MAJORITY ACQUISITIONS VS MINORITY ACQUISITIONS: A PRE- AND POST-ACQUISITION FINANCIAL ANALYSIS OF INDIAN PHARMACEUTICAL COMPANIES

Ruchi Kalia[1], Research Scholar at Amity International Business School, Amity University, Noida, Uttar Pradesh, India, Email id: kalia_ruchi@rediffmail.com
Dr. Shalini Srivastav[2], Associate Professor at Amity College of Commerce and Finance, Amity University, Greater Noida, Uttar Pradesh, India, Email id: shalini_15@yahoo.com
Dr. Ruhee Mittal[3], Assistant Professor at Department of Economics, School of Open Learning/Campus of Open Learning, Delhi University, India, Email id: ruhee.mittal@yahoo.com

ABSTRACT

The purpose of the study is to analyze the financial performance of Indian Pharmaceutical Acquirers and compare the pre- and post-financial performance of acquirers conducting minority and majority acquisitions. The financial analysis was conducted on the data of 13 acquisition deals for the period between 2010 and 2019 by comparing the three-year pre- and post-acquisition periods until the year 2023 using the paired t-test methodology. The findings of the study revealed that there is no significant difference in the profitability and liquidity positions of the acquirers in the pre- and post-acquisition periods. Finally, the comparison between the financial performance of majority and minority acquisitions shows that the financial performance of acquirers deteriorates after the post-acquisition period, but the performance of majority acquisitions' acquirers is still better when compared to minority acquisitions.

Keywords: Minority acquisitions, majority acquisitions, India, paired t-test, financial performance, pharmaceutical industry.

INTRODUCTION

Mergers and acquisitions are inorganic growth strategies widely used by companies across the world for growth and development (Gupta & Raman, 2022). In addition, due to today's competitive environment, they have been recognized as key strategic alliances and a firm's preferred dynamic strategy. Successful M&As expose firms to much-needed domestic and international strategies (Datta et al., 2020). It has been observed that corporate restructuring is an important part of finance, including changes within the corporate capital structure such as increasing debt, which leads

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to an increase in financial leverage. This type of corporate streamlining is very important and widely done as part of M&A financial activities. There are mainly three types of M&A: horizontal integration, vertical integration, and conglomerates (Hossain, 2021). Recent researchers (Otsubo, 2021) have identified one more unique form of acquisitions known as partial, block, and minority acquisitions, where less than 50% of the target shares are acquired by the acquirers (Bostan & Spatareanu, 2018). Considering this new area of research in mergers and acquisitions, the present study explores the impact of minority acquisitions along with majority acquisitions on the financial performance of the acquirers.

In the past few years, M&A-related activities have increased significantly in terms of both volume and value, thereby increasing the number of studies on the mergers and acquisitions phenomenon. Reorganizations and M&A are very important for the growth of organizations (Gao & Kling, 2008), and so companies are opting for them. However, their success has always remained questionable. The success of M&A can be analyzed based on its motives and its realization in the future. There could be several motives for mergers and acquisitions, such as expansion to different geographical locations, diversification, or acquiring a customer or supplier. It could also be about reducing competition in an industry by entering into horizontal combination (Ladha, 2017). Regardless of any merger motive, it is important to assess the impact of M&A on the acquiring firm, which will decide the success and failure of any merger. Due to the huge cost involved in terms of time, money, and other resources, it is difficult for an acquiring firm to acquire, and therefore, the success and failure of M&A are crucial for the management of the acquiring firm. According to past studies exploring the said research area, focusing on assessing the financial performance, particularly the accounting performance of the acquiring firms, helps to know the impact of M&A. Many studies with different conclusions have been done worldwide in this area. However, the success and failure of mergers and acquisitions still remain arguable among practitioners and academicians (Bhaskar et al., 2012).The pharmaceutical industry in India is one of the leading industries in the country and has been growing and evolving at a fast pace over the last four decades. Globally, India is the third largest pharmaceutical producer in terms of volume and is ranked among the top 14 in value. It contributes around 1.72% to the country's GDP (Annual Report, 2020-21). According to the Indian Brand Equity Foundation (2024), the pharmaceutical industry in India witnessed a compounded annual growth of 6-8%, supported by an 8% growth in the export segment along with 6% growth in domestic market consumption. This industry in India is expected to grow from US$ 42 billion in 2021 to an estimated value of US$ 65 billion in 2024 and is further projected to reach US$ 130 billion by 2030. Mergers and acquisitions in the pharmaceutical sector help companies expand their operations, increase market share, and gain access to new products and technologies. Recent advancements in drugs and discoveries have increased competition in the pharmaceutical industry. Hence, M&A plays a vital role in gaining a competitive advantage by providing access to new technologies, markets, customers, products, and intellectual property.

