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# **SOCIAL CONNECTIONS IN MERGER AND ACQUISITION FRAMEWORK**

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Doctor of Philosophy**

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# ABSTRACT

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This thesis comprises three empirical studies that investigate the impact of bidders' social linkages with politicians and financial advisors on merger behaviour, M&A deal characteristics and takeover returns. The resource based theory postulates that politically connected firms have competitive advantage over the unconnected firms in terms of privileged access to resources and relaxed regulatory standard. Federal regulatory agencies apply relaxed standards when reviewing merger proposals initiated by politically connected bidders. Whereas, the private interest theory states that politicians extract rents from their connected firms. Politically connected firms might encourage to undertake acquisition to protect their political interest. These contrast theories motivate the empirical investigation as to whether or not the bidders' ties with the politicians affect the M&A process and its outcome.

Chapter 3 looks at bidders' social linkages with politicians and investigates merger frequency, M&A deal size and other characteristics of takeover deals initiated by politically connected bidders in the USA. It is found that politically connected bidders in the USA have a high likelihood of undertaking multiple acquisitions and targeting public firms. It appears that politically tied bidders do not prefer cash to finance merger deals. The evidence further shows that mergers in unrelated industries and large takeover deals are not associated with politically connected bidders. The overall findings suggest that the acquisition behaviour of politically connected bidders in the USA is influenced by the bidder's self-interest of market and corporate control. Chapter 4 examines the bidder's gain in acquisitions undertaken by politically connected bidders in the USA. It is noted that politically connected bidders in the USA underperform as compared to their counterparts. The results further show that politically connected bidders experience worse post-merger returns in the long-term as compared to non-politically connected bidders. Even after controlling self-selection bias through propensity score matching, politically connected bidders experience negative merger returns as compared to matched sample of non-political bidders. The "private interest theory" doesn't explain the underperformance of politically connected bidders as the USA is a well governed economy and it's not easy for politicians to extract personal benefits from their connected firms to the detriment of shareholders. Further, three hypotheses have tested to explore the reason(s) for the underperformance of politically connected bidders in the USA. No significant evidence is

found for the free cash flow and financial constraint hypothesis, which implies that underperformance of politically connected bidders is not due to their easy access to the capital market. The empirical evidence suggests that after controlling bidder size, the underperformance of politically connected bidders disappear. It implies that politically connected bidders' underperformance in both the short run and long run can be explained to an extent by the implications of a bidder's large corporate size. It suggests that politically connected bidders in the USA suffer losses due to the agency implications of large corporate size which cannot be offset by benefits inherited by their political linkages. Consistent with agency theory, political connections are indicative of agency issues within bidding firms which arises due to their large corporate size. The last empirical chapter examines the role of the social network *hierarchy* of financial advisors in a mergers and acquisitions framework. Theoretically, more centrally located financial advisors who have access to more and superior quality information should help acquire and target firms to achieve positive merger outcomes. However, the findings indicate that more centrally located advisors fail to create value for both bidders and targets while they charge higher advisor fees. The central financial advisors are more likely to be involved in high fee generating merger deals, hence they are found to have high likelihood to be involved in higher M&A activity, more likely to advise bidders than targets, large bidders, public and large deals. The overall results highlight that financial advisors exploit their relative power in their network to undertake takeover deals and pursue private benefits.