

## Motives, Valuation, and Pricing Analysis of Small and Medium Enterprises in Lebanon

**Dr. Racha Mohamad Arab Ghayad\***

Assistant Professor, Head of Finance Department, Faculty of Economic Sciences and Business Administration, Lebanese University, Lebanon

\*Email: [ghayad\\_racha@yahoo.fr](mailto:ghayad_racha@yahoo.fr), [r.ghayad@ul.edu.lb](mailto:r.ghayad@ul.edu.lb)

**Maysam Houssam Elddine Al-Zein**

Master's degree in Finance and Banking, Lebanese University, Lebanon

Email: [maysamzein@hotmail.com](mailto:maysamzein@hotmail.com)

### Abstract:

The objective of this paper is to examine the acquisition processes and get an obvious and clear understanding to motives of buyers and sellers, valuation methods and its difference from the price. Data is collected from interviews, organized, described and used to answer the study questions. Concerning motives of acquisitions in Lebanese SMEs, many factors may trigger or not the business owners to resort to acquisition action for SMEs, where acquisition approach is motivated by enlarging of market power of the organization, and if the company is very profitable to buy and the low prices offered by sellers. The motives for acquisition are the low price of the company, the Profitability of the company, enlarging market share. Synergy and management agency don't play a significant role in the acquisitions of SMEs in Lebanon. Furthermore, for Seller Company, acquisition can be affected by different motives as Personal circumstances, Good bid from buyer, Dissatisfaction within the company or if the Company is losing.

**Keywords:** Acquisition, Small Enterprises, Market power, Price, Buyer, Seller, Lebanon.

**ملخص:**

الهدف من هذا البحث هو اختبار عمليات الاستحواذ والحصول على فهم واضح لدوافع المشترين والبائعين وطرق التقييم واختلافها عن السعر. تم جمع البيانات من خلال المقابلات اذ تم استخدامها للإجابة على أسئلة الدراسة. فيما يتعلق بدوافع الاستحواذ في المؤسسات اللبنانية الصغيرة والمتوسطة، العديد من العوامل قد تدفع أصحاب الأعمال إلى اللجوء إلى إجراءات الاستحواذ للمؤسسات الصغيرة والمتوسطة، حيث يكون نهج الاستحواذ مدفوعاً بتوسيع القوة السوقية للمؤسسة، كون عملية شراء المؤسسة مربحة جداً والأسعار المنخفضة التي يقدمها البائعون. دوافع الاستحواذ هي انخفاض سعر المؤسسة، ربحية المؤسسة، وزيادة حصتها في السوق. لا تلعب وكالة الادارة دوراً مهماً في الاستحواذ على الشركات الصغيرة والمتوسطة في لبنان. علاوة على ذلك، بالنسبة للشركة المبيعة، يمكن أن يتأثر الاستحواذ بدوافع مختلفة مثل الظروف الشخصية أو العرض الجيد من المشتري أو عدم الرضا داخل الشركة أو إذا كانت الشركة خاسرة.

**الكلمات المفتاحية:** الاستحواذ، المؤسسات الصغيرة والمتوسطة، القوة السوقية، السعر، المشتري، البائع، لبنان.

**1. Introduction:**

This research was performed based on a framework that includes the three main topics; motives, valuation, and pricing analysis of Small and Medium enterprises in Lebanon.

Many studies use the theory of industrial organization to explain acquisition motivations, referring to market power expansion, efficiency gains, and preemptive objectives. Others relate to motives such as the repair of internal inefficiencies, agency issues, and capital market imperfections, while others rely on corporate governance ideas. (Motis, 2007).

Concerning valuation, there are so many ways to evaluate a company's value, valuation is both an art and a science. Calculating a company's value entails much more than simply entering figures into a formula. The asset approach, income approach, and market approach are the three most popular techniques. You will get a different number using each approach. Furthermore, when determining a company's value for strategic acquisitions, you are attempting to assess future performance, which is at best an estimate.

However, the value of the acquired company isn't the same as its price. Prices are set in markets and are the outcome of two parties - supply and demand – coming together to form a market. The price represents an amount – with certain conditions – what the seller would like to receive and the buyer would like to pay, and is established by negotiations (Uijtendaal & Cock, 1999).

### 1.1. Research Problem

Obviously, there is no clear view or understanding of acquisitions concerning valuation and pricing for parties concerned with acquisitions, where often there is a huge gap between the two parties concerning valuation and pricing. Different motivations for buyers and sellers in acquisitions lead to difference between valuations and expectations. The discrepancy between both valuations and the price is the problem. This research is conducted to solve this problem and to give more insights for small and medium enterprises, especially in Lebanon.