A huge amount of literature is available assessing the success and failure of restructuring activities in different sectors across the world, and there are many ways through which the impact of mergers can be assessed. But one of the most reliable ways is by analyzing the accounting performance, which is an important indicator to evaluate the performance of such restructuring activities. External investors value accounting disclosures by well-governed firms more because such firms are less likely to provide misleading information (Song, 2015). In order to evaluate the accounting performance in mergers, financial statements and the accounting performance of the companies are analyzed, and various accounting metrics are exported and compared, such as financial ratios, both prior to and after a merger, for a specific year or years (Aggarwal & Garg, 2019) (Mohanty, 2016) (Duggal, 2015) (Pervan et al., 2015) (Strasek & Gubensek, 2016) (Adhikari et al., 2023).

This research examines the underexplored area of finding the impact of minority acquisitions on the financial performance of acquirers of Indian pharmaceutical companies and compares the results of majority acquisitions with minority acquisitions. Unlike previous studies that predominantly focus on analyzing the impact of majority or complete acquisitions on the financial performance of acquirers, and showing mixed results.

Objectives of the study

To study the growth of mergers and acquisitions literature in recent times in India.

To study the impact of minority and majority acquisitions on the financial performance indicators in the long term.

To compare the results of minority acquisition deals with majority acquisition deals.

LITERATURE REVIEW

Since the 1990s, corporate restructuring deals have risen substantially in India during the post-liberalization era. This has been caused by increased competition from overseas players because of the opening of the economy, less bureaucratic interference in the process, making it easier to implement changes in corporate control, technological advancements that make processes transparent, and lower transaction costs across the board for businesses. M&A is the most common type of business restructuring. There are a number of reasons why businesses pursue M&A. The primary objective of any business is to have more market power, achieving competencies to reduce the risk of developing new products and services, improving proficiency through economies of scale and scope, and in some instances, transforming the competitive scope (Hitt et al., 2006).

Pre- and post-merger performance of merging entities has been the focus in a lot of M&A literature. Despite the large number of studies in the literature, the results related to its performance have remained inconclusive because of contradictions. According to some studies, mergers and acquisitions (M&A) are a useful strategy for inorganic growth and

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boosting shareholder wealth. Others, however, have discovered that M&A reduces shareholders' wealth, resulting in a decline in the operating performance of the firm. The M&A literature is not only filled with contradictory results, but the performance metrics used in this research also differ significantly from one another.

The studies that have been conducted so far have made substantial use of both market-based and accounting-based indicators. Although market-based measures have been considered a good indicator to assess a firm's performance, accounting measures are the most preferred by top executives to analyze the long-term post-merger performance. According to a study based on 400 large mergers and acquisitions between 1995-2000 conducted by Kukalis (2007), the majority of CEOs surveyed have given their preference to accounting measures as compared to market measures for analyzing the post-merger performance. Investors, analysts, and researchers use accounting values for the firm's valuation (Habib & Azim, 2008), and the long-term potential and the capitalized synergy in M&A transactions can be seen by doing a fundamental analysis using ratios and comparative statement analysis (Kumar & Bansal, 2008). Earnings and Accounting Rate of Return are key metrics used widely to assess firm performance (Cheng et al., 2005; Stanton, 1987). The present study examined the success of mergers and acquisitions by using widely accepted accounting performance measures. The literature review is divided into two sections based on the studies concluding that M&A have a positive impact and negative impact on the performance of acquiring firms.

