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THE POST-ACQUISITION PERFORMANCE OF ACQUIRED COMPANIES: EVIDENCE FROM THE REPUBLIC OF SERBIA

ABSTRACT: *This paper explores the post-acquisition performance of acquired companies in the Republic of Serbia, and whether company size is a factor of post-acquisition performance. The data were collected from 91 managers in 10 acquired companies in Serbia. The acquiring companies came from Germany, Austria, Italy, Switzerland, Belgium, Norway, Greece, and Serbia. The results of the analysis show that 70% of managers believed that there had been improvement in post-acquisition performance. The improvement in performance was achieved for the most part by cost reduction. The results of this study indicate that there are statistically significant differences between large, medium, and small companies. Large companies had the best improvement in financial performance, and medium companies were the best regarding improvement of non-financial performance.*

KEY WORDS: *post-acquisition performance, cross-border acquisitions, privatization, transition, company size.*

JEL CLASSIFICATION: G34, L25, P31

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1. INTRODUCTION

Market integration in a global economy, liberalization and the deregulation process all support the thesis that mergers and acquisitions (M&A) play a significant role in the economy. Mergers and acquisitions are necessary for some companies to meet their aims of long-term survival, growth, and development. Most companies consider acquisitions to be the best way to invest corporate resources. In recent times the Republic of Serbia has become one of the leading investment locations in Central and Eastern Europe, with the majority of investors coming from European Union countries. Western companies recognized the unexploited potential of Serbian companies and entered the Serbian market by acquiring target companies with the aim of transferring knowledge and capital and improving performance. Over the last twenty years, numerous studies have focused on the key issues of whether acquisitions are successful and if there are improvements in post-acquisition performance (Morosini and Singh 1994; Schoenberg 2006; Tuch and O'Sullivan 2007), but the answer to these questions is unclear. The research results are inconsistent, with some studies showing that acquisitions are successful (Healy et al. 1992; Carow et al. 2004) and others reporting a negative effect of acquisition on performance (Limmack 1991; Lu 2004). Inconsistency in the literature with respect to acquisition success may be explained by inconsistent use of available performance measures. The most commonly used measures of acquisition performance are stock-market-based measures (Goergen and Renneboog 2004; Sudarsanam and Mahate 2003), accounting-based measures (Healy et al. 1992; Lu 2004), and subjective performance measures based on assessment by managers (Ingham et al. 1992; Adolph et al. 2001). Kiessling and Harvey (2006) point out that focusing on financial performance measures leads to the neglect of the role of human resources, acquired knowledge, and intangible goals. Subjective performance measures have the advantage over stock-market-based performance measures of providing a multidimensional approach to performance measurement. However, in merger and acquisition literature there are few studies that use a multidimensional approach to evaluate post-acquisition performance. Additionally, studies have mainly considered transactions in developed economies, while research in transition economies is relatively limited. Therefore the first aim of this paper is to fill this research gap by exploring post-acquisition performance of acquired companies in the Republic of Serbia as a transition economy, focusing on both financial and non-financial performance measures.

Researchers have explored various factors in order to determine which factors influence post-acquisition performance. They have analysed the impact of the acquiring company's accumulated experience (Harding and Rovit 2004; Hayward 2002; Haleblian and Finkelstein 1999; Leshchinskii and Zollo 2004), the transaction characteristics, i.e., the impact of diversification (Campa and Kedia, 2002; Berger and Ofek 1995; Maquieria et.al. 1998) or form of payment (Goergen and Renneboog 2004; Martyinova and Renneboog 2008; Eckbo et al. 1990), and the size of the acquired and acquiring companies (Moeller et al. 2004; Linn and Switzer 2001; Switzer 1996). The empirical research on the influence of acquired company size on post-acquisition performance is mixed. Some authors argue that large acquired companies perform better post-acquisition than smaller ones (Linn and Switzer 2001; Martynova et al. 2006), while others report a negative effect of company size (Ravenscraft and Scherer 1989; Clark and Ofek 1994) on post-acquisition performance. Therefore the second aim of this study is to investigate whether the size of the acquired company is a factor in post-acquisition performance and whether there are differences in the post-acquisition performance of different-sized companies.

This study makes an important theoretical and practical contribution to the literature of M&A. First, the results of the study improve the understanding of post-acquisition performance, especially in the context of a transition economy. Second, this study provides a holistic view of the performance of M&A transactions by focusing on both financial and non-financial performance measures. Third, by considering the influence of the acquired company's size on post-acquisition performance, the results of this study provide a better understanding of post-acquisition performance. This study has important practical implications for managers of acquired companies in transition economies, as it shows the need to control the non-financial results that provide the basis for improving performance in the long-term; the need to undertake corrective action to improve non-financial performance such as employee satisfaction; and the need for managers to develop the skills of transformational leadership, which will help them overcome problems of post-acquisition integration.