### 1.2. Research question and hypothesis

The primary aim of this study is to study acquisitions in Lebanon in three aspects: motives, valuation and pricing. Thus, the research question intended to be answered is:

#### **What are the characteristics of acquisitions of Small and Medium Enterprises in Lebanon?**

The research question is divided into the following sub-questions:

- What are the motives for sellers and buyers in acquisitions?
- How acquisitions are valued?
- What are the explanations for the difference between valuation and pricing?
- How did the current economic crisis affect acquisitions in Lebanon?

## 2. Literature Review

SME owners in emerging economies are beginning to adopt M&A techniques as an alternative source of resources for growth and progress in order to overcome the constraints involved in obtaining financing. SME owners and managers use M&A strategies to proactively initiate merger activities in order to attract resources for growth and expansion.

M&A is a common business tactic for expanding or gaining access to special resources or talents by joining with or purchasing others. M&As are becoming a powerful method of organizational expansion and progress, and they offer the purchaser new opportunity to fulfill strategic objectives.

M&As also assist businesses in gaining new competencies that would otherwise be difficult to acquire on their own, as well as gaining access to new markets. Cross-border mergers and acquisitions are also key techniques used by business owners to raise funds from outside sources in order to expand and grow. M&As are motivated by a variety of factors. Additionally, what trigger acquirers to the M&As approach because are used for a variety of reasons, including enhancing market power, promoting operating or financial synergy, and overcoming inefficient management.

In this part, we present the literature review of the study topic "Motives, Valuation, and Pricing Analysis of Small and Medium Enterprises", where we analysis the previews researches about motives, valuation, and pricing of acquisitions, in addition to the definition of the small and medium enterprises.

### 2.1. Small and Medium Enterprises

Because terms suggesting size are used to name small and medium enterprises, economists choose to split them into classes based on quantitative measurable variables. The number of employees is the most prevalent metric used to distinguish between large and small firms (Hatten, 2011).

And according to European Commission, "the criterion is number of the employees," but "adding a financial criterion is still a required adjunct in order to get the adequate scale and performance of an organization, as well as its position in comparison to its competitors." (European Commission, 2003).

The European Commission establishes the criteria for classifying businesses through a guide: the number of employees, yearly turnover, and annual balance sheet. It has been concluded that completing the number of employees' condition is essential, but filling one of the two financial criteria is a business decision.

Lebanon has about 225,000 small and medium businesses, with two-thirds of them located in the economically active areas of Beirut and Mount Lebanon (International Rescue Committee, 2016).

Small businesses are a key engine of economy growth, particularly in industries such as agriculture, services sector and constructing, despite the fact that many of them operate unofficially.

## 2.2. Acquisition and Merger in Lebanon

Given the size of the Lebanese market, that also consists primarily of SMEs and small business owners, and the fact that merger and acquisition transactions between such organizations are typically carried out privately in the absence of any disclosure requirements or specific M&A regulations, M&A activity in Lebanon has traditionally been unformed especially in comparison to its neighboring Gulf countries. Nevertheless, the banking industry received special privileges, as it benefited from a special regulation aimed at boosting bank mergers and acquisitions in Lebanon, which was strictly supervised by the Lebanese Central Bank.

As Lebanon's larger banks seek capital and long-term resources from foreign markets, the gap between a limited handful of internationally active institutions and the general run of small, mostly family-owned banks continues to widen.

Lebanon's smaller banks, like their larger counterparts, must seek capital to stay afloat in an increasingly competitive market. Unlike the larger players, however, they cannot rely on current owners or complex tools to entice outside investment.

## 2.3. Characteristics of a Strong Merger and Acquisition

Mergers and acquisitions are one of the quickest and most successful ways to expand a small firm. However, there are a number of risks associated with this treatment that must be considered. Understanding important traits required to effectively execute this type of transaction is essential, whether your organization is attempting to buy out another one or you are looking for a possible buyer to acquire it. The following are five crucial points to keep in mind during any M&A transaction.

When considering to buy another business (or be bought), it is critical to have very clear plan for what you want this merger or acquisition to achieve. Here are some examples of goals to help you decide what to focus on: Expanding Territory, Boosting Sales, Acquiring Patents/Technology/Other Assets and Entering a New Market.

Of course, when it comes to purchasing another small business or being purchased, a company may have a variety of objectives. Identifying these goals as soon as feasible, as well as providing measures to measure them, can help this process get out on the right foot.

### **Transparency**

Transparency is essential throughout the merger and acquisition process. To reduce the chance of someone concealing information, all parties directly involved in this event will almost certainly be required to sign non-disclosure agreements. It's critical to provide information about the company's finances, legal issues, and anything else that could affect the transaction, and it's generally mandated by law.

### **Communication**

During these types of occurrences, open and frequent communication is essential. This holds true not only for communication between the two owners of the businesses in question, but also for communication with the employees. Employees who believe they are not being given all of the information they need are considerably more likely to start looking for new jobs, which may be disastrous for the organization during this important period.