Positive Impact of mergers and acquisitions(Michail et al., 2021) conducted a study exploring the post-merger accounting performance of Greek listed companies during the span of 2009-2015, and the results of the study revealed statistically significant positive differences in the pre- and post-merger accounting performance. (Azhagaiah & Sathishkumar, 2014) investigated a sample of 39 companies that went into mergers in the period of 2006 to 2007 and conducted a 5-year pre- and post-analysis. The study concluded a positive impact of the transaction on acquiring firms after its implementation. In another study, (Al-Hroot, 2016) studied the economic performance of seven companies that entered merger agreements during 2000-2014. The study shows that the profits and liquidity improved, whereas corporate lending increased after the merger. (Ahmed & Ahmed, 2014) analyzed the effect of mergers on 12 manufacturing companies of Pakistan from 2000-2009 and found that the overall performance of the acquiring firm in terms of liquidity and capital structure improved, but profitability decreased after the merger. (Gupta & Raman, 2022) studied the financial performance of Agri-Food acquiring firms and concluded that the overall performance improved after mergers and acquisitions. (Kar et al., 2021) evaluated the impact of mergers and acquisitions on the corporate performance of the Indian IT sector, and the findings revealed a significant positive impact of domestic and cross-border M&As on the Return on Net Worth and Revenue of IT companies. There are a lot of studies done in the banking sector, showing varied results. According to (Trivedi, 2013), mergers and acquisitions are tools used by banks to achieve growth in a shorter time span as well as provide qualitative synergistic benefits to banks. (Fraser & Zhang, 2009) analyzed a sample of US banks acquired by non-US banks during the year 1980-2001 and concluded with an improvement in target's performance. (Alhenawi & Stilwell, 2017) studied acquisitions in the USA during 1998 and 2010 and showed that M&A transactions create value in the longer run, and the gain is commensurate with the acquirer's historical performance and the target's pre-acquisition value.

1. Negative Impact of Mergers and Acquisitions

   (Pazarskis et al., 2022) investigated the post-merger accounting performance of the twenty-six companies listed on the Athens stock exchange. The results did not show any significant change in the financial performance of the companies post-mergers. (Gupta & Banarjee, 2017) examined the effects of mergers of Indian companies from 2006-2012 on acquiring firms by using various profitability and liquidity ratios for five years pre- and post-merger in seven different industries and found that the financial performance in terms of profitability and liquidity declined after the merger. (Mehrotra & Sahay, 2022) analyzed the financial performance of M&A deals in the manufacturing and service industry of India for the period of 2010-2014 and concluded that the acquirers did not have financial gains even after three years of the deal. (Adhikari et al., 2023) assessed the post M&A financial performance of the two commercial banks of Nepal using twelve accounting ratios and paired t-test methodology and found mixed results for one bank and insignificant results for the other bank. (Ghosh, 2001) analyzed firms matching on the benchmark of performance and size but did not find any evidence related to the improvement in operating performance following acquisitions. (André et al., 2004) evaluated the performance of 267 mergers and acquisitions taken place in the span of 1980-2000 of Canadian firms in the long term and the findings show that the Canadian acquirers underperform in the post three-year period following acquisition. (Singh & Mogla, 2008) compared the pre- and post-merger operating performance of 56 merged companies during 1994 to 2002 and concluded that profitability deteriorates after the mergers. (Dixit, 2020) made a comparative analysis of the operating performance of acquirers doing partial and full acquisitions and the finding shows a decline in the operating performance of complete acquisitions.After a thorough review of the previous studies, the authors find that most of the studies have analyzed the impact of complete or majority acquisitions on the financial performance of acquirers, but none of them have studied the impact of minority acquisitions on the financial performance of Indian pharmaceutical companies. However, in recent years, studies discussing the various aspects of partial or minority acquisitions (Akhigbe et al., 2007), (Chen, 2008), (Dang & Henry, 2016), (Ouimet, 2012) have been observed. Therefore, with increasing interest from researchers, the authors of the current study find it important to assess the financial

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performance of minority acquisitions and compare the results with majority acquisitions, which is an unexplored area in the literature. Additionally, the authors argue that the financial performance of acquirers making majority acquisitions should be higher than the acquirers of minority acquisitions because majority acquisitions, due to their majority control over the target firm, help in deriving the full potential value of synergy, thereby having better financial performance than minority acquisitions.