This paper is structured as follows. First the theoretical framework and hypotheses are presented. Next, the methodology is outlined, particularly in terms of samples, measures, and preliminary analysis. Then the research results are discussed. Finally, the theoretical and practical contributions of the research results are emphasized.

2. THEORY AND HYPOTHESES

2.1. Measurement of post-acquisition performance

Many authors have studied post-acquisition performance (Morosini and Singh 1994; Schoenberg 2006; Tuch and O'Sullivan 2007; Sudarsanam and Mahate 2003, Martyinova and Renneboog 2008; Thanos and Papadakis 2012). Zollo and Singh (2004) emphasize that there is heterogeneity in defining and measuring post-acquisition performance. Kiessling and Harvey (2006) make similar observations, stressing that there is no agreement regarding the most applicable method of either acquisition performance measurement or the timing of measurement during the process. Zola and Meier (2008) analyse 88 empirical studies conducted between 1970 and 2006 and identify 12 approaches to measuring the impact of acquisitions on shareholder value, concluding that the most common approaches to measuring post-acquisition performance are stock-market-based measures, accounting-based measures, and subjective measures.

The stock-market-based measure of performance observes the effect of acquisition on the movement of company share price in the period between the announcement and the closing of the transaction. The use of this performance measures is based on the assumption that the capital market operates efficiently, which means that the share price reacts to new information in a timely and unbiased fashion and that changes in company share price reflect the value of the acquisition (Cordin and Christman 2002). Significant problems in assessing the performance of M&A transactions using stock-market-based measures are that these measures do not apply to companies that are not quoted on the stock exchange, and stock price changes may also be caused by other factors. It is particularly difficult to observe isolated acquisition effects in the long-term, since strategic and operational decisions taken in the meantime can lead to changes in funding policy and all this is reflected in the share price (Tuch and O'Sullivan 2007).

A group of studies that belong to industrial organization literature have used accounting-based measures in evaluating post-acquisition performance. Thanos and Papadakis (2012) emphasize that the major advantage of accounting-based measures is that they do not measure investors' expectations but rather actual performance based on annual financial statements. Chatterjee and Meeks (1996) state two hypotheses – capital markets are not completely effective, and the informational efficiency of capital markets is overvalued – and conclude that it is expedient to evaluate post-acquisition performance by using accounting-based measures. An additional advantage of these measures compared to stock-based measures is that they can measure the success of companies that are not listed on the stock exchange. Despite the advantages of accounting-based measures they have numerous disadvantages, the main one being that they provide conclusions based solely on past performance (Chenhall and Langfield-Smith 2007; Sudarsanam 2003). As studies using accounting-based measures apply different accounting performance measures there is also the problem of comparability of results (Tuch and O'Sullivan 2007). An additional disadvantage results from the application of different accounting policies by individual companies, again making it difficult to compare the results (Sudarsanam 2003; Bruner 2002).

The use of subjective performance measures is widespread in the literature of M&A and they are used when it is not possible to use objective performance measures. This method involves researchers sending questionnaires to managers, asking them how they perceive the financial and non-financial performance of their company. The respondents are asked to assess accounting-based, market-based, and non-financial indicators on the basis of their personal understanding of the current situation. The advantage of using subjective performance measures is that they allow multidimensional measurement by including both financial and non-financial performance indicators (Papadakis and Thanos 2010). However, these performance measures also have certain limitations, the most important of which is that subjective assessments of performance indicators may be affected by managers' personal biases. Thus it is necessary to use a large number of respondents.

2.2. Characteristics of the acquisition process in transition economies

In transition economies, business conditions are characterized by ongoing socio-economic and political reform (Wegener 2012). One of the principal areas of economic reform is the corporate restructuring undertaken by companies as they adapt for survival and success in a market economy (Fidrmuc 2007). In this regard, mergers and acquisitions represent an important aspect of the corporate restructuring process in transition economies (Lahovik 2011). Thus M&A deals are not only common in developed economies but have also become more apparent in emerging and transition economies (Kumar and Bansal 2008), where they represent a powerful and important tool for local markets and the development of local companies. Foreign acquiring companies have strategic assets such as superior marketing expertise, patent-protected technology, and managerial know-how (Deng and Yang 2015), which can help to better develop the acquired companies. On the other hand, companies from emerging economies such as India and China tend to acquire target companies in more developed economies, increasingly adopting cross-border mergers as the main approach to realizing internationalization.

Mergers and acquisitions in transition economies are more specific than in developed countries, as these activities are largely related to the privatization process. In this context, local companies seek out acquisition by foreign investors in order to improve their competitive position, while one of the motives for acquisition by foreign companies is access to the target country's natural resources. The importance of resources to investors and their specific role are emphasized by the existence of particular growth patterns in two groups of transition economies: resource-rich countries and countries with poor natural resources. Cerovic et al (2014) have found that in the first group the share of industrial output in GDP positively affects growth, while the second group's growth is followed by negative net exports.