### **Qualified Transition Team**

Having a trained transition team in place can help you prevent complications and keep things operating smoothly both during and after the merger or acquisition. The transition team will assist personnel from both firms in learning to collaborate efficiently and ensuring that the customer is always the priority.

### **Experienced Legal Registration**

Mergers and acquisitions are intricate processes that must adhere to a slew of legal guidelines. With this in mind, it is critical that you have the services of an experienced attorney on your side.

#### **2.4. Acquisition Price**

Price is not equal to value, Prices are set in markets and are the outcome of two parties - supply and demand – coming together to form a market. The price is determined by talks and indicates an amount that the seller and buyer would want to receive and pay,

Subject to certain criteria. The distinction between value and price is a contentious issue. Every person has his own assumptions about future cash flows and hazards, therefore value is subjective. Both the seller and the buyer have their own ideas about how much a company is worth. According to literature, if a seller shares a buyer's estimates and assumptions to a considerable extent and there is a high demand, the value perceptions would be similar (Klunder, 2016).

### 2.5. Previous Studies

To perform this study and conclude its hypotheses, the researcher has reviewed some previous studies and every research related to the topic was considered. The following presents the most important related studies:

- ❖ A study for (Klunder, 2016) aims to identify a gap between theory and practice in terms of Dutch SME valuation methods, as well as a trend in the difference between the initially calculated value and the transaction price – as well as the variables that influence this difference – in the Dutch SME sector. A case study was done to achieve this purpose, in which twelve examples — transactions in which de Jong & Laan Corporate Finance served as an external advisor – were examined. It has been discovered that financial prediction accuracy is critical, and that judging and estimating the effect of linked components individually is difficult.
- ❖ (Woerd, 2011) Aims in his study to identify the differences between valuation and pricing in acquisitions of SMEs. This research identifies, explains and rates the explanations of the difference between value and price. The study's purpose is to narrow the gap because this will bring the price closer to the emotional buyers' and sellers' expectations, and appraisals will be more valuable as a result. It concentrates on a small sample of fifteen acquisitions made by SME's in the Netherlands. The secondary data came from scientific publications and papers, while the main data came from semi-structured face-to-face interviews with the owners or finance directors of these fifteen companies (buyers and sellers). The study discovers that the reasons are the starting point for valuation and pricing. The most important incentives for buyers in the sample were synergy and corporate control.

The circumstances that link to the owners are the motives to sell the company, according to the sellers' motives in the sample.

The choice of valuation methods, the value drivers, and the price drivers could all explain the difference between valuation and pricing. Synergy is a subjective reason for the difference that should be incorporated in the value. The Discounted Cash Flow approach seeks to account for synergy in the computation, but the multiples method does not. The acquisition-related benefits (synergy) are the most relevant causes for the difference in valuation and pricing in the sample, according to the findings. These explanations are followed by bargaining strengths and acquisition motives, which together account for a considerable portion of the variance. According to the results of the interviews, the other explanations (acquisition interests, presence of advisers, financing acquisitions, trends in economics and politics, dangers, others, numerous bids, and choice of valuation methodologies & valuation errors) explain the difference to a modest extent. In SMEs, buyers and sellers prefer to rely on their gut instincts and a simple appraisal approach. If buyers and sellers in SMEs wish to narrow the disparity between appraisal and pricing, they must employ more accurate valuation methodologies, pay more attention to valuations, and realize the relevance of these valuations.

More aspects will be considered in the appraisal in this manner, and the disparity will be smaller. The appropriate value drivers must also be identified and incorporated into the valuation procedure; otherwise, valuation errors may emerge. The pricing drivers must also be considered by SMEs, since they may cause the transaction price to differ from the values. Some price drivers (for instance, advisers) may be influenced by buyers and sellers, whereas others may not (example interests in acquisitions). The explanations that influenced the valuation and pricing processes (acquisition-related benefits, economic and political trends, and dangers) should be better applied in valuations, resulting in a smaller disparity. Because valuation and pricing are partially objective and partially subjective, there will always be a disparity between the valuation and the transaction price of a company. Furthermore, the differences between buyers and sellers (motives, interests, and so on) will always exist, and the price drivers will be difficult to affect. Emotions have a role in SMEs purchases, and they can impact the price.



Buyers and sellers should try to put their feelings aside and be more impartial. Owners, CFOs, and consultants must achieve the above in order to provide an accurate price estimate and to keep buyers and sellers' emotions in check when there are significant discrepancies in worth and price.