So, the present study is a contribution to the literature in several ways. First, this study analyzed the financial performance of minority acquisitions along with majority acquisitions. Secondly, while most of the previous studies on minority or partial acquisitions focus on the performance of the target companies in the US, Canada, and Japan, this study finds the impact of majority and minority acquisitions on the financial performance of the acquirers of pharmaceutical companies in India. Third, the authors compared the financial performance of acquirers making majority and minority acquisitions.

2. Hypothesis

There is a significant difference in the profitability position of acquiring firms of majority acquisitions in the post-merger and acquisition period compared to the pre-merger acquisition period in the long term.

There is a significant difference in the liquidity position of acquiring firms of majority acquisitions in the post-merger and acquisition period compared to the pre-merger acquisition period in the long term.

There is a significant difference in the profitability position of acquiring firms of minority acquisitions in the post-merger and acquisition period compared to the pre-merger acquisition period in the long term.

There is a significant difference in the liquidity position of acquiring firms of minority acquisitions in the post-merger and acquisition period compared to the pre-merger acquisition period in the long term.

The financial performance of acquirers making majority acquisitions should be higher than that of the acquirers of minority acquisitions.

3. Research Methodology

The present study uses the Scopus database and CMIE Prowess IQ (Centre for Monitoring Indian Economy) for data extraction. For objective 1, the Scopus database was used by conducting a topic search in March 2024. A broader search strategy was utilized by conducting a topic search (combination of title, abstract, and keywords) with our search string. Table 1 summarizes the complete search strategy and data retrieval process.

For Objective 2, the data on mergers and acquisition deals during 2010-2019 in the Indian pharmaceutical industry has been retrieved from the CMIE Prowess IQ database. 13 M&A deals have been selected for the analysis using the following inclusion and exclusion criteria:

- Deals where the acquisition of shares is more than 50% are considered as majority acquisitions, and deals with less than 50% acquisition of shares are considered as minority acquisitions. (Ouimet, 2012) (Nguyen et al., 2022)

- The deal status should be completed.
- Both the acquirer and acquiree should be Indian firms.
- The accounting data for the 3-year pre- and post-acquisition period should be available.

The study includes acquisitions only from 2010-2019 so that the financial performance can be analyzed for a long-term period (3-year pre and post) which extends up to 2023. The deal year has not been considered for the analysis, and financial performance is analyzed through accounting data collected from Money Control and the CMIE Prowess IQ database. The study uses 5 accounting variables for the financial performance analysis, broadly classified into 2 parameters:

- Profitability Position: Return on Assets, Return on Equity, Return on Capital Employed
- Liquidity Position: Current Ratio and Quick Ratio

Ratio analysis is a common method for assessing performance before and after mergers and acquisitions, and 13 M&A deals have been analyzed on the above-mentioned five variables, along with a paired t-test which is applied to test the significance of improvement in the profitability and liquidity position of the acquiring firm for the 3-year post-acquisition period.

4. Results

Objective 1 states that there has been a growth in mergers and acquisitions literature in recent times. The number of studies year-wise and country-wise, along with the growth in the number of studies in India, has been presented graphically and in tables for the period of 2010-2024 under this section. Fig 1 shows an increasing trend in the year-wise number of studies, and as per table

Table 1: Search strategy and data retrieval Process

Date	Database	Search String
13/3/2024	Scopus	("Mergers" OR "M&A" OR "Mergers and Acquisitions")
Filters applied	Document Type: Article Language: English Time Period: 2010-2024	
Result	47254	
Subject area filters from Scopus database applied		
Filters Second stage	Scopus database: Business, Management and Accounting Economics, Econometrics and Finance	
Result	8340	
Filters Third stage	Country: India	
Result	379	

Source: Author's compilation

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2, the number of articles in the year 2010 was 466, which has been increasing over time, showing the importance of the research area. In 2023, it has reached the highest number, which is 767. The authors have also conducted a country-wise research wherein the United States was the highest with 2729 studies, followed by the United Kingdom with 1027 studies. India ranks 7th with 379 studies, which is quite lower compared to the other top countries. Furthermore, it can be interpreted from figure 3 that there is a rising trend in M&A research in India since 2010, reaching its highest in 2023. Hence, it can be observed that there is significant growth in mergers and acquisitions literature from 2010-2024.

