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COMPANY VALUATION IN MERGERS AND ACQUISITIONS: A STRATEGIC AND GOVERNANCE-BASED APPROACH

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Abstract: This article examines methodological approaches to company valuation in mergers and acquisitions from a strategic and governance-oriented perspective. Valuation is conceptualized as a dynamic decision framework that influences negotiation behavior, governance design, and post-merger value realization rather than as a static financial estimate. The study argues that integrating valuation logic with managerial execution capacity and institutional constraints enhances decision relevance and reduces the risk of value destruction in M&A transactions.

Key words: company valuation, mergers and acquisitions, M&A methodology, strategic valuation, corporate governance, integration risk, decision-making framework.

Annotatsiya: Ushbu maqolada qo'shilish va sotib olishlarda kompaniyalarni baholashga metodologik yondashuvlar strategik va boshqaruvga yo'naltirilgan nuqtai nazardan ko'rib chiqiladi. Baholash statik moliyaviy baho sifatida emas, balki muzokaralar olib borish xatti-harakatlariga, boshqaruv dizayniga va qo'shilishdan keyingi qiymatni amalga oshirishga ta'sir qiluvchi dinamik qarorlar doirasi sifatida tushuniladi. Tadqiqotda baholash mantig'ini boshqaruvni amalga oshirish qobiliyati va institutsional cheklovlar bilan integratsiya qilish qarorlarning dolzarbligini oshiradi va qo'shilish va sotib olish bitimlarida qiymatning yo'q bo'lib ketish xavfini kamaytiradi, deb ta'kidlanadi.

Kalit so'zlar: kompaniyani baholash, qo'shilish va sotib olishlar, qo'shilish va sotib olish metodologiyasi, strategik baholash, korporativ boshqaruv, integratsiya xavfi, qaror qabul qilish doirasi.

Аннотация: В данной статье рассматриваются методологические подходы к оценке стоимости компаний в рамках слияний и поглощений со стратегической и корпоративно-ориентированной точек зрения. Оценка рассматривается как динамическая система принятия решений, влияющая на переговорное поведение, структуру управления и реализацию стоимости после слияния, а не как статическая финансовая оценка. В исследовании утверждается, что интеграция логики оценки с возможностями управления и институциональными ограничениями повышает значимость решений и снижает риск разрушения стоимости в сделках слияния и поглощения.

Ключевые слова: оценка стоимости компании, слияния и поглощения, методология слияний и поглощений, стратегическая оценка, корпоративное управление, риск интеграции, система принятия решений.

INTRODUCTION

Mergers and acquisitions (M&A) have long been regarded as one of the most powerful strategic mechanisms through which firms pursue growth, market repositioning, and structural transformation. In an increasingly volatile global business environment characterized by technological disruption, intensified competition, regulatory complexity, and capital market integration M&A transactions are no longer exceptional events but integral components of corporate strategy. Despite their strategic importance, empirical evidence continues to demonstrate that a significant share of M&A deals fail to deliver sustainable value creation, particularly for acquiring firms. This persistent gap between strategic intent and realized outcomes has directed scholarly attention toward the methodological foundations of company valuation in M&A contexts.

Company valuation occupies a central role in M&A decision-making. It influences target selection, bid pricing, negotiation dynamics, financing structures, and post-merger performance assessment. However, valuation in M&A differs fundamentally from valuation for stand-alone investment purposes. While traditional valuation approaches aim to estimate an intrinsic or fair value based on expected future cash flows, M&A valuation must operate under conditions of structural change, managerial intervention, and integration uncertainty. In this sense, valuation does not merely reflect expected performance; it actively shapes strategic behavior and governance outcomes throughout the transaction lifecycle.

Conventional valuation methodologies primarily grounded in discounted cash flow analysis, relative valuation, or asset-based approaches are rooted in assumptions of operational continuity and stable organizational structures. These assumptions become increasingly fragile in M&A settings, where acquisitions often trigger deep transformations in governance, incentive systems, organizational culture, and strategic priorities. As a result, valuation outputs derived from static financial models may appear technically sound while remaining strategically misleading. This disconnect raises a fundamental methodological question: how should company valuation be conceptualized and applied when the object of valuation itself is subject to transformation?

Recent advances in corporate finance and strategic management literature suggest that valuation in M&A should not be interpreted as a single-point estimate, but rather as a decision-support mechanism embedded within broader strategic and governance processes. From this perspective, valuation serves multiple functions beyond price determination: it structures managerial expectations, allocates control rights, frames integration strategies, and establishes benchmarks for post-merger accountability. Consequently, the methodological adequacy of valuation approaches should be assessed not only in terms of numerical accuracy, but also in terms of their decision usefulness under uncertainty.

