



The European M&A Industry: A Market in the Process of Construction

Author(s): Caterina Moschier and Jose Manuel Campa

Source: *Academy of Management Perspectives*, Nov., 2009, Vol. 23, No. 4 (Nov., 2009), pp. 71-87

Published by: Academy of Management

Stable URL: <https://www.jstor.org/stable/27747543>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



Academy of Management is collaborating with JSTOR to digitize, preserve and extend access to *Academy of Management Perspectives*

JSTOR

A R T I C L E S

The European M&A Industry: A Market in the Process of Construction

by Caterina Moschieri and Jose Manuel Campa

Executive Overview

In 2007, for the first time in recent history, the volume of mergers and acquisitions by European companies surpassed that of their U.S. counterparts. This paper provides a comprehensive overview of the trends and drivers of this surge in M&A activity in the European Union. It reviews the role of the European Commission in fostering a level playing field for takeover activity and the key characteristics of M&A deals in Europe. Despite evidence of significant progress toward the development of a homogeneous market for M&As, important differences still hold among European countries both in the rules and in the patterns that M&A activity takes. The analysis suggests that this dissimilarity between Europe and the U.S. is not solely linked to the existence of a harmonized market but rather arises from unique institutional characteristics ingrained in the corporate structure of companies, which differ among European countries. This raises questions about the generalizability of current research on North American M&As to the European context.

Worldwide M&A activity rose in the first few years of this century, reaching an all-time record of US\$4.367 trillion in 2007. However, within this flow of takeovers, there have been underlying forces that imply an important change in the M&A industry. Most striking is the growth in M&As beyond the U.S. and U.K. markets. In 2007, for the first time, M&As involving European targets outstripped M&A activity in the United States, historically the dominant market for corporate takeovers. In addition, the number and volume of cross-border M&As increased in Europe and worldwide (Capaldo, Dobbs, & Suonio, 2008). Driving this increase in European M&As is the process of economic integration in

Europe, together with the European Commission's efforts to foster standardization and increase transparency in the development of a single market for M&As.

This paper looks at how the harmonization of European regulations has affected M&A activity and the main characteristics of M&As in Europe. This is done using a sample of 2,122 M&A transactions, involving control transfer, announced in Europe between 2001 and 2007. This study underscores the main features of corporate takeovers in Europe along two parallel themes: (a) the increasing role of the European Commission in fostering a level playing field for European takeover activity and constructing a harmonized market, and (b) the key characteristics of M&As in Europe, with a special focus on the drivers for their success and on the effects of the institutional

We appreciate the financial support from ATKearney for this project. We are also grateful for the feedback we received from Nuno Fernandes and Jose Correia Guedes.

* **Caterina Moschieri** (*cmoschieri@fcee.ucp.pt*) is Assistant Professor at the School of Economics and Management, Universidade Catolica Portuguesa.

Jose Manuel Campa (*jcampa@iese.edu*) is Grupo Santander Professor of Finance at IESE Business School.

Copyright by the Academy of Management; all rights reserved. Contents may not be copied, e-mailed, posted to a listserv, or otherwise transmitted without the copyright holder's express written permission. Users may print, download, or e-mail articles for individual use only.

characteristics of various European countries. We provide a rational link between these aspects, mainly in how the main features observed in European M&As are spawned from some of the economic and regulatory characteristics prevalent in the business structure of these countries.

Our analysis indicates that recent regulatory actions undertaken by the European Commission led to an increase in harmonization within Europe in corporate practice and regulations, which in turn produced a change in the pattern of European M&A activity. We provide evidence of these changes, including an increased use of cash as payment method (probably due to the introduction of the single currency), an increased importance of cross-border deals, industry consolidation through M&As, an increase of private equity activity, and a decrease in the time of execution of M&As. Specifically, our evidence about the greater importance of foreign M&As in Europe suggests that the European Commission partially succeeded in creating a homogeneous market for takeovers in the region.