Table 2: Number of articles published year-wise all over the world (2010-2024)

Year	No. of articles
2010	466
2011	501
2012	462
2013	474
2014	525
2015	521
2016	597
2017	556
2018	591
2019	597
2020	651
2021	705
2022	711
2023	767
2024	216
Total	8340

Source: Authors' compilation

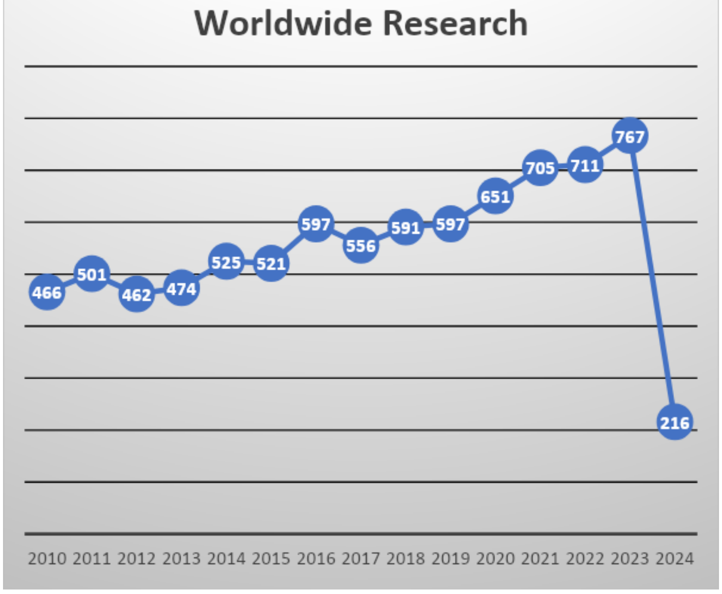

Fig 1: Graphical representation of year wise number of Articles published all over the world (2010-2024)

Source: Authors' compilation

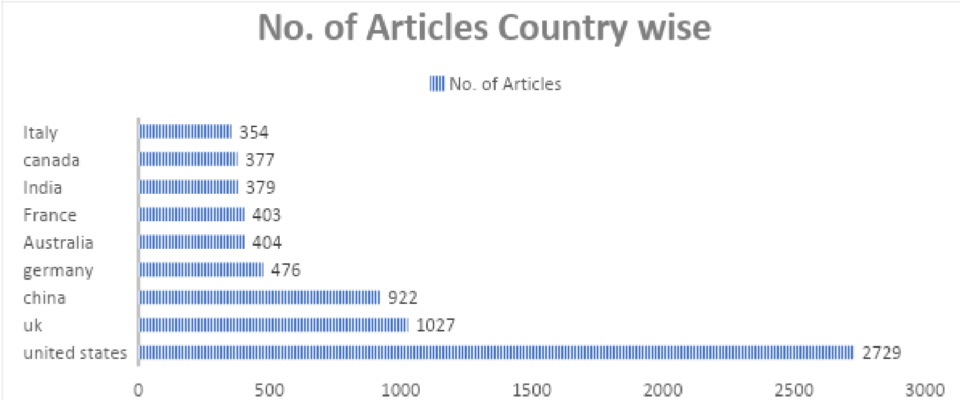

Fig. 2: Number of Articles published in different countries

Source: Authors' compilation

Majority Acquisition (3 year pre- and post-acquisition)					
Variables	**Post mean**	**Pre mean**	**Mean Change**	**t-value**	**significance**
ROA	9.1325	12.30125	-3.16875	1.288	0.239
ROE	13.27	17.4225	-4.1525	1.406	0.203
ROCE	16.365	18.82125	-2.45625	0.75	0.478
Current Ratio	1.9625	2.13	-0.1675	0.609	0.562
Quick Ratio	1.57375	1.65625	-0.0825	0.341	0.743

Fig 3: Number of articles published in India (2010-2024)

Source: Authors' compilation

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Based on the Profitability and liquidity ratios, this paper is aimed for evaluating the financial performance of the sample divided into Majority and Minority Acquisitions.