Another critical dimension shaping valuation methodology in M&A is managerial discretion. Unlike passive financial investments, acquisitions grant acquirers direct influence over strategic and operational outcomes. The value of a target firm therefore becomes contingent upon the acquiring firm's integration capabilities, governance quality, and execution discipline. Identical assets may generate fundamentally different values depending on who controls them and how post-merger decisions are implemented. This insight challenges the notion of universal or objective valuation and underscores the contextual nature of value creation in M&A transactions.

Furthermore, valuation methodologies often insufficiently account for institutional and governance-related constraints. Legal frameworks, ownership structures, regulatory regimes, and stakeholder relationships materially affect the feasibility of projected synergies and strategic realignment. Ignoring these factors can result in systematic overvaluation or undervaluation, particularly in cross-border acquisitions and emerging market contexts. As such, valuation in M&A must be understood as an interdisciplinary exercise that integrates financial analysis with institutional and organizational assessment.

LITERATURE REVIEW

Scholarly research on company valuation in mergers and acquisitions (M&A) has evolved substantially over the past decades, reflecting broader shifts in corporate finance theory, strategic management, and organizational economics. Early valuation studies were primarily concerned with estimating intrinsic firm value under assumptions of operational continuity and market efficiency. However, as M&A activity intensified and empirical evidence revealed persistent underperformance of acquiring firms, researchers increasingly questioned the adequacy of traditional valuation methodologies in integration-intensive contexts.

Classical valuation theory is rooted in the principle that firm value represents the present value of expected future economic benefits. This paradigm, formalized within modern finance theory, provided the foundation for income-based valuation models that remain dominant in practice [1]. While theoretically coherent, these models were developed for settings in which firm boundaries, governance structures, and strategic orientation remain relatively stable. In M&A transactions, by contrast, valuation is conducted precisely at the moment when these assumptions are most fragile.

Subsequent literature emphasized that valuation in M&A cannot be separated from strategic intent. Studies in strategic finance argue that acquisitions are undertaken not only to acquire existing cash flows, but to reconfigure resources, capabilities, and competitive positioning [2]. From this perspective, valuation becomes inherently forward-looking and contingent upon managerial actions taken after deal completion. This insight challenged the notion of value as an objective attribute of the target firm and introduced the concept of buyer-specific or strategic value.

A significant strand of research focuses on synergy as the primary justification for acquisition premiums. Scholars distinguish between operational, financial, and managerial synergies, highlighting their differing implications for valuation [3]. However, empirical studies consistently demonstrate that anticipated synergies are frequently overestimated and only partially realized. This finding has led to growing skepticism regarding valuation models that embed synergy assumptions without explicitly modeling execution risk and organizational constraints [4].

Another important contribution of the literature concerns the role of managerial behavior and cognitive biases in valuation outcomes. Behavioral finance research documents that overconfidence, hubris, and escalation of commitment among executives significantly affect acquisition pricing and valuation judgments [5]. These studies suggest that valuation errors in M&A are not merely technical in nature, but often reflect

systematic behavioral distortions. As a result, purely quantitative valuation approaches may fail to capture critical drivers of decision-making under uncertainty.

Institutional economics has further enriched the valuation debate by emphasizing the influence of legal, regulatory, and governance frameworks. Comparative studies show that ownership structures, investor protection regimes, and enforcement mechanisms materially affect acquisition strategies and valuation practices [6]. In environments with weak governance or high institutional uncertainty, traditional valuation benchmarks may lose relevance, necessitating context-sensitive methodological adjustments.

Recent literature increasingly conceptualizes valuation as a process rather than a static estimate. Process-oriented studies argue that valuation evolves across the M&A lifecycle, from target screening and due diligence to negotiation and post-merger evaluation [7]. This dynamic view highlights that valuation serves multiple purposes, including communication, coordination, and control, rather than solely price determination. Consequently, methodological rigor must be assessed in terms of decision usefulness over time, not only numerical precision at a single point.

An emerging body of work integrates corporate governance into valuation methodology. These studies argue that value creation in M&A depends critically on post-merger governance arrangements, including board structure, incentive alignment, and integration leadership [8]. Valuation approaches that ignore governance capacity risk overstating achievable value, particularly in complex or cross-border transactions.

ANALYSIS AND RESULTS

In mergers and acquisitions, valuation functions not only as an analytical estimate of company worth but also as a strategic instrument shaping negotiation behavior, contractual design, and post-merger control mechanisms. From a methodological standpoint, valuation outcomes influence how risks are allocated between parties, how integration responsibilities are structured, and how future performance is assessed. Therefore, the analysis of valuation approaches should move beyond their computational features and focus on their functional role within the M&A decision architecture.

The results of this study indicate that valuation methodologies generate differentiated strategic signals at various stages of the M&A process. These signals affect managerial incentives, bargaining power, and governance arrangements after transaction completion. The analytical emphasis thus shifts from “what is the value?” to “how is value interpreted, negotiated, and governed?”

