THE ANALYSIS OF THE INFLUENTIAL FACTORS OF THE ABSORBING COMPANIES' PERFORMANCES

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Abstract

The mergers are important transactions, not only for the organisations involved but also for many interested parties. The success or the failure of this kind of operations can have significant consequences for the shareholders of an organisation and also for the creditors, employees, competitors and community. The empirical evidence indicate a high failure rate of the mergers in terms of rendering value for the shareholders. Our study has as a goal the analysis of the mergers' impact on the companies' performances from Romania, studying the performance considering the cost effectiveness of the equity (ROE) and the most powerful influence on this is that of the financial leverage.

Keywords: mergers, performance
JEL classification: C12, M41

1. INTRODUCTION

The diversity of concerns of the partners of a company corresponds to the diversity of analysis criteria of its economical-financial situation. From the investor to the employee, all the economical and social actors examine and analyze the economic and financial performances of the company and also the risks they assume when working with it.

In a general sense, performance means success. However, we cannot talk of performance independently; this requires a representation of the success in view of each user. It is true that performance can be seen in a sense which does not consider the user, that is as a result of an action, its measurement being made by an assessment of the effects achieved.

We intend to opt in our study for the handling performance in terms of users' interests in accounting information. For the entities who continue their normal activities, for which performance is a state of competitiveness "reached by a level of effectiveness and efficiency which ensures a sustainable presence on the market." (Niculescu,2003). The two perfor-

mance variables are therefore: the *effectiveness* which expresses the degree to which external users' expectations are fulfilled and the *efficiency* is determined by the degree to which the expectations of the internal environment of the company are fulfilled (Berheci, 2010).

2. CONCEPTUAL LIMITATIONS REGARDING PERFORMANCE

The literature is rich in definitions regarding performance. The most representative definitions are (Jianu, 2007):

Yachtman and *Seashore* (1967) define performance as being the company's capacity to exploit the environment in order to gather rare and essential resources, necessary for its functioning. The criteria used for the evaluation of performance are: the turnover, the production costs, productivity, increase, importance of management and market penetration.

Friedlander and Pickle (1968) mark the following criteria for the assessment of the performance: profitability, employees' satisfaction, company's value.

Labrousse (1971) is one of the authors, who give in this period a definition of the company's performance by means of an assembly of attributes, which characterize it: a company that knew how to locate itself and to exploit a loophole and therefore knew and knows a remarkable expansion; a company that knew how to face the foreign competitors; a well managed company that knew how to measure its productive effort to the lowest costs; a company that knew to maintain its own expansion and by means of the industrial and managerial know-how it helps the collectivity a great deal.

Duncan (1973) assimilates performance to the following criteria: reaching goals, integration, adaptation.

Klein (1976) estimates that performance is a subjective and relative notion and retains 6 indicators, which underline the company's performance: increasing the added value, the capacity of the capitals involved, increasing the fixed assets, covering the exploitation needs from the working capital, the degree of indebtness in relation with the capacity of self-financing.

Dubois (1979) does not define performance but it assesses it using 5 dimensions of the economic and financial performance

- Increase: (added value ^{t} - added value $^{t-1}$)/ added value $^{t-1}$;
- Cost effectiveness: gross operating surplus/ turnover;
- Productivity: added value/fixed assets for gross value;
- Indebtness: financial debts / self-financing capacity;
- Solvability: financial debts/ the accounting net value of the fixed assets.

However the best approach of the performance is by the definition: performance is the achievement of organizational objectives (Bourguignon, 1995).

This definition can be translated by another equivalence: performance within the company represents all that contributes to the strategic objectives.

The one who reaches his goals is the efficient one. Performance depends on a reference: objective or purpose, it is multidimensional because the goals are multiple.

A performance is not bad or good. The same performance can be assessed as a good performance if the objective is a modes one or it is a bad performance if the objective is ambitious.

The efficient company is the company that renders value for the shareholders, that satisfies the clients, that takes into consideration the opinion of its employees and that respects the natural environment. Therefore, the shareholder is satisfied because the company has obtained the wanted cost effectiveness, the clients are confident in the future of the company

and in the quality of its products and services, the employees are proud of the company they work in and the society enjoys the company's politics regarding the protection of the environment.

The analysis of the performance by means of financial statements includes the analysis of cost effectiveness, solvability, liquidity, the analysis of the intermediary balances of administration, the analysis of the result on action and the analysis of the notes to the financial statements. The economic cost effectiveness measures the payment of the assembly of assets used within the company, being known also under name of cost effectiveness of assets.

The financial cost effectiveness indicates the compensation of the investment made by the owners of a company by their contributions of resources or benefits, which pertain to them, being known also under the name of cost effectiveness of the invested capitals.

Liquidity measures the company's capacity to pay the short term maturing debts and it implies that the rotation of the current assets should be faster than the rotation of the current debts. A company is out of liquidities when it cannot face the maturing debts. Solvability measures the company's ability to generate sufficient money in order to maintain the productive capacity and to discount the short and long term maturing debts. The intermediate management balances includes the indicators: the trading margin, the production of exercise , the operating result , the value added , the gross operating surplus , the operating result , the current result, the extraordinary result and the net result.

The commercial activity of a company is measured by its turnover which reflects the sale of goods for a commercial activity and the production sold by a company.

The value added is the amount of money that the company can use for the remuneration of direct and indirect participants to the economic activity: employees, state, creditors, shareholders and company. The gross operating surplus is the result obtained by the company after the remuneration of the factors of production, the employees and the state. The result of the action is considered by the IFRS the major indicator in the business performance analysis. The result of the action is the unitary result which goes to the shareholders.

The notes to financial statements include all the information needed for making predictions. All we need to do is to know the accounting policies and to be patient enough to analyse the information from the notes to financial statements. Choosing the analysis of these indicators for measuring the company's performance has in view these objectives.

The increased number of M&As raises the question about the outcomes of corporate mergers and acquisitions. A number of studies both, in the economics and strategic management literature, have attempted to identify the impacts of M&As on the financial performance of firms (Aly-Yrkko, 2002).