04

- ❖ (Beld, 2017) aims to examine the accurate business valuation methods for Dutch small and medium-sized enterprises. The goal of this study is to look into the most accurate business valuation methods for Dutch small and medium-sized businesses. In this study, the existing business valuation methods were discussed. A case study was undertaken in which two cases were analyzed in order to examine appropriate business valuation methodologies. The case study's findings suggest that DCF-methods are reliable business valuation tools. Because the tax shield is separated, the APV approach is even more accurate than the classic DCF method. Business valuation, on the other hand, is still subjective and dependent on a variety of assumptions and judgments.
- ❖ (Mukherjee & Kiyamaz, 2004) study sheds light on the motivations for acquisitions and divestitures During the period 1990-2001, as well as the procedures utilized to value purchases. We discovered that the primary motivation for mergers and acquisitions is to create operating synergies, while the top reason for divestitures is to boost focus, based on survey findings. The findings also reveal that most companies believe diversification is a valid reason for acquisitions, particularly as a way to mitigate losses during economic downturns. When valuing publicly traded corporation's vs privately owned enterprises, the discounted cash flow method is more prevalent, but managers also employ market multiple analysis.
- ❖ (MOTIS, Mergers and Acquisitions Motives, 2007) summarizes in his study an extensive list of different reasons that have been suggested as reasons for acquisitions and mergers. The research has divided them into two main groups. The main difference between these two groups of merger reasons is the actual beneficiary of the merger benefits (applicants).  
The first group includes drivers that add value to the merging companies, as they cause an increase in real or future economic benefit.

The second group includes a list of reasons that benefit the manager of the company, not the value of the company. That is, in these mergers the driver is to increase the acquiring firm manager`s wealth even if this may cause a decrease in the firm`s value. Our classification of merger motives is proposed to emphasize that for the assessment of merger enforcement, the issue that matters is the effect on welfare and not whether the transaction will generate gains to the firm or to the manager of the firm. We also review three different empirical methods that have been proposed in the literature to investigate for merger motives, gains, and effects.

These are the event studies, the accounting studies and the case by case studies. From the review of their general findings I conclude the first two empirical methods, lack a structural analysis of the merger mechanism and do not offer, by consequence, a proper assessment for inferring merger gains. Furthermore, the general conclusion drawn from these studies is that company acquisitions through mergers will not materially benefit from the transaction.

These somewhat paradoxical conclusions may arise because these techniques perform the analysis with reduced forms that lead to mis-specification problems. On the other hand, empirical case studies offer very attractive precision when evaluating the one-sided effects of mergers, as they can evaluate models of structural competition and predict the potential increase in market power through the merger.

- ❖ Rani et al. (2012) used a sample of 1072 target companies and 687 acquirer companies, and conducted a survey to investigate the motivations and trends of Indian merger activity from 2003 to 2008. According to the comments supplied by corporate leaders in the questionnaire, the companies are merging to achieve synergy. The operating economies give firms with synergistic benefits. Another finding of this study is that over the study period, subsidiaries merged with parent firms for consolidation and to deal with the changing regulatory environment. "Company managers can embrace the strategy of merging a significant number of unlisted subsidiaries," the authors propose.

This will assist businesses in lowering compliance costs and bolstering corporate governance procedures. However, more research into parent subsidiary mergers and synergy motives is required, particularly in the Indian setting.

- ❖ Ghosh (2004) studied more than 2,200 mergers and acquisitions in the United States from 1985 to 1999 and discovered that companies use mergers and acquisitions to gain market share. He used the market model to compute the abnormal returns to acquiring and target firms, and hence the cumulative abnormal returns for combined firms, in order to assess the rise in shareholders' wealth resulting from the gain in market share.  
According to the findings, a rise in market share, which is higher in the case of linked acquisitions, leads to increased market power and efficiency for the company. Due to the direct positive association seen between a gain in market share and cumulative abnormal returns, this eventually benefits equity shareholders. Furthermore, the firm's operating performance increases as a result of increased productivity and better asset management.
- ❖ ( McCarthy & Weitzel, 2011) Stated that the behavior and effectiveness of mergers and acquisitions by small and medium-sized businesses (SMEs) may differ dramatically. As a consequence, they explore well-known M&A theories and propose a theoretical framework as well as many testable predictions about the unique characteristics of SME M&As. Their findings obtained back up their predictions, demonstrating that, when opposed to large enterprises, acquisition SMEs rely more heavily on external growth via M&As, and are more likely to be withdrawn, implying that SMEs are more adaptable and capable of avoiding bad agreements. As a result, SME M&As are more likely to be financed with equity rather than debt, implying that the influential financial pecking order theory has less impact on SMEs.
- ❖ (Degryse, Masschelein, & Mitchell, 2010) Using data from individual loan contracts in Belgium, this research investigates the influence of bank mergers on firm-bank lending interactions. They investigate the impact of bank mergers on the likelihood of borrowers continuing their loan connections and their ability to access bank credit in the future. A variety of fascinating traits are reflected in the environment: high concentration of the banking sector; "in-market" mergers with large target banks; large banks' role in supplying external credit to SMEs; and SMEs' lesser amount of financial intermediation ties. As a result, bank mergers have both short- and long-term consequences for borrowers' chances of defaulting a loan. Mergers also have different effects on different sorts of borrowers, such as acquiring and target bank borrowers, borrowers of various sizes, and borrowers with single versus multiple ties.