Additional motives of foreign companies include acquiring new customers for their products and/or services and increasing efficiency levels based on lower labour cost, economies of scale, and other benefits (Thomas and Grosse 2001). Wegener (2012) emphasizes geographic expansion and access to a low-cost labour force as motives of foreign companies. Additionally, acquisition can be an attractive establishment mode, as acquired companies provide knowledge of the local market as well as distribution channels (Dikova and Witteloostuijn 2007).

However, the characteristics of transition economies include a damaged socialist administrative heritage, inefficient human resources, and obsolete management practices. Hence, the transition of these economies assumes changes in the institutional and economic settings, as well as changes in how firms operate and how managers and employees behave (Bogićević Milikić and Janićijević 2009). In transition economies the acquiring companies face the challenge of the acquired companies needing a thorough reorganization. The reorganization of the acquired local companies includes asset restructuring and resource transfers (Capron and Guillen 2008), because they typically lack essential resources and managers with experience in competitive markets (Uhlenbruck 2004). Also, the acquired companies also need radical changes in their organisational cultures, processes, and structures (Meyer 2002).

The Republic of Serbia was one of the last countries to enter the transition process, ten years after most countries of Central and Eastern Europe. Transition in the Republic of Serbia started formally in 1989, but the process was suppressed due to the ruling politics. Transition reforms really began after 2001, when the process of liberalization, deregulation, and privatization began to improve the business investment climate and contributed to the intensification of acquisitions, especially cross-border acquisitions.

The main characteristics of the acquisition process in the transition economy of the Republic of Serbia were the existence of a thin national capital market with a small number of domestic acquiring companies and the implementation of mainly horizontal acquisitions. Mergers and acquisitions in Serbia are of interest to both domestic and foreign investors. From the beginning of the economic reforms the Republic of Serbia became an important investment location, although less popular than some other countries (Estrin and Uvalic 2014). According to the Serbian Investment and Export Promotion Agency (SIEPA), the countries with most capital invested in the Republic of Serbia are Austria, the Netherlands, Greece, Germany, Norway, Italy, the Russian Federation, Slovenia, France, and Switzerland.

The transition process and the entrance of foreign companies into the Serbian market brought an opportunity to improve organizational performance. Recognizing the unexploited potential of target companies, foreign investors entered the Serbian market in order to transfer the knowledge and skills that were necessary to improve the performance of Serbian companies.

2.3. Results of empirical research regarding the effects of acquisition on post-acquisition performance

2.3.1. Post-acquisition performance in developed economies

Studies that examine the effects of acquisition by observing changes in stock prices can be classified as short-term or long-term. The short-term studies evaluate the returns to the acquired company's shareholders as positive and significant due to the large premiums paid. Goergen and Renneboog (2004) point out that the shareholders of acquired companies receive large premiums of on average 20%-40% more than the share price before the offer was announced. By contrast, results of studies of the impact on the acquiring company's shareholders are inconclusive, with some studies showing positive returns (Ben-Amar and Andre 2006) and others showing negative returns (Sudarsanam and Mahate 2003). Bruner (2002) provides a summary review of 130 studies conducted between 1971 and 2001 and concludes that the returns to the acquiring companies' shareholders were zero. Researchers have also studied the effects on combined companies (Bradley et al. 1988; Carow et al. 2004; Healy et al. 1992). While these studies show that acquisitions lead to positive returns, it is important to emphasize that most of these returns belong to the acquired companies' shareholders. Long-term studies (Tuch and O'Sullivan 2007) have shown that the acquisitions generate negative or insignificant returns for the acquiring companies' shareholders in the long run. Limmack (1991), based on 448 acquisitions completed between 1977 and 1986, indicates the existence of significant negative returns.

The results of accounting-based studies regarding post-acquisition performance are not uniform. Ravensraft and Scherer (1989) investigate the profitability of companies in the same field of operations and conclude that the profitability of acquired companies declines in the post-acquisition period. Lu (2004), in a study of 592 transactions in the U.S.A., compared the performance of the companies in the 60 months before and after the acquisition, and reported a negative post-acquisition performance. By contrast, Healy et al. (1992) analysed fifty mergers in the period from 1979 to 1984 and found that performance improved in the post-acquisition period.