The impact of M&A on operating performance is measured by comparing accounting measures of profitability before and after the M&A and benchmarking these values to the industry average. Usually, profitability is measured as the profit related to sales or as the return on assets (Aly-Yrkko, 2002).

Profitability comparisons have been used to assess whether M&As create real economic gains. Mueller (1980) reports a large-scale project covering M&As and profitability studies from several countries focusing on the period 1962-1972. Two indicators of profitability are used, namely the return of profit on equity and the rate of profit on total assets. The profits of merging firms are compared to a control group and the industry average during the five years comprising the post-merger period. The results indicate that in France, the Netherlands and Sweden the profitability of merging firms deteriorated, but in the UK the merging firms outperformed the control group.

Healy, Palepu and Ruback (1992) study the operating performance of the largest fifty mergers in the U.S for the period 1979-1984. The results of the study suggest that due to increases in asset productivity, mergers have improved operating cash flow returns. Moreover, profitability improvements are not achieved at the expense of long-run performance, since capital expenditure and R&D rates remained at the industry average level. However, several other studies report negative impacts of mergers on financial performance. Ravenscraft and Scherer (1987) consider a sample of 3,900 lines of business observations and find that merger intensity has a negative effect on profitability. In another study, Ravenscraft and Scherer (1989) report a decline in the financial performance of acquired units seven or eight years following a merger compared to pre-merger levels. Dickerson et al (1997) use a large database including more than 2,900 firms with a minimum of a 10-year time series during the period 1948-1977. Approximately 30 per cent of the companies have data spanning 30 years. The results suggest that acquisitions have a detrimental impact on company performance. Also Harford (1998) finds negative abnormal return over the four-year post-acquisition period. Moreover, there are also other studies which indicate that post-merger profitability decreased (Meeks, 1977) and (Cosh, Hughes, Lee and Singh 1989).

The results of most studies in the literature suggest that, on average, the post-merger operating performance weakens. However, accounting data provides an imperfect measure of economic performance because managers can affect accounting numbers. On the other hand, accounting data help identify the sources of real economic gains (Aly-Yrkko, 2002).

Performance is defined as the process of quantifying the efficiency and effectiveness of an action (Neely et al., 1995). Venkatraman and Ramanujam (1986) argued that performance is the time test of any strategy as it "centres on the use of simple outcome-based financial indicators that are assumed to reflect the fulfilment of the economic goals of the firm". Other academics stated that "organisational performance is achieved by comparing the value that an organisation creates using its productive assets with the value that owners of these assets expect to obtain" (Barney, 2001). The choice of performance measure has been a difficult issue facing researchers in the organizational field. There is a dichotomy between the performance metrics used by researchers to assess the outcome of strategic choices. Researchers from the finance disciplines employ objective performance metrics such as share-price movements and accounting data to forecast and evaluate the chosen organizational moves whereas, organizational behaviour and strategic management scholars have relied on subjective performance indicators such as managers' self reports (Schoenberg, 2006).

Schoenberg (2006) argued that the variety of alternative performance measurement means that researchers in this field face a dilemma when selecting an appropriate performance variable. King et al. (2004) argued that the inconsistencies in the literature concerning the antecedents of a successful acquisition lie on the fact of the inconsistent use of the available performance measures. Similarly, Kiessling and Harvey (2006) pointed out that there is no agreement on the best way to measure acquisition success, or at what stage in the process a measure should be taken.

Cochran and Wood (1984) stated that although there is no real consensus on the identity of the proper measure of financial performance, such measures fall into two broad dimensions: stock returns and accounting profits.

To calculate the stock returns, the use of event study research implies that the appropriate measure of performance should reflect changes in shareholder wealth (Tuch and O'Sullivan, 2007). However, utilizing stock returns as a performance indicator has received

criticism. King et al. (2004) argued that stock price perspective studies have had little success in relating the market value of equity gains to improvements in corresponding corporate performance. In order to determine whether success or failure in acquisition bids are from real economic gains or market inefficiencies, share price research has analysed unsuccessful acquisitions (Asquith, 1983; Bradley et al., 1988; Jensen, 1988).

One major indicator of performance measurement in event studies is the capital asset pricing model (CAPM). The capital asset pricing model (CAPM) has been the primary measurement tool for determining the degree to which acquisitions create economic value (Aly-Yrkko, 2002). This model measures changes in the expected returns and estimate the effect of market variables that increase the financial risk accruing to the acquiring firm (Carper, 1990). CAPM is an *ex-ante* measure not *ex-post* measure (Montgomery and Wilson, 1986), therefore Lubatkin (1983) has suggested that the CAPM has major limitations.

Accounting based measures of firm financial performance are the most popular in the strategic management literature (Barney, 1997). Accounting based measures include financial indicators such as sales growth, profitability (calculated by ratios such as return on investment, return on sales, return on assets, return on capital employed and return of equity), earnings per share, asset utilisation, growth in sales revenues and so forth (Aly-Yrkko, 2002).

Accounting measures include the average return on assets ratio (ROA) and average return on equity ratio (ROE). These measures allow the comparison of differences in the productivity of assets and owner's equity (Hopkins, 1987). Though accounting measures have their shortcomings, ROA is one of the more robust accounting-based measures of economic performance (Brealy and Myers, 2003). ROE, on the other hand, provides an accounting based measure of performance that includes the effects of financial leverage.

Academics employed subjective measures of performance often use regression analysis or structural equation modelling to assess the impact of certain independent variables on post-acquisition performance. Some independent variables found in the literature include the effect of relatedness or combination potential (Buchholtz et al., 2003; Larsson and Finklestein, 1999; Ramaswamy, 1997), experience (Haleblian et al., 2006; Puranam et al., 2006), innovation (Puranam et al., 2006; Shimizu and Hitt, 2005), resource transfer (Larsson and Finkelstein, 1999; Saxton and Dollinger, 2004) and departure of the acquired top management team (Cannella and Hambrick, 1993; Lubatkin et al., 1999). The most common performance measures found in these studies include financial measures such as accounting profits and stock returns.

3. INDICATORS THAT INFLUENCE THE PERFORMANCES OF THE COMPANIES THAT MERGED

How can ROE contribute to the development of profitable investments?