Firms that lend from acquiring banks have a lower risk of losing their loan relationship, whereas target bank borrowers have a higher risk. Companies that borrow from two merging banks are less likely to lose their relationship than companies that borrow from only one merging bank or companies that borrow from non-merging banks.

- ❖ (Worthington, 2004) The characteristics of merger and acquisition (M&A) activity in Australian credit unions from 1992-1993 to 1994-1995 are evaluated using a two-stage technique. For a sample of credit unions, data envelopment analysis (DEA) is utilized to calculate technical and scale efficiency indices in the first step. The second step employs a legit model to link credit union efficiency scores to the likelihood of credit unions acquiring or being purchased by another credit union, as well as other management, legal, and financial issues. The findings show that asset size and quality, management skill, profits, and liquidity all have a significant impact on M&A activity. The apparent fit in associational bond and membership appears to be a major factor in credit union acquisitions.
- ❖ (Davenport, 2005) This article will look into the knowledge-acquisition processes and crucial interfaces of innovative SMEs, as well as the variables that led to the lack of geographic proximity-based knowledge search activity that was identified. Organizational proximity-based knowledge-acquisition from foreign sources was supported by a growth path based on innovation-driven, quick internationalization process and subsequently customizing tactics. Surrounding environmental elements, it is suggested, will indicate whether organizational or geographic proximity (or both) is crucial to knowledge acquisition. For SME policy, it is advised that a variety of potential growth trajectories be recognized.
- ❖ (Kpentey, 2019) The goal of this multi-case research was to look into the M&A tactics used by SME owners in Ghana to raise finance. The intellectual underpinning for this investigation was Seth's value creation theory. The population comprised of five Ghanaian small business entrepreneurs who had effectively generated financial resources through inbound mergers and acquisitions in the previous ten years. Semi structured interviews and an examination of corporate annual reports and M&A documents were used to gather data. To detect patterns and emergent themes, the data were categorized and analyzed using Yin's 5-step data analysis and cross-case synthesis procedures.

Value creation, control and autonomy, entrepreneurial quality, leadership, trustworthiness, and effective negotiation were the six themes that emerged from the analysis. To close M&A deals successfully, SME owners can combine entrepreneurial quality and skillful negotiating. The findings of this study may help SMEs gain access to finance for expansion and growth, resulting in good social change in emerging economies through job creation and increased young employment.

As a result, around 70% of M&As involving small and medium-sized firms (SMEs) in emerging nations underperform because of techniques used do not incorporate all of the crucial success aspects, leaving SMEs without the money they need to take advantage of strategic and market opportunities.

Following their observations, the researchers suggested the value creation theory to explain how business owners employ mergers and acquisitions to raise funds for expansion. Through the value creation theory, and provided an alternative analytical framework that addressed how intangible asset synergies provided considerable benefits to the M&A parties.

Furthermore, posited that value creation in M&As stemmed from economies of scale and breadth, market dominance, and the coinsurance effect, which allowed the combined business to benefit from bigger streams of cash flows to lower the likelihood of bankruptcy. By combining different sources of value creation, such as asset sharing, 6 reverse internalization of valuable intangible assets, and financial diversification, synergistic cross-border purchases can be achieved.

The value creation theory provided the best foundation for the research. Firms pursue M&As to create value from the synergies that exist when two business entities unite, according to the value creation theory.

As a result, the value creation theory agreed with the goals of most studies and provided an acceptable conceptual framework for investigating and analyzing proactive M&A methods used by small business owners. We can result that the main factors behind the **motives** of merging and acquisitions for SMEs were derived from achieving operating and financial synergy, where Financial synergy is a type of synergies that results from lowering the cost of capital of by combining two or more companies.

On the other hand, operating synergy is the efficiency gains that are attained in horizontal mergers or vertical mergers. Moreover, increasing the firm's market share is from the main motives that affect merging and acquisitions for SMEs, where, the target of increasing the firm's market share is to increase the wealth of the shareholders. Never the less, managerial gains are from the main motives affecting the decision of merging and acquisitions for SMEs, where the conflict behind owner's drive and management's drive can play a role in the decisions of merging and acquisitions. This can be reflected when generally managers seek an increase in their salaries or bonuses, while company owner's seek more wealth.

While the main valuation techniques of merging and acquisitions for SMEs were derived mainly from the three methods of valuation which are: Balance sheet – based approach and Income - based approaches, and cash flows discounted - based approach. Where, Balance sheet – based approach depends on subtracting net assets from total liabilities, and Income – based approach depends on the depends on calculating the future values of the cash flows, and the cash flows discounted – based approach depends on the calculations of the present value of the asset in discounted cash flows valuations.