The third group of studies uses subjective performance measures to assess post-acquisition performance. Based on a sample of 146 large firms in the United Kingdom, Ingham et al. (1992) found that 77% of managers believed that profitability increased in the short run after a merger and 68% believed that profitability improved in the long run. A study by Booz, Allen, and Hamilton showed that 53% of M&As failed to deliver their expected results (Adolph et al. 2001). On the basis of 107 companies that took part in international transactions from 1996 to 1997, a KPMG study conducted in 1999 showed that 82% of transactions were successful in the opinion of the executive managers (Kelly et al. 1999). A study by KPMG in 2001 (Cook and Spitzer 2001) that examined the attitudes of executive managers in 118 companies that took part in international transactions from 1997 to 1999 showed that 75% of transactions were successful. Schoenberg (2006), in a study of 61 international acquisitions executed by UK companies from 1988 to 1990, showed that in 44% of cases managers were dissatisfied or very dissatisfied with the financial performance of acquisitions compared to the expectations. Empirical testing conducted by Papadakis and Thanos (2010), based on a sample of 50 domestic acquisitions carried out by Greek companies, showed that for 60% of the top managers the acquisition did not meet initial expectations. Thus, analysis of the results of research on post-acquisition performance in developed economies shows that the results of the studies are mixed: some have shown that acquisitions improve performance, while others came to the opposite conclusion.

2.3.2. Post-acquisition performance in transition economies

A review of the literature on post-acquisition performance reveals that most of the studies were carried out in developed economies and only a small number focus on emerging and transition economies. Some studies explore the post-acquisition performance of cross-border acquirers from emerging economies (Nicholson and Salaber 2013; Kale and Singh 2012; Narayan and Thenmozhi 2014). Nicholson and Salaber (2013) explore the motives and performance of cross-border acquirers from China and India and conclude that these buyers tend to acquire target companies in more developed economies and create significant abnormal returns. Kale and Singh's (2012) study of 73 overseas acquisitions by Indian firms confirmed that, on average, Indian acquirers have created positive value for their shareholders. The authors also measured long-term performance using a subjective performance measure and showed that senior executives were satisfied with the performance of the acquisitions. On the other hand, Narayan and Thenmozhi (2014) emphasized that cross-border acquisition destroys value when emerging market companies acquire companies in developed markets.

Some studies have attempted to empirically investigate the impact of acquisitions on post-acquisition performance in transition economies (Ahunov et al. 2013; Kumar and Bansal 2008; Lahovik 2005; Narayan and Thenmozhi 2014; Dikova and van Witteloostuijn 2007). Ahunov et al. (2013) investigated the impact of cross-border acquisitions on the performance of acquired banks in Ukraine. The results show that after acquisition the cost efficiency of the acquired banks improved, but this did not result in higher profitability or higher loan-market shares. Kumar and Bansal (2008) examine the impact of mergers and acquisitions on corporate performance in India. The results show that for more than half of the explored merger cases, financial performance improved in the post-merger time period. Lahovik (2005) investigates the performance of acquisitions in Slovenia using a subjective measure of performance and three additional criteria: divestiture rate, return on equity (ROE), and value added per employee. The results show that horizontal acquisitions outperformed vertical and conglomerate acquisitions. Additionally, Lahovik (2005) found that the development of forms of co-operation in the pre-bid period and the support of the target company's management determined realisation of the most important acquisition motives and of the performance measured by ROE and value added per employee.

Narayan and Thenmozhi (2014) investigate whether cross-border acquisitions involving emerging markets create value. As already noted above, these authors fined value destruction when emerging market companies acquire companies in developed markets, but when developed market companies acquire companies in emerging markets there can be value creation. Exploring international companies from the EU that have invested in transition economies in the CEE region, Dikova and van Witteloostuijn (2007) conclude that an acquired business is less risky than the greenfield alternative, as it provides a lower but more certain expected rate of return.

Kecman Šušnjar (2012) analyse the economic effects of privatization and acquisition in the Republic of Serbia in a sample of large and strategically important companies privatized by tender procedures. The results show that in most of the analysed companies, operating income, net income, and production volume increased in the post-privatization period; the increase in productivity was due to a reduction in the number of employees and increased production volume; and companies acquired by foreign buyers increased their operating income more than companies acquired by local investors.

In the specific context in which acquisitions occurred in Serbia (many acquisitions took place as part of the privatization process; many companies were operating inefficiently prior to acquisition; foreign companies came with the necessary know-how and capital) the expectation is that with the arrival of the new owners and the introduction of radical changes, post-acquisition performance will improve. Therefore, the first research hypothesis is:

Hypothesis 1: *The post-acquisition performance of acquired companies improved, compared to their pre-acquisition performance.*

In order to establish which factors determine post-acquisition performance, researchers have studied various factors. They have analysed the impact of the acquiring company's previous accumulated experience on post-acquisition performance (Harding and Rovit 2004; Hayward 2002; Haleblian and Finkelstein 1999; Leshchinskii and Zollo 2004), transaction characteristics, i.e., the impact of diversification (Campa and Kedia 2002; Berger and Ofek 1995; Maquieria et al. 1998), form of payment (Goergen and Renneboog 2004; Martyinova and Renneboog 2008; Eckbo et al. 1990), and size of the acquired and acquiring companies (Moeller et al. 2004; Linn and Switzer 2001; Switzer 1996). An important issue that research has covered is the effect of company size on post-acquisition performance.