We get profit if we invest in companies that generate more profit than their competitors. Return on equity (ROE) is an indicator that could help in making the difference between the companies that generate profit and those which consume it. On the other hand, ROE doesn't have to be used as the only indicator for measuring a company's performance, because, by all means, only one indicator cannot render the full image of the company.

What is ROE? By measuring how much profit can a company generate from its net assets, ROE offers an image of the company's efficiency. Companies that can generate profit from their actions generally have an advantage on the competitors, an advantage which will transform in higher yields for investors. The relationship between a company's profit and the

investor's yield makes this indicator to be very important to analyse and to examine. *How should this indicator be interpreted?*

ROE indicates if a company is getting profit only from its own resources or if it has to make new capital in mergers. A constantly increasing ROE shows that the company's management offers to the shareholders a higher value for the money they have invested. In other words, this indicator shows how well is the management using the capital provided by the company's shareholders.

However, it is proved the fact that a company cannot increase its profits faster than the current level of ROE without making new capital in mergers. So, a company that now has a 15% ROE cannot increase its profit with more than 15% each year unless it makes a loan or it issues new shares. But, each of these measures has its own cost: while the debts decrease the profit along with its interests, issuing new shares decreases the net profit per share, by increasing the total number of the company's shares.

So, ROE is in fact a *speed limit* for a company's growth rate, and for this reason the investors often rely on this indicator to find out which is the company's growth rate. The minimum limit of 15% for the ROE is generally a criterion which must be kept in view by those who want to invest in a company.

The financial and economic crisis has spread all over the world, and its effects are difficult to assess. One thing is certain - the fear of tomorrow and its consequences. In this background of uncertainty and unknown, a chance for the commercial societies to consolidate a certain position on the market and to obtain advantages from the point of view of taxation, is given by the reorganisation by merger

Some analysts of the business world say that the mergers are condemned to failure and their success contradicts the reality. 80% of the absorbing companies do not render value.

In fact, most mergers prove to be difficult processes, with high risks which finally end by losing sales, clients and above all, some of the valuable people from the organisation. A pragmatic and orderly approach of the merger process increases the chances of success.

The return on equity (ROE) divides the profit by the equity capital. The shareholders' equity capital normally excludes the effect of every fixed asset (goodwill, registered trademark, etc.) and it determines by the deduction of all the obligations and incorporeal assets from the total sum of assets .This rate calculates this way:

$$\text{ROE} = \frac{Rnet}{Cap.pr.} * 100$$

The return on equity is often considered as being the most important between cost-effectiveness indicators, because it measures the profit that results from the shareholders ' investment. For example : an equity capital profit of at least 15% is a reasonable goal to assure the right equity capital and to found a future anticipated growth when this 15% percentage is more or less equal to the ROE average in the global industry reported every year in the annually research of American businesses published in "Forbes" magazine.

The rotation speed of circulating assets is an important indicator that characterizes the effectiveness with which the company's circulating assets are being used. The higher is the rotation speed, the lower is the volume of circulating assets needed for the achievement of a certain production or, the production achieved in a limited period of time with the same amount of circulating assets is bigger. It is from here that results the importance of rotation

speed acceleration for the growth of general effectiveness of the company's economic activity.

The rotation speed evaluation of the circulating assets is made by the following indicators:

1) The number of rotations: $N = \frac{CA}{Sm}$ (rotations),

in which:
CA = turnover,

Sm = average balance of circulating assets, calculated as an average $Sm = \frac{Si + Sf}{2}$.

2) The rotation time is a value inversely proportional to the number of rotations and it stands as a division: $Dz = \frac{T}{N} = \frac{T * Sm}{CA}$,

in which:
T = reference period time (360, 180, 90, 30 days) .

3) Circulating assets at 1000 lei turnover: $Ac = \frac{Sm}{CA} * 1000 = \frac{1}{N} * 1000$.

The weight of circulating assets in total assets is a standard that measures a society's degree of liquidity, that is the capacity of facing in time short and long term debt maturities and it is calculated : $Sac = \frac{Ac}{A} * 100$,

in which:
Ac = circulating assets;
A = total assets.

The financial leverage (the general rate of debt), is also known as "*leverage rate"* and refers to the total maturity debt (long, medium and short term) of the company reported to the equity capital. The result must be less than one, a value higher than one represents a high degree debt. A value that overpasses 2.33 represents a high degree debt, and so the society could run the risk of imminent bankruptcy if the result overpasses several times the 2.33 limit.

The formula of calculus is: LF = DT / CPR,

where:
DT = total debts;
CPR = equity capitals.

The profitability of the income expresses the profitability of the business figure and is calculated by the ratio $Rv = \frac{\mathrm{Re}\, x}{CA} * 100$,

where:
Vt = the operation effect
CA= turnover.

4. EMPIRICAL ANALYSIS

This work intends to study the established link between variables number which characterizes the financial performance- defined by the return on equity (ROE) – to the companies that have merged (the rotational speed of the circulating assets, the share of the current assets in total assets, the financial lever, the income rate and the company dimension), with the final objective to generate a model of statistic regression in order to analyze what factor has the higher influence on the performance of the company that have merged.

The analyzed hypothesis is the following: *there is a significant link between the performance of the companies that have merged and the rotational speed of the circulating assets, the share of the current assets in total assets, the financial lever, the income rate and the company dimension.*

4.1. The description of the variables involved in the regression model

To achieve the research purpose, we collected annual financial statements of economic companies which merged in period 2007-2009, data given by the Register Trade Office by the Court of Law of Iaşi County. In the analysis we considered all companies which merged in this range, namely 31 companies occurring registered at Register Trade Office by the Court of Law of Iaşi, with the merger operation.

From annual financial statements of companies that have merged we extracted the following data: net income, equity, turnover, assets, total assets, total liabilities, operating results and number of employees of the company.