Nevertheless, despite significant progress made in the European Union toward an integrated economic area, large dissimilarities remain in terms of regulatory approaches, ownership structures, and business practices across European countries. These differences partially originate from a reluctance among European countries to homogenize and converge the legal requirements for M&As (European Commission, 2007). This lack of convergence to a standardized legal framework adds to already existing cultural distinctions, often hampering the execution and completion of takeovers in Europe. These differences emerge especially between the United Kingdom and other European countries, such as Germany, France, and Italy. The dissimilarity, for example in the choice of acquisition techniques, arises not only from regulations, which establish the requirements for the launch of a public tender offer and/or the limits and size of such offers, but also from the structural characteristics of the business environment, such as the ownership and governance structure of corporations and the degree of bank dependence to finance corporate transactions. These different characteristics are ingrained in the European cor-

porate structure and are not directly linked to the existence of a harmonized market.

This European-wide study underscores some distinct features of M&As in Europe, contributing to extant literature on M&A activity that has so far focused primarily on the M&A markets in the U.S. and the U.K. (see, for example, Cebenoyan et al., 1992; Harris & Ravenscraft, 1991; Seth et al., 2000) and only marginally on the European M&A market (see, for example, Zollo & Meier, 2008). In general, European takeovers continue to be primarily domestic, friendly, and often arranged through a private transaction, contrasting with the preponderance of hostile deals through public tender offers in the United States (Haspeslagh, 1991). This analysis also provides new insights about trends in the European market for M&As, and especially about the level of harmonization across the region. Our results indicate that, despite some similarities to mature markets like the United States, the market for corporate control in Europe maintains unique characteristics, distinct from North America and Asia. These differences should push researchers to examine European M&As independently and not assume that existing theoretical or empirical frameworks for acquisitions in the United States automatically apply in Europe. This opens new avenues for future research, as discussed at the end of our analysis.

The rest of the paper is structured as follows. The next section provides an overview of the institutional context for M&A activity in Europe. The second section presents evidence on M&A activity from a sample of transactions involving publicly traded target firms for the period 2001 through 2007. The discussion is developed in two sections, focusing first on the evolution of M&A activity after 2001 and then on the idiosyncrasies of European deals. The final section provides some conclusions and suggestions for future research.

The Institutional Context for M&As in Europe

Little research has so far analyzed the quality of the economic and regulatory environment within a specific country in the context of M&A activity (e.g., Bjorvatn, 2004; Calori et al., 1994; Lubatkin et al., 1998; Rossi & Volpin,

2004). The legal and regulatory environments are particularly important in Europe, where progress toward a European cross-border M&A market is still hindered by the existence of different national systems of takeover regulation and by the retention of costly structural and technical barriers to takeovers.

Managers and policy makers in Europe have historically believed that the creation of an integrated economic space within Europe depends on changing and homogenizing EU legislation (European Commission, 2005, 2007). However, this process has proven painfully slow. In 1985 the European Commission drafted a first proposal for a Takeover Directive¹ to create favorable conditions for the emergence of a European market for corporate control. Key provisions in this harmonization process included efficient takeover mechanisms, a common regulatory framework, and strengthening of shareholder rights, including minority shareholders (European Commission, 2007). The directive was finally approved in 2003 after several rounds of negotiation, but it made all of the provisions that may be controversial² merely optional for member states, allowing them to maintain in their national legislation existing practices (see the annex for a summary of the most controversial provisions, their current treatment, and the rules in place in 2006). As a consequence, the implementation of these rules by the national authorities in their legislation has followed strong nationalistic biases.³

Beyond this lack of convergence to a standardized legal framework within the European Union, there are also important differences in the degree

to which corporations are actually converging in their use of these takeover defense practices. An example is the applicability of the proportionality principle of "one share, one vote" that regulates the relationship between ownership and voting rights within corporations. No EU-15⁴ country has opted for a full-blown application of the proportionality principle, and firms often limit the ability of certain investors to exercise political rights. However, although shareholder agreements, voting right ceilings, supermajority provisions, cross-share holdings, and pyramid structures are still prevalent in most EU countries,⁵ their use has been decreasing and the range of policies in place has been converging across countries (Institutional Shareholders Services, 2007).