The results of studies on the impact of company size on post-acquisition performance are inconsistent. Some authors believe that the acquisition of larger companies leads to better post-acquisition performance compared to smaller companies. Martynova et al. (2006) point out that it is more likely that larger companies can realize significant operating and financial synergies and economies of scale than smaller acquired companies, thus leading to stronger post-acquisition operating performance. Linn and Switzer (2001) show that the performance of larger acquired companies is better than the performance of smaller acquired companies. A study by Capron (1999) found a positive and significant relationship between the relative size of the acquired company and cost savings and innovation capability. These results suggest that the larger the size of the acquired company relative to the acquiring company, the higher the impact of the acquisition on cost savings and innovation capability.

On the other hand, some authors (Clark and Ofek 1994) emphasize that the 'size effect' can be positive when the greater relative size of the acquired company contributes to achieving greater synergy and economic benefits, but can be negative when a larger acquired company brings major integration and management problems. Clark and Ofek (1994) conclude that the difficulties in managing large combined companies outweigh the operational and financial synergies, resulting in reduced performance. Mulherin and Boone (2000) point out that large deals may take longer than expected, which could result in negative market reactions. Ravenscraft and Scherer (1989) emphasize that the larger acquired company has a complex organizational structure and hence can create more problems during the process of adaptation and/or establishing a new organizational structure. Some authors argue that smaller companies have better post-acquisition performance. Sudarsanam et al. (1996) found that deals involving smaller acquired companies increased shareholders' returns by an average of 1% in the period from -20 to +40 days of the announcement of the acquisition.

In addition to studies that emphasize the positive or negative impact of company size on post-acquisition performance there are those that have found no statistically significant relationship between the two factors (Powell and Stark 2005; Sharma and Ho 2002).

Although evidence from empirical research on the influence of acquired company size on post-acquisition performance is mixed, we expect that larger companies perform better than smaller companies in the post-acquisition period. Thus the second research hypothesis is:

Hypothesis *2: Larger companies perform better than smaller companies in the post-acquisition period.*

3. METHOD

3.1. Sample

The data reported in this paper were collected from primary sources during 2013, as part of a larger research effort. The survey included companies in the Republic of Serbia with the following characteristics: 1) the companies were acquired during the period from between 2002 and 2011, and 2) the companies were of different sizes (small, medium, and large). Thirty companies were contacted by telephone and cover letters were sent to managers asking them for permission to distribute questionnaires. Questionnaire distribution was approved in 10 companies. The acquiring companies were from Germany, Austria, Italy, Switzerland, Belgium, Norway, Greece, and Serbia. The sample consists of 6 large, 2 medium, and 2 small companies. The companies are grouped into large, medium-sized, and small categories according to the classification provided by the Business Registers Agency. The following criteria are used to determine company size: number of employees, revenue amount, and value of company assets, in accordance with Serbian Accounting Law criteria. The characteristics of the companies in the sample are shown in Table 1.

Table 1. Characteristics of companies in the sample

Company	*Year of acquisition*	*Type of acquisition*	*Country of acquiring company*	*Acquired company size*
Company 1	2004	Domestic	Serbia	Large
Company 2	2006	Cross-border	Norway	Medium
Company 3	2010	Cross-border	Italy	Small
Company 4	2010	Cross-border	Germany	Medium
Company 5	2006	Cross-border	Greece	Large
Company 6	2005	Cross-border	Austria	Large
Company 7	2002	Cross-border	Switzerland	Large
Company 8	2006	Cross-border	Germany	Large
Company 9	2005	Domestic	Serbia	Large
Company 10	2011	Cross-border	Belgium	Large

Source: The Privatization Agency of the Republic of Serbia, The Business Registers Agency, and company web sites

There were 300 questionnaires in total. Out of the initially sent questionnaires, 94 were filled out (response rate of 31.3%). Therefore, the sample covers 94 respondents (n = 94). As shown in Table 2, most of the respondents (70.2%) are operative management, 28.7% are middle management, and 1.1% are top management. Regarding gender, the sample comprises slightly more men (52.1%) than women (46.8%). Most of the respondents are 36–45 years old (38.3%). Finally, 37.2% of respondents have extensive work experience (more than 25 years).

Table 2. Sample characteristics

Variable	*Frequency*	*% of Total*
Position		
Top management	1	1.1
Middle management	27	28.7
Operative management	66	70.2
Gender		
Male	49	52.1
Female	44	46.8
No response	1	1.1
Age distribution (years)		
26-35	13	13.8
36-45	36	38.3
46-55	24	25.5
>55	18	19.1
No response	3	3.2
Years of work experience		
<2	1	1.1
3-5	2	2.1
6-10	10	10.6
11-15	17	18.1
16-25	27	28.7
>25	35	37.2
No response	2	2.1

Source: Author's calculation

Data analysis was carried out using Statistical Package Social Sciences 20.0. Exploratory Factor Analysis (EFA) was applied in the preliminary analysis, and the data for factor analysis was tested with the Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's test of sphericity. The reliability of the measure scale was measured with Cronbach's alpha coefficient. The normality of the distribution of the research variables was tested with the Kolmogorov–Smirnov and Shapiro-Wilk tests. The propositions were tested with descriptive statistics and the Kruskal–Wallis test.