These data were necessary to calculate the variables selected for analysis

The study conducted in Romania, using the corresponding data for the period of time 2007 - 2009 is as presented in the 1st Annex, data given by the Register Trade Office by the Court of Law of Iaşi County. The nature and the characteristics of the variables used in the model are resumed in the Table no.1

Table no. 1 Variables used in the econometric model

No	Variables	Economic expression	Statistic expression
1	ROE	The return on equity ROE = $\frac{Rnet}{Cap.pr.}*100$ Rnet = net result Cap.pr. = own capitals	Dependent variable Efficient variable Quantitative dimension Numeric expression in percents
2	Nac	The rotation speed of circulating actives Nac = $\frac{CA}{Ac}$ CA = turnover Ac = circulating assets	Independent variable Predictor variable Quantitative dimension Numeric expression in percents
3	Sac	The effect of the circulating assets in total actives Sac = $\frac{Ac}{A}*100$	Independent variable Predictor variable Quantitative dimension Numeric expression in percents

No	Variables	Economic expression	Statistic expression
		Ac = circulating assets A = total actives	
4	LF	Financial lever $LF = \frac{D}{Cap.pr} * 100$ D = total debts Cap. pr. = own capitals	Independent variable Predictor variable Quantitative dimension Numeric expression in percents
5	Rv	Positivity of the income $Rv = \frac{\text{Re}x}{CA} * 100$ Rex = result of the exploiting result CA= turnover	Independent variable Predictor variable Quantitative dimension Numeric expression in percents
6	D	The company dimension represents the number of the employees of the company	Independent variable Predictor variable Quantitative dimension Numeric expression

Source: SPSS Tools

For the methodological approach, it was used the multiple regression model using the statistic tool SPSS 17.0

The regression shows how a variable is dependent on another.

The equation of the regression model is as follows:

$$ROE = \alpha + \beta_1 * Nac + \beta_2 * Sac + \beta_3 * LF + \beta_4 * Rv + \beta_5 * D + \xi,$$

where:

α, β, are regression coefficients;

α - ordinate at origin, that shows a variable value Y, when X = 0;

β – the right slope. The sign of the parameter β shows the direction of the link between the two variables, for $\beta > 0$ the link is direct or positive, for $\beta < 0$ the link is reversed or negative, and for $\beta = 0$ there is no link. The regression parameter β shows the degree of dependence between variables, respectively *how much it increases or decreases the Y at a growing of X variable with a unit*;

ξ is the random of error variable (residuum).

The statistic characteristics are called statistic variable or random variables (accidentally). The statistic variable is the statistic characteristic, taking into consideration that in order to change in time and space its own developing level. The level of one statistic variable can differ from one unit to other of a collectivity, because the multitude of factors that action with intensity and in different ways, offering to the statistic variables the random variable character. The value of one random variable occurs in casual situations, with determined probabilities. Thus, the random variable asks not only an ensemble of possible values, but a function that indicates the probability of each possible value.

ROE is the dependent variable.

Nac, Sac,LF, Rv, N are independent variables (predictors).

4.2. The methodological approach and interpreting the results

In table no. 2 Correlations are presented the Pearson correlation coefficients (Pearson Correlation), the significance value (Sig.) for each coefficient of correlation and the number of studied cases (N).

Table no. 2 Partial correlation matrix

Correlations							
		ROE	**Nac**	**Sac**	**LF**	**D**	**Rv**
Pearson Correlation	ROE	1.000	0.064	0.129	-0.716	0.053	0.120
	Nac	0.064	1.000	-0.182	-0.165	0.153	-0.105
	Sac	0.129	-0.182	1.000	-0.136	0.241	-0.152
	LF	-0.716	-0.165	-0.136	1.000	0.013	-0.046
	D	0.053	0.153	0.241	0.013	1.000	0.082
	Rv	0.120	-0.105	-0.152	-0.046	0.082	1.000
Sig. (1-tailed)	ROE	.	0.366	0.244	0.000	0.388	0.259
	Nac	0.366	.	0.164	0.188	0.206	0.287
	Sac	0.244	0.164	.	0.233	0.096	0.207
	LF	0.000	0.188	0.233	.	0.473	0.404
	D	0.388	0.206	0.096	0.473	.	0.331
	Rv	0.259	0.287	0.207	0.404	0.331	.
N	ROE	31	31	31	31	31	31
	Nac	31	31	31	31	31	31
	Sac	31	31	31	31	31	31
	LF	31	31	31	31	31	31
	D	31	31	31	31	31	31
	Rv	31	31	31	31	31	31

Source: SPSS Tools

In the table are presented the correlations of each independent variable (predictor) with dependent variable ROE – The return on equity.

It is noticed that the value of the coefficients of correlations on diagonal is equal with 1, because each variable is perfectly correlated with itself. *It is noticed that the most significant link is between ROE and Financial lever (LF).* Between the dependent variable – ROE – and the independent variable –LF – *is a strong indirect link*, the coefficient value of correlation is equal with – 0,716, with a Sig. value less than 0.05.

The table no. 3 *Variable Entered/Removed* indicates the results of the elimination variable step by step.

Table no.3 The variables from the model and the elimination variable step by step

Variables Entered/Removed[b]			
Model	**Variables Entered**	**Variables Removed**	**Method**
1	The consider of ChT in Vt, financial lever, company dimension, the rotation speed of circulating assets, the consideration of the circulating assets in total actives	.	Enter

Variables Entered/Removed[b]			
Model	**Variables Entered**	**Variables Removed**	**Method**
2	.	The consideration of The circulating assets in total actives	Backward (criterion: Probability of F-to-remove >= ,100).
3	.	The rotation speed of circulating assets	Backward (criterion: Probability of F-to-remove >= ,100).
4	.	Size of the company	Backward (criterion: Probability of F-to-remove >= ,100).
5	.	The consideration of ChT inVt	Backward (criterion: Probability of F-to-remove >= ,100).
a. All requested variables entered. b. Dependent Variable: financial positivity rate			

Source: SPSS Tools

Thus, are eliminated, step by step, by rank of the weaker influence on ROE, Sac variable, Nac variable, D variable and Rv variable.

The table *Model Summary* presents for each model of regression the value of correlation coefficient (R), the value of determination coefficient (R^2) and the standard error. The value R^2 increases when more variables are introduced in model. The including of irrelevant variables takes to the increasing of the standard error, too.

The study has established the correlation between the model variables, by the value of the determination coefficient $R^2 = 0.52$ (for all the independent variables) shows that 52% from the variation of the company's performance that have merged can be explained by the influence of the independent variables (Nac, Sac, D, LF, Rv). The difference is accounted on other conjectural factors.