Table 1. Functions of Valuation Across Key Stages of the M&A Process

| M&A stage | Valuation focus | Strategic outcome |
|-------------------|--|--|
| Target screening | Identification of strategic value potential | Narrowing the set of economically and strategically viable targets |
| Due diligence | Validation of value drivers and assumptions | Adjustment of transaction structure and risk allocation |
| Negotiation | Determination of acceptable price boundaries | Formation of bargaining positions and concession limits |
| Post-merger phase | Benchmarking expected versus realized value | Managerial accountability and integration control |

Source: Developed by the author

The first table demonstrates that valuation plays a stage-specific role throughout the M&A lifecycle. During target screening, valuation serves as a filtering mechanism, allowing firms to focus on candidates that align with strategic objectives rather than short-term financial indicators alone. At this stage, valuation is exploratory and directional rather than definitive.

In the due diligence phase, valuation assumptions are scrutinized and refined, transforming valuation into a diagnostic tool. This function is critical for identifying hidden risks, integration constraints, and governance weaknesses that may not be visible in preliminary analyses. During negotiation, valuation becomes an instrument of strategic positioning, shaping price corridors and influencing contractual terms such as earn-outs or contingent payments.

Finally, in the post-merger phase, valuation assumes a control-oriented function. It provides reference benchmarks against which integration success and managerial performance can be evaluated. This finding highlights that valuation should be designed not only to justify the transaction ex ante but also to support governance and performance monitoring ex post.

Table 2. Valuation Logic and Its Implications for Post-Merger Governance

| Valuation logic | Underlying assumption | Governance implication |
|----------------------------|--|--|
| Static value estimation | Organizational structure remains largely unchanged | Limited flexibility in post-merger decision-making |
| Capability-based valuation | Value depends on managerial execution | Emphasis on incentive alignment and leadership selection |
| Option-oriented valuation | Strategic flexibility has economic value | Delegation of decision rights and adaptive governance |
| Control-oriented valuation | Value linked to effective oversight | Strengthening board control and monitoring mechanisms |

Source: Developed by the author

The second table highlights how different valuation logics implicitly prescribe distinct governance arrangements after the merger. Static valuation logic assumes continuity and stability, often leading to rigid integration plans that leave little room for adaptation. Such an approach may underestimate the complexity of organizational change and reduce the firm's ability to respond to unforeseen challenges.

Capability-based valuation shifts attention toward managerial competence and execution capacity. Under this logic, value creation depends on leadership quality, making governance mechanisms such as incentive systems and executive accountability central to post-merger success. Option-oriented valuation further expands this view by recognizing the economic importance of flexibility. Here, governance structures must allow for adaptive decision-making and timely strategic reconfiguration.

Finally, control-oriented valuation emphasizes the role of oversight and monitoring in safeguarding value creation. This logic supports stronger board involvement and more formalized performance evaluation mechanisms. Collectively, these results demonstrate that valuation methodologies are not neutral analytical tools; they actively shape governance design and managerial behavior after the transaction.

RECOMMENDATIONS AND CONCLUSION

The findings of this study suggest that company valuation in mergers and acquisitions should be redefined as a strategic and governance-oriented process rather than a purely technical financial exercise. Accordingly, the primary recommendation is the institutionalization of valuation as an integral element of strategic decision-making across the entire M&A lifecycle. Valuation frameworks should be explicitly linked to target selection, negotiation strategy, governance design, and post-merger performance monitoring. This requires firms to move beyond static value estimates and adopt flexible valuation architectures capable of accommodating uncertainty, managerial discretion, and evolving integration conditions.

From a practical standpoint, decision-makers are advised to apply valuation methodologies in a layered manner, distinguishing between exploratory valuation for strategic screening, diagnostic valuation during due diligence, and control-oriented valuation in the post-merger phase. Such differentiation allows valuation outputs to serve distinct managerial purposes without forcing artificial precision at early stages or retrospective rationalization after deal completion. Particular emphasis should be placed on aligning valuation assumptions with governance capacity, including leadership quality, incentive structures, and institutional constraints, in order to prevent systematic overvaluation driven by unrealistic execution expectations.

In conclusion, this research demonstrates that the methodological effectiveness of valuation in M&A lies not in the selection of a single superior model, but in the ability to integrate valuation logic with strategic intent and governance mechanisms. The study contributes to the literature by conceptualizing valuation as a dynamic decision framework that shapes negotiation outcomes, organizational control, and value realization. By reframing valuation as a governance-embedded process, the article provides a foundation for more resilient and decision-relevant valuation practices, offering both theoretical advancement and practical guidance for managing value creation in complex M&A environments.

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