3.2. Measures

Post-acquisition performance was measured using subjective performance measures. Respondents were asked to assess the financial and non-financial indicators of their companies after acquisition, using five-point Likert scales with anchors ranging from "strongly disagree" (1) to "strongly agree" (5). Example items are "Cost-reduction is higher than prior to the acquisition", "Income growth/stability is higher than prior to the takeover", "The market share of the company is higher than prior to the acquisition", and "Development of new products/services is better after the acquisition".

3.3. Preliminary analyses

The data for factor analysis were tested with the Kaiser–Meyer–Olkin measure of sampling adequacy ($KMO = 0.906$) and Bartlett's test of sphericity ($p = 0.000$). Principal Component Analysis showed unidimensionality of scale, in that all items are grouped around a single factor that explains 72.86% of the total variance.

Reliability and internal consistency of scale were measured by Cronbach's alpha ($\alpha = 0.96$). The high value of this coefficient means that the variables used to measure post-acquisition performance have a high level of internal consistency, since the acceptable value of this coefficient is above 0.7.

Kolmogoro-Smirnov and Shapiro-Wilk tests were used to test the normality of the distribution of variables. Normality of distribution is confirmed if deviation from normality is statistically insignificant ($p>0.05$). In this case, the levels of significance of the Kolmogoro-Smirnov test ($p=0.02$) and the Shapiro-Wild test ($p=0.00$) indicate that assumption of normality of distribution was not confirmed. For this reason, the analysis was performed using the non-parametric Kruskal Wallis test. Through applying the Kruskal–Wallis test we investigated whether there are statistically significant differences in post-acquisition performance between small, medium, and large acquired companies.

4. RESULTS AND DISCUSSION

4.1. Descriptive statistics

The mean, median, and mode of the post-acquisition performance variable are shown in Table 3. The value of the mean (mean=3.61) is above 3, which means that the managers of the acquired companies are relatively satisfied with the improvement in post-acquisition performance. This conclusion is imposed on the basis of median values (median=3.89), which is a better measure of central tendency when there are violations of the assumption of normal distribution shape.

Table 3. The average values of post-acquisition performance in total sample

Variable	*N*	*AS*	*SD*	*Median*	*Mode*
Post-acquisition performance	91	3,61	1,12	3,89	5

Source: Author's calculation

The mean, median, and mode of post-acquisition performance indicators are shown in Table 4. The value of arithmetic means shows that managers see the greatest improvement in the cost reduction indicator (AS=3.86) and the least improvement in the employee satisfaction indicator (AS=3.17). The median and mode values indicate that managers are least satisfied with improvement in the employee satisfaction and customer base expansion.

Table 4. Indicators of post-acquisition performance in the total sample

Indicators of post-acquisition performance	*N*	*AS*	*SD*	*Median*	*Mode*
Cost reduction	91	3.86	1.252	4.00	5
Income growth/stability	92	3.78	1.316	4.00	5
Improvement in productivity	94	3.78	1.254	4.00	5
Improvement in competitive position	92	3.73	1.302	4.00	5
Development of new products/services	92	3.60	1.310	4.00	5
Improvement in the quality of products/services	92	3.57	1.295	4.00	5
Improvement in market share	94	3.54	1.381	4.00	5
Expansion of customer base	92	3.50	1.347	3.00	3
Improvement in job satisfaction	92	3.17	1.323	3.00	3

Source: Author's calculation

Cost reduction in the acquired companies can be explained by the fact that a large number of companies included in the sample were acquired in the privatization process. Prior to acquisition these companies were performing poorly and had obsolete technology and redundant employees. The implementation of radical changes after acquisition, including reducing the number of employees, technology innovation, and business rationalization led to the cost reduction. On the other hand the new owners brought new organizational behaviour and a strenuous pace of work, which is reflected in the employee satisfaction level.

The estimated post-acquisition performance of the acquired Serbian companies is shown in Table 5. Schoenberg (2006) signifies acquisitions as successful when the weighted mean score is greater than or equal to 3.0, and unsuccessful when the score is lower than 3.0. Based on these criteria, 70% of acquisitions can be considered successful and 30% as unsuccessful. On the basis of average values, it can be concluded that Company 7 has achieved the best performance in the studied group of companies (AS=4.54), as well as Company 2 (AS=4.27), while Company 10 had the worst post-acquisition performance (AS=1.74).