According to the pricing analysis of an asset for merging and acquisitions for SMEs, it is clear that all the negotiating ends up to a differentiation between price and value of an asset , whether it is a firm, a factory , or even a share.

### 3. Methodology

This study adopts the qualitative method to collect and analyze data to solve the research question. This study depends mainly on the qualitative method to collect the data and analyze it. Interviews were done with managers and vendors in the institutions from different sectors. This interview contains 29 questions about merger and acquisition of small and medium enterprises. Thus, for greater correctness and precision in the results, qualitative study has been introduced. The research is a theoretical, analytical, and intellectual use of data and information to analyze the topic under research. It comprises of additional functionality to collect, define, illustrate, criticize, and analyze the data collected. It requires a theoretical interpretation of the choice of a method or combination of methods to be used, as done in this research.

A total of one hundred people were evaluated and studied in our investigation. After making the interviews and asking the questions, the answers are collected, analyzed, and ended with the results and conclusions.

#### 4. Empirical Study

Our study to determine Motives, Valuation, and Pricing Analysis of SMEs in Lebanon is based on the qualitative method, which means we will examine our data through interviews. The target of my examination was to reach interviewees, but since not all the targeted business owners were cooperative, thus, the interviews were conducted with one hundred participants, with a total of 29 questions separated into particular and broad categories. The interviewees were split into two groups: firm owners and finance managers who are considered first-line managers.

##### 4.1. Coding

Given that data analysis is the most difficult component of qualitative research, coding is an important step in organizing the textual material throughout analysis (Tehmina and Besit, 2010). According to Gibbs (2007), coding is the process of defining what the data you are studying is about. It's a method of locating a section in a text and tying data to a research hypothesis and then returning to the other data. The coding method used in qualitative research is shown in the table below. We examined the interviews using special codes to make the data more understandable.

In the Below table, we include the one hundred interviewees, Motives for buyers, motives for sellers, valuation methods and factors affecting it, factors that are influencing pricing and the influence of the current economic crisis on the acquisitions of SME in Lebanon. Then we add numbers that are like the codes for each row. We can see that we have codes such as 0,1,2,3,4... These codes are associated with the interviewees as well as the keywords for each subtitle in the table, and they assess the information gleaned from the interviews.

#### 4.1.1 Coding for motivations:

The following table shows that the first motives is negligible to all interviewees. So as frequencies we can find that the **most motive for buyers** is low price offered by seller. The motives for sellers, as frequencies showed with regard to the responses of the interviewees, is good bid from buyers. Whereas the least is the dissatisfaction within the company.

**Table (1): Coding motivations**

Motives for buyer	Intv 1 To 20	Intv 21 to 40	Intv 41 to 60	Intv 61 to 80	Intv 81 to 100	Frequency
Can create operating or financial synergy	0	0	0	0	0	0
Will enlarge the market power of your organization	0	2	0	0	0	40
The company is very profitable	1	0	0	2	1	80
Low price offered by seller	3	0	2	0	1	120
Management agency	0	0	0	0	0	0
<b>Motives For Seller</b>						0
Personal circumstances (illness-retirement-travelling-financial need...)	1	0	0	0	1	40
Good bid from buyer	0	2	0	1	1	80
Dissatisfaction within the company	0	0	1	0	0	20
Company is losing	1	0	2	0	0	60

#### Motives for buyer:

As shown in the table, the frequency of keywords referring to creating operating and financial synergy and also management agency is zero, which is very surprising since these 2 motives is very relevant in the literature review and in related studies outside Lebanon. Maybe the absence of management agency is due to the structure of the Lebanese companies and that the acquisitions are done by the owners of the Lebanese SMEs.



As results show, the most important motives for buyers are low price offered by sellers, then the profitability of the company, and lastly the enlarging of market power of the organization.

### Motives for Seller:

The most important motive for sellers is a good bid from the buyer. The second important factor is that the company is losing and that there is a dissatisfaction from the owners. The personal circumstances (illness-retirement-travelling-financial need...) is also a considerable reason for buying.

#### 4.1.2. Coding for Valuation:

In valuation part, in interviewee 1 to 20, the Balance sheet-based methods (book value, Goodwill based methods, Liquidation value) mentioned it twice, while the others are negligible. In interviewee 21 to 100 mentioned it once in each interview. Income statement-based methods (Using multiples-comparable, Earnings capitalization) stated once for the interview 41 to 60, 61 to 80 and 81 to 100.