Results of Majority Acquisitions

***Significant at 0.05**

Table 3 shows the 3-year pre- and post-acquisition analysis of the firms that went into majority acquisitions. The findings of the same can be summarized as follows:

- **Profitability Ratios:** The Return on Assets has decreased from 12.30 to 9.13 in the post M&A period. The mean change is negative, and the results are not statistically significant. The decrease depicts that Return on Assets has not improved in the post-acquisition period. Similarly, other profitability indicators; return on Equity and Return on Capital Employed have also decreased from 17.42 to 13.27 and 18.82 to 16.36, respectively. The p-value for the same is greater than 0.05, which shows that the results are not statistically significant. Hence, Hypothesis 1 is rejected.
- **Liquidity Ratios:** The current ratio has decreased from 2.13 to 1.96 since the mean of the ratios for both periods is positive, but the mean change is negative, thereby showing that the results are not statistically significant. Similarly, the results of the quick ratio also show a decline with a mean change of -0.08. Hence, resulting in insignificant statistical results. Thus, Hypothesis 2 is rejected.

Results of Minority Acquisitions

Minority Acquisition (3-year pre- and post-Acquisition)

Table 4 shows the pre- and post-acquisition analysis of 3-year pre- and post-acquisition of the firms went into minority acquisitions. The findings of the same can be summarized as follows:

- The ROA in table 4 shows a decrease in ROA from 25.23 to 7.10. The mean change is negative, and the results are not statistically significant. Similarly, the mean change of ROE and ROCE is also negative, and the results for the same are also insignificant. Hence, Hypothesis 3 is rejected.

Table 4: Results of paired sample t-test for pre-and post-acquisition period of Minority acquisitions

Minority Acquisition (3-year pre- and post-Acquisition)					
Variables	**Post mean**	**Pre mean**	**Mean Change**	**t-value**	**significance**
ROA	**7.104**	**25.236**	**-18.132**	**0.922**	**0.409**
ROE	**10.368**	**31.386**	**-21.018**	**0.958**	**0.392**
ROCE	**10.57**	**29.418**	**-18.848**	**0.882**	**0.428**
Current Ratio	**2.976**	**3.674**	**-0.698**	**0.547**	**0.614**
Quick Ratio	**2.148**	**2.868**	**-0.72**	**0.586**	**0.59**

*Significant at 0.05
Source: Authors' calculations

- **Liquidity Ratios:** The current ratio has decreased from 3.67 to 2.97. Since the mean of ratios for both periods is positive, but the mean change is negative, the results are not statistically significant. Similarly, the results of the quick ratio also show a decline with a mean change of -0.72. Hence, resulting in insignificant statistical results. Thus, Hypothesis 4 is rejected.

Further, we have compared the results of majority acquisitions with minority acquisitions and considered only profitability ratios for 3-year pre and post analysis because profitability is an important factor that needs to be analysed to observe the impact of any strategy.

From the above table 5, it is indicated that the mean change of majority and minority acquisitions is negative and insignificant, as per the results of the paired t-test. However, if we compare the mean change values of ROA, ROE, and ROCE of majority acquisitions with the values of the same variables of minority acquisitions, it shows that the financial performance of the acquirers of majority acquisitions is better than the financial performance of minority acquisition acquirers. Hence, hypothesis 5, which states that the financial performance of acquirers making majority acquisitions should be higher than the acquirers of minority acquisitions, is accepted.