Although these formal differences in legal standards are one of the main shortcomings of the European directive on takeover bids, they are not the only ones. The directive imposes a strange asymmetry on potential bidders. Specifically, its guidelines are restricted to bidders from the EU and do not necessarily apply to outside-EU bidders for the same European target company (McCahery, Renneboog, Ritter, & Haller, 2003). This asymmetry can result in awkward situations if the same target faces competing bids from an EU and a non-EU-based firm. Even worse, a regulatory arbitrage may arise if a potential buyer chooses to make the bid through corporations incorporated outside the EU.

Another factor contributing to the harmonization of the M&A market in Europe is the evaluation of the competition and antitrust implications of corporate takeovers. The European Commission has become more and more active over time on this front, with a final say in all M&As that have EU (i.e., supranational) dimension.⁶ However, national competition authorities

¹ A directive is a legislative act of the European Union that requires member states to achieve a particular result without dictating the means of achieving that result. Directives normally leave member states with a certain amount of leeway as to the exact rules to be adopted.

² Controversial provisions include a new mandatory bid rule; prohibition against defensive measures initiated by the management board; and board neutrality, breakthrough, reciprocity, and squeeze-out rules. Squeeze-outs give the controlling shareholder the right to force minority shareholders, who hold out in a tender offer, to sell their shares to the bidder at or below the tender offer price (Goergen, Martynova, & Renneboog, 2005, p.14).

³ Most EU countries have not transferred the provisions that implied a liberalization of their national markets to foreign bidders (European Commission, 2007). In contrast, all countries have plans to implement a squeeze-out threshold for minority shareholders and the reciprocity rule, allowing their home companies to use it to build defenses against potential foreign bids.

⁴ Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

⁵ Differences also exist in other takeover regulations such as "poison pills" (which give the stockholders the right to purchase common shares at some fraction of the current market price), assets sale, and issue of new equity with voting rights in response to an unwelcome bid.

⁶ The number of merger cases notified to the Commission in 2007 reached an all-time high of 402, an increase of more than 12% over 2006. In total the Commission adopted 396 final decisions in 2007 (European Commission, 2008).

still also play an important role in regulation of M&As. Differences in regulatory functioning of these entities add to the lack of predictability and consistency in the decisions made by these agencies across the EU, and become major sources of concern in large M&A transactions.

Professional advisers in the M&A process also highlight the predictability of the implementation of these regulations by countries as another important difference. Intense debate exists about the ways the same provisions would be implemented in the United Kingdom, where shareholder rights are paramount, and in the rest of Europe, where corporate governance is dominated by stakeholders. The lack of experience by national authorities in evaluating complex transactions, the independence of the regulatory agencies, and the degree of explicit or implicit government involvement are clear barriers to a homogeneous implementation of rules across countries.

A number of other regulatory approvals beyond takeover rules and competition concerns also may arise in M&As. Bidders have to comply with local or national regulations that determine issues as diverse as employment levels, restructuring plans, capital structure, ownership structure, leverage, and environmental concerns. Regulated industries or industries perceived to be of special national interest—in particular power and water supply, telecommunications, broadcasting, railways, energy, finance, basic transportation, defense, and some other areas perceived to be strategic—are often subject to additional regulatory approval. In these industries the state reserves for itself sufficient powers to monitor impact in pricing and quality standards, and/or to require minimum levels of capital investment and leverage.