**Table (2): Coding for valuation**

Valuation	Intv 1 to 20	Intv 21 to 40	Intv 41 To 60	Intv 61 to 80	Intv 81 to 100	Frequency
Balance sheet-based methods (book value, Goodwill based methods, Liquidation value)	2	1	1	0	1	100
Income statement-based methods (Using multiples-comparable, Earnings capitalization)	0	0	1	1	1	60
Cash flow discounting-based methods (Discounted Cash Flow method)	0	0	0	0	0	0
<b>Factors affecting Valuation</b>						0
Degree of risk	0	0	1	1	1	60

History of the business	1	0	1	1	1	80
Reputation of company	1	0	1	1	1	80
Economic and political trends	0	1	1	1	0	60
Competition in industry	0	1	0	0	0	20
Secured brands and patents	0	0	0	0	0	0
Marketing factors	0	0	0	0	0	0
Sales trend and projection	1	0	1	1	0	60
Market share of the company	1	1	0	0	1	60

Also, income-based methods are used but less than balance sheet-based methods. Cashflow methods appears to be not used at all in evaluation process. Concerning factors influencing valuations, it seems that company health (financially, reputation, history) have a significant influence on valuation of acquisitions. Also, the risk, political and economic trends in Lebanon plays a rule in the valuation of Lebanese SME.

#### 4.1.3. Coding for Pricing:

The **multiple bids and buyers** is mentioned once in each of interview 41 to 60, and twice in each of interview 81 to 100. **The motives of acquisition**, mentioned once in each of interview 1 to 20 and in interview 81 to 10; twice in each of interview 21 to 40. **The bargaining strength**, it is mentioned once for all interviewee once except interviewee 61 to 80. The method of payment is mentioned twice for each interview 61 to 80, and once for interviewee 1 to 20; 41 to 60.

**Table (3): Coding for pricing**

Difference between evaluation and pricing	Intv 1 to 20	Intv 21 to 40	Intv 41 to 60	Intv 61 to 80	Intv 81 to 100	Frequency
Multiple bids and buyers	0	0	1	0	2	60
Motives of acquisition	1	2	0	0	1	80
Acquisition related benefits	0	0	0	0	0	0
Bargaining strength	1	1	1	0	1	80

Method of payment	1	0	1	2	0	80
Presence of investment advisors/partners	0	0	0	0	0	0

The table shows that the factors that make the difference between valuation and pricing are motives for acquisitions as the most affecting, which is compatible with the literature review. Bargaining Strength, method of payment, and multiple bids are also highly influencing factors that make the gap between valuation and pricing.

#### 4.1.4. Coding for Effect of economic Crisis:

The **decreased prices** is mentioned once for each interviewee 1 to 60, **Decreased acquisitions and expansion** due to liquidity shortage the interviewee 81 to 100 mentioned it twice while the interviewee 61 to 80 mentioned it once.

**Table (4): Coding for crisis effect**

Effect of crisis on evaluation	Intv 1 to 20	Intv 21 to 40	Intv 41 to 60	Intv 61 to 80	Intv 81 to 100	Frequency
Decreased prices	1	1	1	0	0	3
Decreased acquisitions and expansion due to liquidity shortage	0	0	0	1	2	3

The interviews showed that the impact of the economic crisis was adverse impact on the expansions and acquisitions where it decreased it due to the lack of liquidity in the companies. Also, acquisition prices have decreased by around 20% due the current crisis.

## 5. Conclusion

The reasearch's findings show SME owners how to implement effective M&A strategies that need the integration of multiple factors to secure a successful transaction. It's about collective of factors that consist of many motives for acquisition and valuation in addition to the pricing. Business owners are studying well the decision of acquisition depending on many characteristics, whether they are buyers or sellers. SME entrepreneurs in a variety of industries have successfully raised financing using the M&A tactics discussed in this paper.

These ideas could help other SME owners in emerging markets who are looking for funding to expand. After going through a certain motive or various motives, valuation of the methods is a must in SME acquisition. So the business owner should look for these methods and even the combination among them. Balance sheet-based methods (book value, Goodwill based methods, Liquidation value), Income statement-based methods (Using multiples-comparable, Earnings capitalization), Cash flow discounting-based methods (Discounted Cash Flow method) are the three methods of valuation mentioned in the literature. This study shows that the only balance sheet based methods and income statement based methods, whereas, cash flow method is not used in Lebanon.

Furthermore, the factors that affect the valuation are the Degree of risk, History of the business Reputation of company, Economic and political trends, Competition in industry, sales trend and projection and Market share of the company. This is compatible with the results of related studies.

After evaluation, negotiating starts to set the price. Price is different from value (as mentioned in literature) due to several factors. The factors affecting pricing, triggering the gap between valuation and pricing, are Multiple bids and buyers, Motives of acquisition, Bargaining strength, Method of payment. These results are very identical to what is mentioned in literature.

Finally, the results showed that the impact of the economic crisis was adverse impact on the expansions and acquisitions where it decreased it due to the lack of liquidity in the companies. Also, acquisition prices have decreased by around 20% due the current crisis.

