

DO FIRMS DESPERATE FOR GROWTH OVERPAY FOR ACQUISITIONS? EVIDENCE FROM SRI LANKAN LISTED FIRMS

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Abstract

The acquisition is a widespread growth strategy among modern businesses, and firms often acquire other firms at substantial premiums over market values. This study aims to investigate whether the level of acquisition premiums is affected by the acquiring firm's desperation for growth, triggered by low organic growth or high acquisition dependence. This study follows the deductive approach while adopting the archival research strategy. The study consists of 23 acquisition transactions among publicly listed companies in the Colombo Stock Exchange (CSE) between 2009 and 2019. Secondary data are collected using published reports of listed companies, the CSE, and the Securities and Exchange Commission (SEC). The study employs quantitative analysis techniques such as correlation analysis and multiple regression analysis with the help of IBM SPSS software. The study reveals that firms desperate for growth overpay for acquisitions. Hence, findings indicate higher acquisition premiums will be paid by acquirers with a low relative organic growth or high acquisition dependence. The study adds empirical evidence on the impact of firm growth on acquisition premiums in a developing country context where almost all prior studies have attempted to provide some evidence in relation to developed countries. Given the contextual differences of developed and developing countries, the findings of this study offer a better understanding of how a firm's desperation for growth leads to the seemingly irrational strategic action of overpaying for the targeted company.

Keywords: Acquisition dependence, Acquisition premium, Desperation for growth, Organic growth