Table 5. Post-acquisition performance of acquired Serbian companies

Acquired companies	*Country of acquiring company*	*N*	*Min*	*Max*	*AS*	*SD*	*Median*	*Mode*
Company 1	Serbia	8	1.00	4.89	2.30	1.52	1.61	1.00
Company 2	Norway	5	2.56	5.00	4.27	1.02	4.67	5.00
Company 3	Italia	7	3.33	5.00	4.09	0.51	4.11	4.22
Company 4	German	13	2.78	5.00	4.08	0.71	3.89	3.89
Company 5	Greece	7	2.78	5.00	4.22	0.88	4.44	5.00
Company 6	Austria	5	3.22	4.78	4.22	0.63	4.22	4.78
Company 7	Switzerland	7	4.22	5.00	4.54	0.30	4.44	4.33
Company 8	German	16	2.11	3.89	3.19	0.56	3.22	3.22
Company 9	Serbia	17	2.11	4.78	3.70	0.87	4.00	2.44
Company 10	Belgian	6	1.00	3.44	1.74	1.12	1.05	1.00

Source: Author's calculation

Company 7 was acquired in 2002 and this acquisition was an integral part of the privatization process. With the arrival of foreign owners, this company became a leading manufacturer in the Serbian construction industry. In a relatively short period of time the company, which previously had relied on outdated technology, grew into a modern company with high technological standards. Rationalization of operations, reorganization of business functions, reduction of the number of employees, and change of corporate culture resulted in improved post-acquisition performance. In second place, according to managers' assessment of post-acquisition performance, is Company 2, which was acquired in 2006 and was transformed from an unsuccessful machinery producer to a successful company producing parts for ships, oil platforms, and machines, with the entire production exported to Norway, the USA, Germany, Belgium, and Azerbaijan.

The poor post-acquisition performance of Company 10 can be partly explained by the fact that this was the last of all the companies to be acquired (in 2011) so that the benefits were not yet realized during the research period. The post-acquisition phase, especially the period immediately after acquisition, is the most critical (Jemison and Sitkin 1986; Datta 1991; Ranft and Lord 2002) because it is when integration problems (employee resistance, cultural incompatibility) and management problems (Savović 2012) can occur. Since this is a large company, where these problems are likely to be more pronounced, this is likely an additional reason for poor post-acquisition performance and, in the future, post-acquisition performance can be expected to improve. In such conditions, transformational leadership is critically important (Babic et al. 2014).

Although the managers of some companies were dissatisfied with post-acquisition performance, most of the studied companies showed improved post-acquisition performance compared to before acquisition, and so Hypothesis 1 should not be rejected.

Finally, we conducted a statistical test to formally test Hypothesis 2, i.e., to check the significance of differences between the post-acquisition performances of small, medium, and large acquired companies. The Kruskal Wallis test results are shown in Table 6. The analysis shows that there are statistically significant differences between different-sized companies in terms of cost reduction, expansion of the customer base, improved product quality, and development of new products and services. Large companies achieved better cost-reduction results (Mean Rank=50.57; $p<0.05$) than medium companies (Mean Rank=42.00, $p<0.05$) and small companies (Mean Rank=33.13, $p<0.05$). These results can be explained by the fact that large companies were able to implement the rationalization of different segments (reducing the number of employees, reorganizing business functions, increasing capacity utilization), resulting in greater cost savings compared to the medium and small companies.

Table 6. Significance testing for indicators of post-acquisition performance

Indicators of post-acquisition performance	*Company size*	*Mean Rank*	x^2	*p*
Income growth/stability	Large	48.18	4.392	0.111
	Medium	51.28		
	Small	34.17		
Cost reduction	Large	50.57	6.333	**0.042**
	Medium	42.00		
	Small	33.13		
Improvement in productivity	Large	47.31	2.665	0.264
	Medium	54.61		
	Small	39.73		
Improvement in market share	Large	44.93	5.959	0.051
	Medium	60.97		
	Small	41.77		
Improvement in competitive position	Large	43.77	4.706	0.096
	Medium	58.25		
	Small	43.13		
Improvement in job satisfaction	Large	45.05	0.779	0.677
	Medium	51.19		
	Small	46.57		
Expansion of the customer base	Large	41.70	10.067	**0.007**
	Medium	63.75		
	Small	44.67		
Improvement in the quality of products/services	Large	44.53	11.495	**0.003**
	Medium	63.31		
	Small	34.07		
Development of new products/ services	Large	44.50	10.081	**0.006**
	Medium	62.44		
	Small	35.23		

Source: Author's calculation

Non-financial indicators of performance such as quality, innovation, and customer satisfaction are the driving force of future performance. The analysis shows that medium-sized companies were the best at improving non-financial performance indicators. The medium-sized companies had the best results in expanding the customer base (Mean Rank=63.75, $p<0.05$), improving product quality (Mean Rank=63.31, $p<0.05$), and developing new products and services