Finally, there are additional regulations that discriminate among transactions depending on the national ownership of the companies involved. The basic argument is that of “national security,” mainly applied in the defense field, energy, and agriculture or food-related concerns. Within the EU there is the widespread perception that things vital and sensitive to the national interest cannot be exposed to the free play of international capital and the possibility of foreign ownership, and are therefore in need of protection

from foreign ownership. In particular, a number of regulations, such as golden shares⁷ and limits on foreign ownership, exist in member countries that discriminate between foreign and domestic ownership in specific industries. The European Commission has long struggled with national authorities to decrease the number and importance of these regulations.

Analysis of the M&A Process in Europe

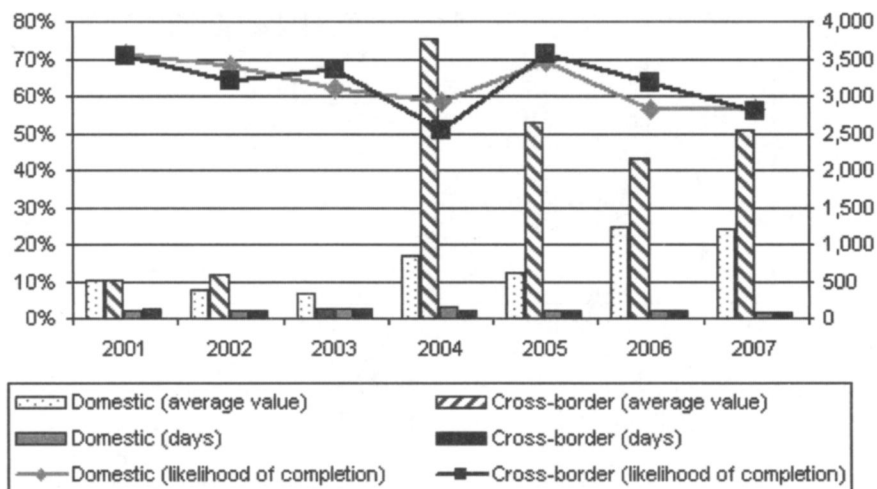
This paper examines the evolution of mergers and acquisitions in Europe between 2001 and 2007 by looking at a broad sample of transactions of publicly traded companies. We selected transactions for which both the target and the acquiring company are based in the EU-15 area. The sample includes only transactions from publicly traded and private acquirers bidding for publicly traded companies where there was a change in control of the acquired firm. It is difficult to determine a unique parameter to identify transactions involving a change in control. Although effective control depends not only on the percentage of ownership sought or actually acquired but also on other parameters such as the degree of concentration in the remaining ownership, board structure, regulatory regime, and management structure of the acquired company, the most commonly used parameter to identify a control change is the acquisition of a certain percentage of the target company's ownership stake.

We defined a 20% ownership as the threshold for having a controlling stake in a corporation (Faccio & Lang, 2002). We dropped from the sample those transactions in which the ownership of the target company controlled by the acquirer was still below 20% after the transaction. We also dropped transactions where the acquirer already had control over the target firm prior to the announcement, such as internal reorganization, buybacks, exchanges, and acquisitions of remaining interests. For this reason, we excluded from the sample those transactions in which the acquirer already held 50% of the shares of the target prior

⁷ Golden shares give national governments a casting vote over major decisions, including takeovers, in privatized firms where they do not hold a majority stake.

Figure 1 Evolution of Domestic and Cross-Border Deals

Likelihood of completion of announced bids (left axis, lines), number of days from announcement date to completion date for deals completed after the announcement date (right axis, columns) and average value of completed deals (right axis, columns, mil. dollars), by cross-border and domestic in EU-15 (2001–2007).



Source: Author calculations. See data appendix for description of original source.

to the announcement, as this does not represent a change in control of the target company (for more details, see the data appendix).

Filtering for these specificities, our final sample includes 2,122 announced transactions on public EU-15 companies, for a total deal value of \$1.834 trillion. Of these announced deals, 1,340 transactions were completed, for a total value of \$1.205 trillion.⁸ In this sample, the top 100 completed deals accounted for \$982.9 billion in value, 82% of the overall value of completed deals. The data come from Thomson ONE Banker's M&A module.