DISCUSSION

The study's results are being discussed in the following dimensions. The findings indicate that the financial performance in terms of ROA, ROE, ROCE, Current Ratio, and Quick Ratio does not have a significant change in the pre- and post-acquisition period for both majority and minority acquisitions. The results of the study are consistent with the results obtained by (Mehrotra & Sahay, 2022) (Pazarskis et al., 2022) (Pathak, 2016) (Long, 2015) where the acquirers did not find any significant financial gains for the companies' post-merger.

Further, the comparative analysis of the results of minority acquisitions with majority acquisitions shows that there is no significant difference in the pre- and post-acquisition performance of the acquirers. However, the financial performance of majority acquisition acquirers is higher than the acquirers of minority acquisitions. Hence, these results

Table 5: Comparison of Results of Majority and Minority Acquisitions

	Majority Acquisitions (3 years pre- and post-acquisition)			Minority Acquisition (3 years pre- and post-acquisition)		
Variables	**Mean Change**	**t-value**	**significance**	**Mean Change**	**t-value**	**significance**
ROA	**-3.16875**	**1.288**	**0.239**	**-18.132**	**0.922**	**0.409**
ROE	**-4.1525**	**1.406**	**0.203**	**-21.018**	**0.958**	**0.392**
ROCE	**-2.45625**	**0.75**	**0.478**	**-18.848**	**0.882**	**0.428**

*Significant at 0.05
Source: Authors' calculations

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are consistent with the study conducted by (Dixit, 2020) who concluded that neither the operating performance of the complete acquisition acquirers nor the partial acquirers improves after the acquisition.

Managerial Implications

The findings of the study have significant implications for managers, investors, companies, and policymakers. We present the long-term financial performance of the Indian Pharmaceutical acquirers. The companies can learn from their previous success and failures. The managers have to make decisions related to merger and acquisition in such a manner that it creates a positive outcome for both the acquirer and acquiree. The results of the study can be a knowledgeable source of information for them for better decision-making. Further, the investors have to implement the best investment strategy, and the information provided by the study helps them to understand whether the acquisitions destroy or create long-term synergies. Lastly, the results of the study are also helpful for policymakers who formulate policies and regulations of M&A.

Limitations and Future Scope of the study

The limitations of the study are that only publicly listed companies have been taken in the sample for a limited period of 2010-2019, and a 3-year pre and post-analysis has been conducted until the year 2023. Future research can extend to a longer period of 20 years with a 5-year pre and post-analysis. The studies can also include a mix of primary and secondary data where survey responses could be collected from the acquiring and target companies for a better understanding of the M&A concepts of financial performance and various motives behind it. The present study has used 2 parameters, i.e., profitability and liquidity position, for financial performance analysis, but future researchers can include other parameters like solvency ratios, shareholders' wealth, stock prices, financial statement variables, and other micro- and macro-economic variables like GDP rate, exchange rate, etc., to have more clarity of results. Similar studies with the same or different methodology can also be done on the sample of cross-border acquisitions.

CONCLUSION

Mergers and acquisitions are strategic decisions intended to improve the overall financial performance of companies and achieve synergies. The present study examines the growth rate of merger and acquisition literature in the past few years and analyzes the performance of acquiring firms in Majority and Minority Acquisitions during the post-M&A period. Paired t-test methodology is used to check the statistical significance of the results and compare the pre- and post-M&A period. The data for the period of 2010-2019 of Indian pharmaceutical companies has been taken, and a three-year pre- and three-year post-M&A window has been used to analyze the long-term effect of the merger and acquisition. The study uses two parameters (profitability and liquidity) to check the financial performance of the acquiring firms. The results demonstrate that there is no significant difference in the profitability and liquidity position of the

Majority and Minority acquirers in the three-year pre- and post-acquisition period. Furthermore, the authors also compare the results of Majority and Minority acquisition acquirers, assuming that the financial performance of majority acquisition acquirers is higher than that of the minority acquirers, as majority acquisitions are expected to generate the full potential value of synergies (Dixit, 2020). While comparing the results of profitability, the mean change value of both majority and minority acquirers is negative but still showing better performance in the case of majority acquisitions than minority acquisitions.

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