(Mean Rank=62.44, p<0.05). The small companies had the lowest post-acquisition performance in improving the quality of products/services (Mean Rank=34.07, p<0.05) and development of new products/services (Mean Rank=35.23, p<0.05), while they were somewhat better than the large companies in terms of expanding the customer base (Mean Rank=44.67, p<0.05). The improvement of these non-financial indicators is very important because if the company is able to meet customer needs, achieve customer loyalty, attract new customers, improve product quality, and develop new products, it will improve the overall efficiency of future business operations. The results show significant differences according to company size in four indicators (cost reduction, expansion of the customer base, improvement of the quality of products/services, development of new products/services), but not for the remaining five indicators. The results of the analyses of the impact of company size on post-acquisition performance showed that large companies were the best at cost reduction, while medium-size companies were the best at improving non-financial indicators - expansion of customer base, improved product quality, and development of new products and services. The small companies showed came lowest in almost all performance indicators, except for expanding the customer base, where they were better than the large companies. According to these results, Hypothesis 2 should not be rejected.

6. CONCLUSION AND IMPLICATIONS

The evaluation of acquisition success requires multi-dimensional measurement of post-acquisition performance, including financial and non-financial performance indicators and whether after acquisition the company achieves cost reduction, improved income, improved market share, improved competitive ability, improved productivity, etc. The results of the study show that, according to the managers' estimates, a large percentage of the investigated companies achieved improved post-acquisition performance. This is explained by the fact that in many cases the acquisitions were part of the privatization process and the acquired companies were state-owned prior to acquisition and were performing poorly financially. After acquisition the new owners reorganized business operations and established a new system of values, which is reflected in the improvement of post-acquisition performance. The results of this study show that there are statistically significant differences in individual performance indicators, in particular cost reduction (where the greatest improvement was achieved by large companies), expansion of the customer base, improvement of product quality, and development of new products and services (where the greatest improvement was achieved by medium-sized companies).

This study makes a theoretical contribution to the M&A literature in three important ways. First, because previous research of post-acquisition performance in transition economies is limited, the results of the present study theoretically and empirically expand the literature with respect to post-acquisition performance in the context of a transition economy. The analysis results show that market conditions in the Republic of Serbia, as a transition economy, deviate from those observed in developed countries as acquisitions are largely related to the privatization of state companies. Additionally, they are predominantly cross-border acquisitions rather than domestic acquisitions, with most investment coming from European Union countries. The study emphasizes that despite the challenges posed by the institutional environment of a transition economy, companies can improve post-acquisition performance. Second, this study shows that it is necessary to use a hybrid model to measure post-acquisition performance, which integrates financial and non-financial performance indicators and provides a holistic view of acquisition success. It is important to measure post-acquisition performance using multiple indicators because it results in better evaluation. Recent studies support this approach (Scoenberg 2006; Papadakis and Thanos 2010). Third, the results of the study provide a better understanding of post-acquisition performance, suggesting that company size is a factor: large companies perform better financially, medium-sized companies have better non-financial performance, while small companies have the worst post-acquisition performance.

The results of our study have important practical implications. They show that managers should focus on non-financial as well as financial results, such as employee satisfaction, expansion of the customer base, development of new products and services, etc. Financial measures are often misleading indicators of the strategic health of companies. Managers often lack the ability to determine whether poor financial outcomes are the result of inadequate strategies, poor implementation of strategies, or poor control of division managers. Hence, if the emphasis is on controlling financial results, managers will be motivated to achieve good results in the short term but will neglect investment in research and development and other innovative activities, which does not lead to improved performance in the long term. Therefore, the motto of managers leading acquired companies should be 'improve long-term performance'. Managers provide a basis for improving long-term performance by focusing on both financial and non-financial results.

Second, the results of our study inform managers about the success of acquisition strategy implementation and the need to take corrective action. Employee satisfaction, innovation, product quality, and expansion or the customer base are all outcomes that drive future performance. The results of this study emphasize that non-financial indicators, such as poor job satisfaction, demand a response from managers. Managers should be transformational leaders and actively work to encourage employee satisfaction. Therefore companies in transition economies should continuously educate managers to develop the transformational leadership skills that will help them to develop an open dialogue with employees about everyday problems and challenges in a company, developing employees' acceptance of change and feelings of safety and thus creating a positive attitude toward change and better post-acquisition performance.

This study has some limitations that need to be mentioned. The first relates to sample size. Future research on post-acquisition performance should be conducted using a larger sample. Second, the problem of obtaining objective performance measures has determined the use of subjective performance measures, which provide a multi-dimensional approach to performance since managers evaluate both financial and non-financial performance indicators. However, future studies should also measure success using other methods so that empirical comparison of various performance measures can be carried out to determine whether there is a correlation between them.

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