Our interest is in the evolution of deals in the large EU economies accounting for most of the observed M&As. Drawing from previous studies (e.g., Campa & Hernando, 2006; Kogut, 2002; Martynova & Renneboog, 2006, 2008), we analyzed each of the European countries, focusing on the details for the most active markets in M&As: Benelux and Denmark, France, Germany, Italy, Spain, and the United Kingdom. The rest of the

EU-15 accounts for only 18% of the total number of completed deals.

Evolution of the M&A Industry After the Creation of a Homogeneous Market

We studied the patterns and characteristics of domestic and cross-border deals, the time of execution and likelihood of completion of announced bids, and the industry trends in M&As to understand the pattern of M&A activity in Europe and specifically whether the creation of a homogeneous market for M&As facilitates the execution and completion of bids and eases cross-border takeovers within Europe.

Geographic focus. We first analyzed the characteristics and patterns of domestic and cross-border M&As, to understand not only to what extent the creation of a new legal and economic context facilitates M&A activity, but also whether or not it makes it easier to overcome national differences in cross-border takeovers. Figure 1 illustrates the evolution of the average value of completed deals and the likelihood of completion of announced bids by cross-border and domestic deals between 2001 and 2007. Table 1 reports the proportion of completed domestic and cross-border M&As by target nation and year of

⁸ Bids from EU-15 companies represent 84% of the overall number of announced deals on European targets. Of the remaining 16%, 9% originate from North America, 4% from European countries outside the EU-15, and the rest from Asia, Russia, Central and South America, and the Middle East.

Table 1
Proportion of Domestic and Cross-Border Bids in 2001–2007

By value, proportion of completed domestic and cross-border M&As in EU-15 (2001–2007) segmented by target nation and by year of announcement.

| Year Announced | Benelux and Denmark | | France | | Germany | | Italy | | Spain | | United Kingdom | | Rest of Europe | |
|----------------|---------------------|--------------|--------|--------------|---------|--------------|-------|--------------|-------|--------------|----------------|--------------|----------------|--------------|
| | Dom. | Cross-Border | Dom. | Cross-Border | Dom. | Cross-Border | Dom. | Cross-Border | Dom. | Cross-Border | Dom. | Cross-Border | Dom. | Cross-Border |
| 2001 | 80% | 20% | 93% | 7% | 98% | 2% | 100% | 0% | 19% | 81% | 66% | 34% | 61% | 39% |
| 2002 | 68% | 32% | 94% | 6% | 83% | 17% | 92% | 8% | 100% | 0% | 68% | 32% | 17% | 83% |
| 2003 | 92% | 8% | 91% | 9% | 87% | 13% | 99% | 1% | 100% | 0% | 100% | 0% | 47% | 53% |
| 2004 | 100% | 0% | 98% | 2% | 55% | 45% | 92% | 8% | 100% | 0% | 8% | 92% | 87% | 13% |
| 2005 | 87% | 13% | 60% | 40% | 30% | 70% | 100% | 0% | 52% | 48% | 37% | 63% | 49% | 51% |
| 2006 | 100% | 0% | 82% | 18% | 82% | 18% | 84% | 16% | 83% | 17% | 27% | 73% | 72% | 28% |
| 2007 | 77% | 23% | 91% | 9% | 70% | 30% | 94% | 6% | 10% | 90% | 61% | 39% | 26% | 74% |
| Average | 84% | 16% | 86% | 14% | 72% | 28% | 90% | 10% | 49% | 51% | 37% | 63% | 52% | 48% |

Source: Author calculations. See data appendix for description of original source.

announcement. These data show that there has been a shift in the geographic focus of takeovers in Europe across time. This change is due first to the increased importance of cross-border deals and second to a shift in the relative weight of countries where M&A activity takes place. Most transactions still occur among domestic firms (81% on average over the observation period), that is, firms from the same country, while only 19% of M&As are cross-border. However, EU companies are engaging in larger cross-border deals. The average value of cross-border deals increased from \$523 million in 2001 to \$2.529 billion in 2007. Over the observation period, the likelihood of completion of cross-border deals appears similar to that of domestic deals.