Interviewees has many reasons based on their experience and the different situations in order to take this action as well as many aims. We can say that most of them has consensus of some acquisition motives, evaluation and pricing aspects that make this study to have findings based on what they mentioned during the interviews, and these various characteristics that we have already discussed with them. Business owners are studying the decision very well according to these factors that suit their company's objectives.

## 6. References

### Journals:

- European Commission. (2003). Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized Enterprises. *Official Journal of the European Union*.
- Farran, I., & Fawaz, M. (2018). Role of SMEs in Lebanese Economy. *Journal of Economics and Management Sciences*.
- Ghosh, A. (2004). Increasing Market Share as a Rational for Corporate Acquisitions. *Journal of Business Finance and Accounting*, 31 (1&2), 209-247.
- Ghosh., A. (2004). Increasing Market Share as a Rationale for Corporate Acquisitions. *Journal of Finaance & Accounting*, 209-247.
- Lie, E. (2002). Multiples used to estimate corporate value. *Financial Analysts Journal*.
- Mukherjee, T., & Kiymaz, H. (2004). Merger motives and target valuation: A survey of evidence from CFOs. *Journal of Applied Finance*, 7-24.
- Nunnally. (2006). Valuation of the small, closely held company. *Journal of Financial, Education, forthcoming*.
- Seth, A., Song, A., & Pettit, R. (2000). Synergy Managerialism or Hubris? An Empirical Examination of Motives for Foreign Acquisitions of U.S. Firms. *Journal of International Business Studies*, 31(3), 387-405.
- Trautwein, F. (1990). Mergers Motives and Mergers Prescriptions. *StrategicManagementJournal*, 283-295.
- Worthington, A. C. (2004). Determinants of merger and acquisition activity in Australian cooperative deposit-taking institutions. *Journal of Business Research*, 47-57

**Papers:**

Davenport, S. (2005, June). Exploring the role of proximity in SME knowledge-acquisition. *Research Policy*, pp. 683-701.

De Vaus. (2001). *Research Design in Social Research*. London.

Degryse, H., Masschelein, N., & Mitchell, J. (2010). *SMES and Bank Lending Relationships: The Impact of Mergers*. Belgium: National Bank of Belgium Working Paper No. 46.

Goddard, W., & Melville, S. (2004). *Research Methodology*. Juta and Company Ltd.

Klunder, S. (2016). THE DIFFERENCE BETWEEN VALUE AND PRICE OF FIRMS IN THE DUTCH SME SECTOR. *University of Twente*, 1.

Meng, X. (2013). Scalable Simple Random Sampling and Stratified Sampling. *Proceedings of Machine Learning Research*, 531-539.

Motis. (2007). *Mergers and acquisitions motives Toulouse School of Economics EHESS (GREMAQ) and University of Crete*. Toulouse: Toulouse School of Economics EHESS (GREMAQ) and University of Crete.

MOTIS, J. (2007). *Mergers and Acquisitions Motives*. Toulouse: Toulouse School of Economics - EHESS (GREMAQ) and University of Crete.

MOTIS, J. (2007). *Mergers and Acquisitions Motives*. Toulouse: Toulouse School of Economics - EHESS (GREMAQ) and University of Crete.

Research Design. (2016). In I. Akhtar, *Research in Social Science: Interdisciplinary Perspectives* (p. 68).

Woerd. (2011). *Motives, valuation and pricing: a small sample analysis of small-and medium enterprises in the Netherlands*. Twente: University of Twente.

**Books:**

Fernández, P. (2007). Valuing companies by cash flow discounting: ten methods and nine theories. *Managerial Finance*, 853 - 876.

Fernández, P. (2013). *Company valuation methods*. IESE Business School.

HarvardLibrary. (2021, october 1). *Library Research Guide for the History of Science: Introduction*. Retrieved from Harvard library:  
<https://guides.library.harvard.edu/HistSciInfo>

Hatten, T. (2011). *Small Business Management: Entrepreneurship and Beyond (5th ed.)*. South-Western Cengage: Mason:South-Western Cengage Learning.

Islam M.N. (2020). Data Collection and Analysis . *In Islam and Democracy in South Asia*, 49-65.

Kenton, W. (2020, march 19 19). Population Definition.

Koller, T., Goedhart, M., & Wessels, D. (2010). *Valuation: measuring and managing the value of companies (Vol. 499)*. John Wiley and sons.

Reddy, K. (2021, December Tuesday). *What is an Interview: Definition, Objectives, Types & Guidelines*.

Slower, L. M. (1997). *The Synergy Trap*. New York: The Free Press.

Uijtendaal, G., & Cock, T. (1999). Onderhandelen Bepaalt Transactiewaarde Onderneming. *Accountant-Adviseur*, (3), 32–36.

**Doi:** [doi.org/10.52133/ijrsp.v3.29.2](https://doi.org/10.52133/ijrsp.v3.29.2)