Sig. is less than the superior limit accepted of 0.05, showing that the linear model is validated by the value Sig. That means that the risk to fail is less than 5%, between the variables being a strong link. The values of Sig, less than 0.05, suggests that the linear model are more suitable to express correlations between variables. This step of analysis is presented below:

Table no. 4 Model Summary

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	0.726[a]	0.527	0.432	147.38288
2	0.726[b]	0.526	0.454	144.57402
3	0.723[c]	0.523	0.470	142.32528
4	0.721[d]	0.520	0.486	140.20289
5	0.716[e]	0.513	0.496	138.86831
a. Predictors: (Constant), The consider of ChT in Vt, financial lever, company dimension, the rotation speed of circulating actives, the consideration of the circulating actives in total actives b. Predictors: (Constant), The consider of ChT in Vt, financial lever, company dimension, the rotation speed of circulating actives, the consideration of the circulating actives in total actives c. Predictors: (Constant), The consider of ChT in Vt, financial lever, company dimension d. Predictors: (Constant), The consider of ChT in Vt, financial lever e. Predictors: (Constant), financial lever f. Dependent Variable: financial positivity rate				

Source: SPSS Tools

The value R, the value R^2 adjusted and the standard error show that the best predictor (the independent variable that estimates the best dependent variable) is variable LF – financial lever. The same conclusion is taken from the results in Table ANOVA.

Table no.5 ANOVA

ANOVA[f]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	60445.689	5	120890.738	5.565	0.001[a]
	Residual	543042.818	25	21721.713		
	Total	1147496.507	30			
2	Regression	604053.650	4	151013.413	7.225	0.000[b]
	Residual	543442.857	26	20901.648		
	Total	1147496.507	30			
3	Regression	600571.384	3	200190.461	9.883	0.000[c]
	Residual	546925.123	27	20256.486		
	Total	1147496.507	30			
4	Regression	597104.734	2	298552.367	15.188	0.000[d]
	Residual	550391.773	28	19656.849		
	Total	1147496.507	30			
5	Regression	588248.678	1	588248.678	30.504	0.000[e]
	Residual	559247.829	29	19284.408		
	Total	1147496.507	30			

a. Predictors: (Constant), Po The consider of ChT in Vt, financial lever, company dimension, the rotation speed of circulating actives, the consideration of the circulating actives in total actives
b. Predictors: (Constant), The consider of ChT in Vt, financial lever, company dimension, the rotation speed of circulating actives, the consideration of the circulating actives in total actives
c. Predictors: (Constant), The consider of ChT in Vt, financial lever, company dimension
d. Predictors: (Constant), The consider of ChT in Vt, financial lever
e. Predictors: (Constant), financial lever
f. Dependent Variable: financial positivity rate

Source: SPSS Tools

If the value of the statistic signification F is low (Sig. is lower than 0.05), then the independent variables explains the variation of the dependent variable. The lowest value of Sig. corresponds to the model and explains the variation of ROE depending on LF –financial lever.

In the Table no. 6, the regression coefficients, in the first part appear the regression coefficients of the standard errors, the statistics value tested for each coefficient, as well as the value Sig. and the collinearity statistics, the tolerance and the variance inflation factor -VIF.

Collinearity expresses the existence of a strong correlation between independent variables. Thus, it is calculated the statistic tolerance, considering only independent variables, the dependent variable is excluded from the model.

The tolerance of each variable X^i is calculated according to the relation:

The tolerance = $1 - R^{2}_{i}$, where R^{2}_{i} is the square of the coefficient of the multiple correlation of the variable X^i, with all other independent variables.

VIF is the tolerance converse.

The tolerance can take values from 0 to 1. The lower the tolerance is, closer to zero, more the independent variable X^i is explained by a linear combination of the other independent variables. Thus, the explanation of dependent variable by this variable can be conconsidered with less accuracy.

Table no.6 Regression coefficients

Coefficients[a]								
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Collinearity Statistics**	
		B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
1	(Constant)	-35.670	72.883		-0.489	0.629		
	Rotation speed of circulating actives	-0.050	0.147	-0.051	-0.344	0.734	0.855	1.170
	The consideration of the circulating actives in total actives	0.003	0.026	0.021	0.136	0.893	0.816	1.226
	Financial lever	-0.213	0.042	-0.719	-5.023	0.000	0.925	1.081
	Company dimension	6.918	17.507	0.058	0.395	0.696	0.870	1.150
	The consider of ChT in Vt	0.237	0.421	0.081	0.563	0.578	0.923	1.083
a. Dependent Variable: Financial positivity rate								

Source: SPSS Tools

The equation of the regression model, depending on the data presented above is as follows:

$$ROE = - 35.760 – 0.50 * Nac + 0.003 * Sac – 0.213 * LF + 6.918 * Rv + 0.237 * D$$

Regression coefficients are: $\alpha = - 35.760$; $\beta_1 = - 0.50$; $\beta_2 = + 0.003$; $\beta_3 = - 0.213$; $\beta_4 = + 6.918$; $\beta_5 = 0.237$.

The model shows the influence of the rotation speed of circulating actives, the consider of circulating actives in total actives, the financial lever, the financial positivity rate, and company dimension upon entities performances that have merged (ROE). From the presented model some ideas are highlighted:

- If we maintain constant: the weight of circulating assets in total assets, financial lever, the financial positivity rate and the company dimension, a percentual increasing of rotation speed of circulating actives leads to decreasing the performance of the companies that have merged in average with 0.50 %;
- If we maintain constant: the rotation of speed of circulating assets, financial lever, the financial positivity rate and the company dimension, a percentual increasing of considering the circulating actives in total actives leads to increasing the performance of the companies that have merged in average with 0.003 %;
- If we maintain constant: the weight of circulating assets in total assets, the rotation of speed of circulating assets, financial lever, the financial positivity rate and

the company dimension, a percentual increasing of financial lever leads to decreasing the performance of the companies that have merged in average with 0.213 %;

- If we maintain constant: the consider of circulating assets in total assets, the rotation of speed of circulating assets, financial lever, the financial positivity rate and the company dimension, a percentual increasing of company dimension leads to increasing the performance of the companies that have merged in average with 0.237 %;
- If we maintain constant: the consider of circulating actives in total actives, the rotation of speed of circulating actives, financial lever, the financial positivity rate and the company dimension, a percentual increasing of financial positivity rate leads to increasing the performance of the companies that have merged in average with 6.918 %.

