97	40,42,565.10	12239,98,877.95
PV		547,32,050.82		7930,15,357.85

(All Values in '00)

*Abbott India (A)

**Piramal (B)

Table 6: FCF for Combined Entity

YEAR	FCF (A+B)*	TV (A+B*)	FCF (A+B:S)**	TV (A+B:S)**
1	22,79,447.12		23,64,413.12	
2	27,48,509.13		29,55,516.40	
3	33,15,944.52		36,94,395.50	
4	40,02,678.67		46,17,994.37	
5	48,34,133.96	13085,88,098.92	57,72,492.96	1562804102
PV		8477,48,637.13		10115,21,608.88

(All Values in '00)

*Abbott India and Piramal sum of the two companies without merger (A+B)

**Abbott India and Piramal is combined entity after merger (A+B:S)

Table 5 calculates the FCF for company Abbott India (A) Piramal (B) and the present value of the firms individually. Table 6 calculates the FCF and present value of the combined firm (summation of the FCF of two firms and the present value without merger) and present value of the combined entity after the merger. In present value terms the value of the combined entity after the merger is greater than otherwise (without merger).

Table 7: Value Addition to Abbott India from the Business Transfer

Gains from synergy ('00)	1637,72,971.75
Most that bidder firm can bid for target ('00)	9567,88,329.60
% Premium over the market price	20.65%

On computation of the additional benefit in terms of value addition that Abbott India is deriving from the business transfer of Piramal HealthCare is expected to be approximately INR 1700 crores and the most that Abbott India should have paid to Piramal Healthcare was approximately 9600 crores at a premium of 20% (Table 7). If one is to consider the premium on the market price that Piramal Healthcare has demanded one would get a valuation of approximately 12,000 crores, but it paid approximately 15000 crores to acquire the business, this was majorly attributed to the fact that Abbott India wanted to increase its presence in the Indian Market and was competing with Global giants like GSK and Pfizer for the acquisition of Piramal Healthcare.

Further the deal was an all-cash transaction, since the transaction was a domestic transaction with both the acquirer and the target based in India, it was difficult to obtain leverage for the purpose of acquisition of shares. Indian banks are prohibited by the Reserve Bank of India from lending for the purpose of acquiring shares of an Indian company. Further, availing of foreign debt may have been prohibitively expensive for Abbott Healthcare. Section 14A of the Income Tax Act, 1961 states that no deduction shall be allowed for expenditure incurred in relation to earning tax-exempt income.

Table 8: Analysis of the Deal in Terms of EPS, Ownership and P/E Ratio

Deal Analysis		
Combo EPS Calculation	Year 1 Expected	Year 2 Expected
Combo EPS	148.43	123.63
Buyer EPS	56.60	68.10
Combo DSO	136827561.2	
Abbott India DSO	21128815.08	
EPS Accretion/(Dilution)	162.25%	81.55%
% Abbott India Ownership	100%	
Buyer P/E	19.36	16.09
Acquisition P/E	4.09	4.91

EPS Accretion/ (Dilution) shows the extent to which EPS will increase or decrease as a result of the deal. This is purely earnings focused and often ignores the cost of issuing equity if the company does incur any such costs. One can see from Table 8 that there is EPS accretion resulting from the additional earnings of the company from the formulation business (when the issued and subscribed capital has remained the same).

Percentage Abbott India Ownership shows the extent to which the buyer shareholders are giving away their ownership in the business to pay for the deal. This shows the percentage ownership in the post-deal world. Given that Abbott India had not issued shares for the deal and instead gone for the cash payment made its ownership remain at 100%, if it had issued share to the shareholders of Piramal Healthcare, the exchange ratio would approximately be 0.55 and would have diluted the firms ownership to 16.45%, which might have been the reason as to why the deal was structured as a business transfer rather than a merger as Abbott India would then not have a controlling interest in the organization.

Relative P/E Analysis compares the buyer's P/E and the acquisition P/E to have an understanding of the deal. The acquisition P/E gives an indication of the implied return on the equity from this investment. It compares the price being paid with the earnings being bought. The inverse of P/E is the return on the investment. This return is to be compared with the cost of equity to establish whether it is sufficient or not. This can be easily observed by looking at the relative P/E of the buyer and the acquisition. If the buyer P/E is lower than the acquisition P/E than the cost of raising buyer equity is higher than the return expected from the target equity being purchased. The buyer P/E needs to be higher than the acquisition P/E in order for the deal to be accretive. In case of this deal one sees that the Buyer's P/E post-merger for both the years is above the acquisition P/E, this was also evident from the EPS accretion that was happening and the positive synergies (in terms of profits) that were there.

5.0 Conclusion

This is an expensive deal as shown in the analyses part if one is to consider the premium on the market price that Piramal Healthcare has demanded one would get a valuation of approximately 12,000 crores, but it paid approximately 15000 crores to acquire the business, this was majorly attributed to the fact that Abbott India wanted to increase its presence in the Indian Market and was competing with Global giants like GSK and Pfizer for the acquisition of Piramal Healthcare. There is EPS accretion resulting from the additional earnings of the company from the formulation business. Piramal would have a positive impact on the earnings, and the company can take operational benefits of Piramal to continue enjoying this benefit. In case of this deal the Buyer's P/E post-merger for both the years is above the acquisition P/E, this was also evident from the EPS accretion that was happening and the positive synergies (in terms of profits) that were there. Overall this deal is satisfactorily deal in financial terms in terms of ownership control.

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