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DISTRESSED M&A: A SYSTEMATIC LITERATURE REVIEW

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ABSTRACT

While analyzing mergers and acquisitions (M&As) as opportunities for growth and strategic change (Bauer and Matzler, 2014), corporate finance and business management researchers understood that distressed M&A could have been a significant area of study in their field (Schendel et al., 1976; Balcaen et al., 2012; Renneboog and Vansteenkiste, 2019; Cefis et al., 2022). Distressed M&A involves companies facing financial distress that explore strategic options to reorganize their business instead of resorting to liquidation or bankruptcy, a phenomenon whose analysis can disseminate knowledge and awareness for all stakeholders who deal with enterprises in crisis (Altman et al., 2019). Even though the literature has offered various contributions about acquisitions of distressed assets (e.g. Jory and Madure, 2009; Amira et al., 2013), the research into the motivations behind acquisitions by distressed firms is scant (Zhang, 2022), but invigorating (Coyne et al., 2021; Nejadmalayeri and Rosenblum, 2022). In contrast to the intuition that corporate financial distress inhibits M&A activities, distressed firms contribute to an economically significant proportion of aggregate takeover activities (Zhang, 2022). Few literature reviews on such topics can be found, including one that focuses primarily on M&A with only a section concerning "distressed target acquisitions" (Renneboog and Vansteenkiste, 2019), another one that examines corporate distress and turnaround with only few hints to M&A (Schweizer and Nienhaus, 2017), and one final review that covers such themes altogether (Cefis et al., 2022), but still focuses primarily on firm exit. Based on our best experience, the topic of distressed M&A has not yet been studied systematically. Given the relevance of the topic, there is an impelling need for a Systematic Literature Review (SLR), that is the most valuable methodology for the advancement of knowledge and deepening research (Elsbach and Van Knippenberg, 2020). We carried out a framework-based review using the ADO-TCM integrated framework (Lim et al., 2021) that includes antecedents, decisions, outcomes, theories, contexts, and methods. To address the existing research gap, we formulated the following research questions: (RQ1): *What do we know about distressed M&A?* (RQ2): *How do we know about distressed M&A?* (RQ3): *Where should the research on distressed M&A be heading?* To achieve the research aim, we conducted a SLR according to the PRISMA protocol (Page et al., 2021). No time-related filter was applied, and the cut-off date is end of 2023. Scopus, the database used for the review, is considered the largest abstract and citation data warehouses in numerous subject fields, especially in business and management (Wu and Wu, 2017). We used a search string that includes a block of words related to the concept of distress (Kücher et al., 2019) and another one related to M&A

(Battisti et al., 2021). The exclusion-inclusion process was performed through the application of both qualitative and quantitative filters (e.g., ABS ranking, language, subject area, type of contributions), resulting in a sample of 122 papers. Our analysis reveals the dominant use of empirical articles, the majority of which employ quantitative methods, whilst literature reviews and theoretical papers account for a smaller portion of the research corpus. In terms of theories, our study anticipates a pronounced usage of the agency theory (Jensen and Meckling, 1976), highlighting its importance in contemporary research. In parallel, we envision moderate applications of the theory of optimal capital structure (Robichek and Myers, 1966), the signaling theory (Spence, 1973). In addition, we anticipate a diverse range of bibliometric references, including influential authors, prestigious journals, renowned affiliations, citations, as well as an analysis of publication trends. Through the comprehensive analysis of the existing papers, we present an integrative framework that outlines the characteristics of distressed M&A, offering insights into its drivers, strategies, and implications for various stakeholders. Our framework contributes to the literature as it aims to reinvigorate high-level academic discourse by providing a pathway for further investigation of this topic. In terms of practical contributions, we provide a comprehensive understanding that can inform policymakers, organizations, and stakeholders which, in turn, can help shape more effective strategies and practices aimed at restructuring firms and re-establishing the going concern.

Keywords: Distress, Restructuring, M&A, Distressed M&A; Systematic literature review.

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