Collinearity Diagnostics means the analysis of the results from the table no. 7 *Collinearity Diagnostics.*

Table no.7 Collinearity diagnostic

Collinearity Diagnostics[a]								
		Condition	**Variance Proportions**					
Dimension	**Eigenvalue**	**Index**	**(Constant)**	**Nac**	**Sac**	**LF**	**D**	**Rv**
1	3.335	1.000	0.01	0.02	0.00	0.00	0.02	0.02
2	1.103	1.739	0.00	0.00	0.34	0.42	0.00	0.00
3	0.900	1.925	0.00	0.04	0.38	0.45	0.00	0.00
4	0.393	2.913	0.00	0.48	0.02	0.04	0.00	0.31
5	0.173	4.397	0.00	0.28	0.24	0.06	0.77	0.27
6	0.095	5.911	0.99	0.18	0.02	0.03	0.21	0.40
a. Dependent Variable: Financial positivity rate								

Source: SPSS Tools

Eigenvalue gives an indication of the number of links that exist between the independent variables**.** When more *eigenvalues* are close to de zero, the variables are strongly intercorrelated.

The correlation clues are calculated as the square root of the ratio between the highest eigenvalue and eigenvalue of each dimension. A clue higher than 15 shows a possible problem of collinearity, and a value higher than 30 shows serious problems of collinearity. These situations and not presented in this analysis, and it results that there is a strong correlation between independent variables.

Table no. 8 Excluded Variables, presents information about variables that are excluded step by step.

Table no.8 Excluded variables

Excluded Variables[e]								
Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
						Tolerance	VIF	Minimum Tolerance
2	Sac	0.021[a]	0.136	0.893	0.027	0.816	1.226	0.816
3	Sac	0.036[b]	0.250	0.804	0.049	0.891	1.123	0.891
	Nac	-0.057[b]	-0.408	0.686	-0.080	0.933	1.072	0.933
4	Sac	0.048[c]	0.354	0.726	0.068	0.956	1.046	0.956
	Nac	-0.046[c]	-0.339	0.737	-0.065	0.960	1.041	0.960
	D	0.055[c]	0.414	0.682	0.079	0.993	1.007	0.991
5	Sac	0.033[d]	0.246	0.808	0.046	0.981	1.019	0.981
	Nac	-0.056[d]	-0.417	0.680	-0.079	0.973	1.028	0.973
	D	0.062[d]	0.472	0,641	0.089	1.000	1.000	1.000
	Rv	0.088[d]	0.671	0.508	0.126	0.998	1.002	0.998

a. Predictors: (Constant), Po The consider of ChT in Vt, financial lever, company dimension, the rotation speed of circulating actives, the consideration of the circulating actives in total actives
b. Predictors: (Constant), The consider of ChT in Vt, financial lever, company dimension
c. Predictors: (Constant), The consider of ChT in Vt, financial lever
d. Predictors: (Constant), financial lever
e. Dependent Variable: financial positivity rate

Source: SPSS Tools

Beta in is the regression coefficient that resulted if in the next step an excluded variable model is kept.

Statistical test t and *value Sig*. are used for hypothesis testing of null regarding the regression coefficients, which means the hypothesis that between the dependent variable and independent variable is no significant link.

Thus, there are mentioned really high values of Sig. (comparatively with 0.05), and gives the credit to reject the null hypothesis, the non-existence of a significant link between dependent variable– ROE and independent variables – Sac, Nac, D, LF, Rv.

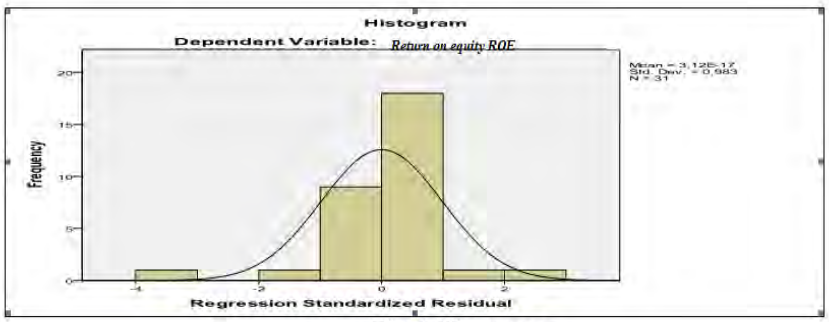
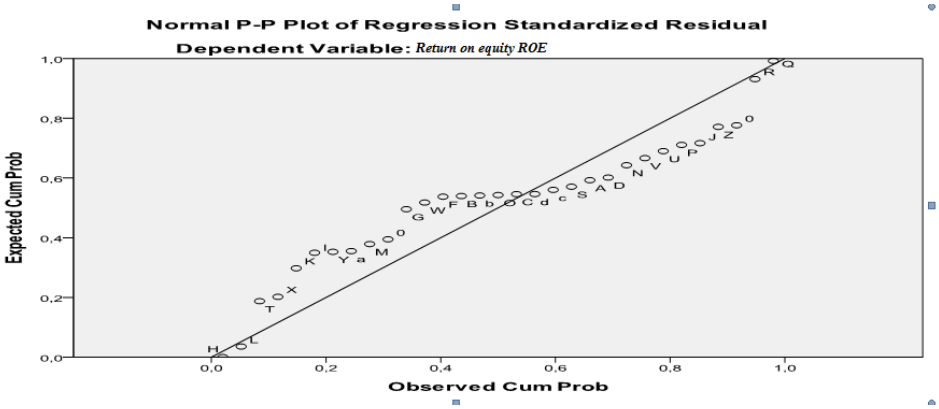


