Firm Financial Performance Following Mergers

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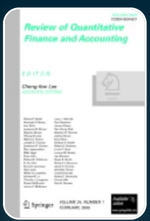

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Abstract

This study, using a sample of 162 firms and industry-adjusted cash flow returns on market value of assets as performance criteria, examines the financial performance of the combined target and acquiring firms over a 5-year post-merger period in relation to the corresponding pre-merger period. We find that post-merger performance is negatively associated with relative target size and positively associated with long-term incentive compensation plans. Firms that are in dissimilar industries also show improved performance, as do firms that merged prior to 1983.

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merger performance compensation