Risk management and business valuation in M&A transactions: editorial

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In recent years, new approaches intended to improve the success of mergers and acquisitions (M&A) have gained in importance. Many of these are related to risk management and business valuation practices that have been researched to varying degrees. Therefore, this special issue of the *Journal of Management Control* is dedicated to risk management and business valuation in M&A.

The topic of this special issue is motivated by the fact that management accountants are deeply involved in M&A in many countries of the world, e.g. in Germany (Borchers 2006). In particular, management accountants design risk management instruments and support or conduct business valuations because both are integral parts of value-based management systems (Rappaport 1986). While business valuation methods directly provide guidance about the maximum purchase price, risk management tools help firms appropriately address M&A inherent risks. As such, both areas entail important elements of management accountants' toolbox that facilitate decision-making and thus potentially improve firm performance.

M&A transactions are a worthwhile opportunity to study how risk management instruments and business valuation techniques affect firm performance. This is because M&A represent large, visible, and clearly defined managerial investment decisions. Prior research suggests that a considerable proportion of M&A negatively affect the acquiring firm's shareholder value (Haleblian et al. 2009). A vital explanation for these negative effects is the acquirers' informational disadvantage about the target's characteristics and the corresponding valuation uncertainty (e.g., Cadman et al. 2014).

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Practitioners and researchers are therefore interested in how firms can mitigate problems associated with information asymmetry and increase the likelihood of M&A success.

It is a great pleasure for us to introduce this special issue with four high quality papers. Overall, one paper provides the conceptual overview about risk management instruments in M&A contracts and their connection to the purchase price. The other three papers empirically study the independencies between risk management instruments, in particular contractual agreements, and the success of M&A.

The paper by *Nils Patschureck, Friedrich Sommer, and Arnt Wöhrmann* bridges the gap between risk management and M&A transactions by surveying contractual measures by which buyers reduce their risk in acquisitions. The contractual measures include, for instance, purchase price agreements, method of payment, earnout agreements, and warranties. Besides the theoretical underpinnings of the measures, the authors discuss their practical relevance as well as prior empirical research. Under the developed “contractual risk management framework,” the paper brings together different streams of research that are mostly analyzed with regard to short-term acquisition returns and discusses them from a risk management perspective. Consequently, substitutive or complementary effects become visible. For transaction practice, the authors conclude that especially in Europe contractual risk management is partly unexploited. Finally, they suggest directions for future research on the risk management properties of contractual measures, particularly highlighting the need for an integrative view of different measures.

Ulrich Erxleben and *Dirk Schiereck* provide an empirical analysis that contributes to both domains of M&A transactions covered in this special issue, which are the risk management and the business valuation perspective. Interestingly, these authors examine differences of M&A transactions in times of strong versus weak stock markets. From a business valuation perspective, Erxleben and Schiereck find—among other things—that short-term returns are higher for transactions in strong compared to weak markets, while long-term value creation is greater in weak markets. With respect to the risk management perspective, the study provides evidence that the method of payment used for a transaction matters. While the authors show that cash payments are usually preferable to payments in shares, the positive effect is reduced in boom markets where the probability of overvaluation is higher, as also discussed by Patschureck/Sommer/Wöhrmann in this special issue.

The paper by *Mario Fischer* follows this avenue and challenges the outperformance of cash payment over stock payment in transactions, which is commonly agreed on in the academic literature. He utilizes a sample of (at least partly) bank-financed takeovers to separate the payment effect (cash vs. stock) from the financing effect (equity vs. debt). The access to the data for both payment and financing enables him to assess both effects separately, while previous literature frequently assumes cash payment being equal to debt financing, as most acquirers would have limited financial reserves to conduct a large-scale project as a transaction. The author concludes that payment method is just an imperfect estimator of the financing source. Most interestingly, if both are incorporated in an event study to analyze the announcement effect of the bank-financed transactions, the well-known positive effect of cash payment disappears while the positive effect of the financing source remains. Consequently, for this sample of

bank financed acquisitions the effect of cash payment turns out to be an effect of debt financing. Finally, the author assesses that higher bank involvement signals a more successful takeover.

Finally, *Svetlana Grigorieva* and *Tatiana Petrunina* provide a new perspective to study the performance of M&A in emerging capital markets. In particular, they apply the Economic Profit approach to the novel data of stock returns of M&A in emerging markets. The authors find M&A in these markets are on average value destroying in the short run and in the long run. They further find that focused transactions outperform diversified transactions, target firms perform better than bidders, and that local deals are better than cross-border deals. They are the first to comprehensively analyze the valuation in M&A in emerging markets. These findings are interesting and useful, especially for practitioners in emerging markets.

We would like to thank our authors and reviewers for all their work and effort. We sincerely hope that our readers will enjoy this special issue and that it offers new insights of how management accounting contributes to the success of M&A transactions. Finally, we hope that this special issue can contribute to and inspire new ideas for future research at the intersection of management accounting and M&A research.

The guest editors of the special issue

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