Fig. 1 Histogram

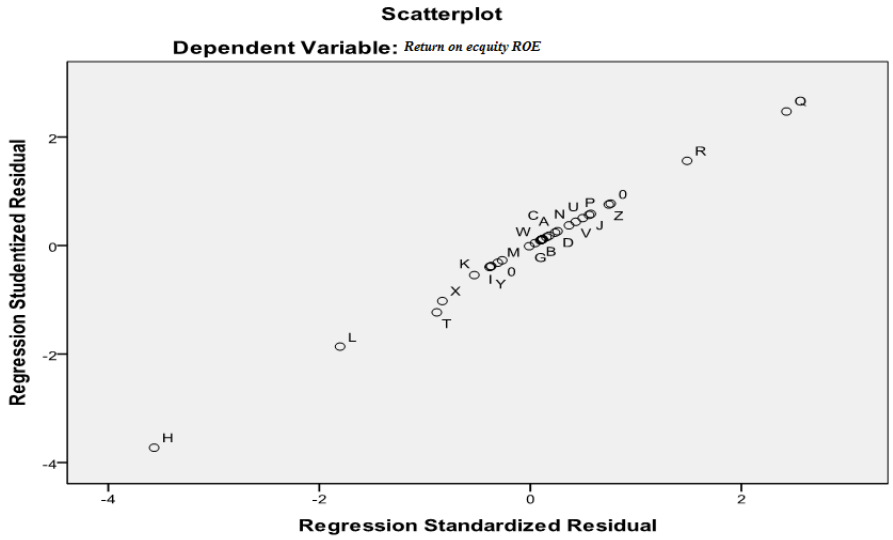
Source: SPSS Tools

Figure no. 1 Histogram



Source: SPSS Tools

Figure no. 2 The diagram P-P plot



Source: SPSS Tools

Figure no. 3 The diagram Scatterplot

Taking into account the required hypothesis in the regression analysis (errors are normally distributed, with zero average, the errors have constant variation, errors are independent one with another) can be verified graphically using the diagrams P-P plot and Scatterplot and Histogram.

5. CONCLUSIONS

Although there are opinions (Harford, 1998; Meeks, 1997; Cosh, Lee and Singh, 1989; Ravenscraft and Scherer, 1987; Cohran and Wood, 1984; King et. al, 2004) that say that mergers don't have positive impact on performance, our analysis has shown that mergers and acquisitions have an positive impact on performance.

Depending on the time when considering the operation of mergers and acquisitions, results may vary due the intrinsic characteristics of the economic environment that carry out the analysis.

Merger waves seem to coincide with economic booms (Mueller 1989). By definition during the booms economy enjoys a rapid growth rate.

It seems that merger waves coincided with big changes in environment and technology. New means of transportation and communications and energy production have been utilised. For example, the first merger wave accompanied major changes in economic infrastructure and business environment. Railroads were completed and use of electricity and coal was become common. Also the second wave coincided with big changes in infrastructure. Major developments in transportation, communication and merchandising have been emphasised to be the main motivational factors behind the restructuring during the second wave (Markham 1955, Weston, Chung, Siu, 1990). Broaddus (1998) suggests that the most important force behind banks' consolidation in 1990s is the development of communications and data processing technology.

Cost savings achieved by utilising this latest technology increase when the size of company increases.

Also political decisions impact on M&As and also other kind of restructuring. Forming free trade areas, such as NAFTA and EU, changes the business environment in member states. New competitors come into market leading to a fiercer competition. Moreover, deregulation of financial market has positively impacted on mergers and acquisition.

Restrictions in foreign ownership have been liberalised that has lead to the growing number of cross-border deals. However, in some cases political decisions might decrease the M&A activity. Antitrust authorities are able to block deals that are assumed to lead a significant reduction in competition. However, it is not always easy to define what is a relevant market area to be considered from the competition's point of view.

After doing the regression analysis, one may observe that there is a significant bound between the dependent variable and the independent variables. More exactly, our study emphasises the fact that the companies' performance that have merged defined by the rate of financial profitability (ROE) was partly influenced by the financial leverage (LF). Because the bound between ROE and LF is indirect, one may conclude that the higher the companies' performance is, the lower the debt rate becomes.

All these considered, here comes a dilemma: if the debt has an unfavourable influence on the rate of financial profitability, why shouldn't we stop using it as a financing means?

The answer is that the debt rate must be a balance value. Despite the risk it induces, the debt represents a very flexible financing means of certain operations concerning the operational activity .The interests paid for the loans are deductible for the determination of the chargeable profit , while the dividends paid for the shares aren't deductible. Also, due to the fact that, generally, the loans generate fixed expenses concerning the interests, they reduce the financing costs and create a situation in which the leverage effect may be used in the company's advantage. So, if the company reaches a profitability of the assets higher than the costs concerning the interests, on the whole, it obtains profit. However, the company is running the risk of not reaching a profitability of assets at least equal to the costs related to these ones, this way generating a loss.

The study made on the 31 absorbing companies led to the conclusion that these companies' performance has decreased after the merger. So, the medium and short term effect of the merger on the absorbing companies hasn't been the expected one. A possible explanation might be that there were absorbed companies with a high degree debt or that the loan was made after the merger. So, before making the decision of absorbing a company, it is important to follow the level of the financial profitability rate. The minimum limit of 15% for the ROE indicator is, normally, a criterion which must be taken into account by those who want to invest in a company or to absorb it by merger.

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Annex 1

No.	Date of deletion	Absorbed company	Absorbing company
1.	07.02.08	S.C.EURO CONSULTING S.R.L .	S.C.EURO CONSULTING S.R.L .
2	21.03.08	S.C.TENT – CO TRADING S.R.L.	S.C. TENT CO S.R.L.
3	21.08.08	S.C. FEDERALCOOPTARGU FRUMOS S.R.L.	S.C. FEDERALCOOP IASI S.R.L.
4	30.09.08	S.C.STANDARD MEDIA S.R.L	S.C. UBEMAR S.R.L.
5	11.03.09	S.C.VIAS COMPANY S.R.L.	S.C. DELTA TRADING COMPANY S.R.L.
6	25.05.09	S.C.APRILIA CONSULT S.R.L.	S.C. APRILIA GRUP S.R.L
7	13.08.09	S.C.SOLEDO R.S. S.R.L.	S.C. SOLEDO S.R.L.
8	06.08.09	S.C.CONEX DESIGN S.R.L.	S.C. MEGA DRIVE S.R.L
9	01.09.09	S.C.GEOCAR GRUL S.R.L.	S.C. GEOCAR LUX S.R.L
10	29.09.09.	S.C.ROM TRADING DISTRIBUTION S.R.L.	S.C. ROM TRADING COMPANY S.R.L
11	14.09.09.	S.C.JEE JEE S.R.L.	S.C. DANA POINT S.R.L
12	17.09.09.	S.C. EURODOMUS CONSULT S.R.L	S.C. EURODOMUS INVEST S.R.L
13	17.09.09	S.C.BIANCADIANA S.R.L.	S.C. BIADIA STAR S.R.L
14	05.10.09	S.C.CORAL CLUB & RBC S.R.L.	S.C. QUANT TEST S.R.L
15	14.11.07	S.C.PRO MODE S.R.L.	S.C. INTEGRATA PASCANI S.A.
16	07.01.08	S.C. EX-CEZARIS S.R.L	S.C. EX-CEZARIS COMPANY S.R.L
17	30.06.08	S.C.SOUTHAMPTON BUSINESS S.R.L.	S.C. BRISTOW BUSINESS S.R.L
18	27.10.08	S.C.FX NET S.R.L.	S.C. DALVIG CORP S.R.L
19	31.10.08	S.C.LEVIGO S.R.L.	S.C. MAXBAN S.R.L
20	25.11.08	S.C.EVOTEC S.R.L.	S.C. GEDEON RICHTER FARMACIA S.A.
21	23.11.07	S.C.LUX TAXI UNU-ZICE S.R.L	S.C. LUX TAXI S.R.L.
22	06.10.09	S.C.CASA BOLTA RECE S.R.L.	S.C. BOLTA RECE S.A.
23	11.12.09	S.C.TR-SPOT S.R.L.	S.C. VELOSAN S.R.L.
24	23.03.09	S.C.CABINET SPECTRA HDC S.R.L.	S.C. CABINET SPECTRA S.R.L.
25	21.09.09	S.C.CLIP EXIM S.R.L.	S.C. APARTAMENTUL S.R.L.
26	01.10.09	S.C.CARPAT BETON IASI S.R.L.	S.C. CARPAT BETON S.R.L.
27	20.10.09	S.C.VEGASTEL 2007 S.R.L.	S.C. SAYFONE 2009 S.A.
28	11.12.09	S.C.AUTO PARTS INDUSTRY S.R.L.	S.C. IMPERIA DEVELOPMENT S.R.L.
29	18.12.09	S.C.ELCOSERV S.R.L.	S.C. ELCO SERVICE S.R.L.
30	29.12.09	S.C.TRANS-SAT S.R.L.	S.C. AUTO - TRAK S.R.L.
31	23.12.09	S.C.ELITESERVICE S.R.L.	S.C. FERTELITE S.R.L.

Annex 2

Absorbing company	ROE	Nac	Sac	LF	D	Rv	CA
EURO CONSULTING	2.9	166.5339	97.34901	127.7141	4	101.1525	478715
TENT CO	-12.8	60.58358	6.748565	113.4894	2	47.06015	581609
FEDERALCOOP IASI	3.4	420.7431	74.51077	47.6241	5	100.8303	3811642
UBEMAR	116.9	30.16226	6532.591	-394.209	5	42.58387	12784714
DELTA TRADING COMPANY	-53.9	60.63098	50.7719	67.19298	1	50.87317	288096
APRILIA GRUP	0	70.54227	32.80468	49.76646	3	101.1214	521998
SOLEDO	-9.1	180.1167	44.1345	23.71205	2	94.30288	321593
MEGA DRIVE	-692.9	403.7717	89.71193	919.7965	1	86.60472	87142
GEOCAR LUX	-149.4	91.45473	29.5711	439.1783	1	70.42054	86914
ROM TRADING COMPANY	18.2	477.0602	33.50602	277.1268	5	103.0463	69728810
DANA POINT	-3.2	99.73973	19.89161	-344.339	4	103.8925	3673067
EURODOMUS INVEST	-142.2	112.2704	95.59594	-521.804	1	162.4289	214917
BIADIA STAR	29.9	286.3176	42.57113	-354.619	4	92.17958	362481
QUANT TEST	4.1	27.6557	-103.738	208.1882	1	106.1811	122796
INTEGRATA PASCANI	0.3	63.19162	48.41113	57.26958	5	100.9461	1893981
EX-CEZARIS COMPANY	30.6	574.7265	60.12423	207.6819	2	103.5435	894556
BRISTOW BUSINESS	269.5	254.5845	100	306.1031	1	139.0481	115701
DALVIG CORP	-9.7	1.375602	35.38161	1005.191	1	51.04151	77755
MAXBAN	14.3	109.1561	67.77666	37.4824	2	119.3718	255208
GEDEON RICHTER FARMACIA	-660	224.5453	30.77582	2516.651	5	73.48923	85161288
LUX TAXI	111.3	590.9201	19.50161	-211.588	5	53.6508	2281442
BOLTA RECE	7.5	696.6196	41.89837	234.1201	1	101.6905	995337
VELOSAN S	282.7	649.8051	11.0987	-1889.11	3	84.3287	211765
S.C. CABINET SPECTRA S.R.L.	-80.4	222.9465	17.91059	119.7226	4	59.68208	105826
APARTAMENTUL	27.6	237.3373	66.86508	344.1847	5	104.9587	2527984
CARPAT BETON	-0.3	336.2618	22.54413	18.84732	5	99.73667	82979485
SAYFONE 2009	1.6	93.96196	76.34647	-262.222	2	98.70227	23808874
IMPERIA DEVELOPMENT	3.4	68.73371	41.28971	40.21614	3	110.9184	4982752
ELCO SERVICE	4.7	164.4736	42.36658	65.37969	1	105.4174	561559
AUTO - TRAK	82.4	182.774	8.66636	-323.855	1	31.71903	48903
FERTELITE	86.2	64.44847	79.55342	79.71752	4	424.0871	280588