In general cross-border deals represent important decisions for organizations. Such deals can be disruptive, producing unexpected entries by buyers, cross-cultural dislocations, high purchase prices, and changes in strategic assumptions about a local market (Ghoshal & Bartlett, 1990; Kogut, 1991; Lubatkin et al., 1998; Zaheer, 1995). Cross-border deals in the EU-15 are typically motivated by a range of factors different from those in domestic deals, such as growth by market expansion (either by the expansion of technology and brands across borders or by the establishment of larger market shares) and acquisition of special resources.

Several factors can explain the increase in volume and likelihood of completion of cross-border deals. First, as industry consolidation reduces the

number of viable M&A opportunities at home, buyers start engaging in larger cross-border transactions. This implies that when measured in value terms, the weight of domestic M&As decreases. This increase in the value of cross-border transactions may derive from the fact that cross-border deals within the European Community have some advantages with respect to cross-border deals outside Europe. Bidders within Europe rely on a single currency,⁹ which diminishes the risks of foreign currency volatility, and also operate in a single integrated market and legislative framework (Campa & Hernando, 2006, 2008; McCahery et al., 2003). Overall, this reduces entry barriers, easing the exploitation of economies of scale and the transfer of intellectual capital and technology, and fosters the growth of cross-border deals.

The data show that the shift in the geographic focus of M&As is also due to a significant change in the relative weight of the European countries' M&A cross-border activity. In the 1990s British, German, and French firms were the most active acquirers (jointly accounting for 70% of the total amount spent on cross-border European M&As) and the most frequent targets of cross-border acquisitions (about 60% of the overall value of cross-border M&As) (Martynova & Renneboog, 2006). Between 2001 and 2007, British, German, and French acquirers continued to account for a large share (67%) of the value of completed deals, to-

⁹ With the exception of the United Kingdom, Denmark, and Sweden, which retain their original currencies.

gether with Italy, Benelux, and Denmark, which also become very important investors.

As shown in Table 1, as target, the United Kingdom experiences a proportion of cross-border deals higher than the European average. One explanation is that cross-border deals are more common in countries with higher investor protection, such as common law countries (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998; Rossi & Volpin, 2004). British firms have a more decentralized financial decision-making process (Gates & Egelhoff, 1986), better accounting standards, and stronger shareholder protection (Rossi & Volpin, 2004) and operate in a more active and competitive market (Smith & Walter, 1990) than companies in the other EU-15 countries. Firm ownership structure is more dispersed in the United Kingdom (Faccio & Lang, 2002), where only 2.4% of the traded firms are estimated to have a majority shareholder (Barca & Becht, 2001), while it is very concentrated in countries such as Germany, France, and Italy, where often one or two shareholders have effective control over the management of the firm (Barca & Becht, 2001). Overall, these characteristics explain why British firms are more active in M&As (Franks, Mayer, & Renneboog, 2001) and why they are more attractive to foreign bidders.

Time to completion. We calculated the time to completion of announced M&As to understand whether the economic and regulatory changes in Europe after 2001 have eased the execution of M&A bids and specifically of cross-border deals. Table 2 reports the percentage of deals completed on the announcement day and the number of days from the announcement date to the completion date for deals completed after the announcement day. On average 59% of announced M&A deals get completed. The majority of completed deals are effective after the day of announcement (66%);¹⁰ only 34% of completed transactions are effective upon announcement.

We analyzed both the proportion of deals completed on the announcement date and the days to

¹⁰ Most transactions are effective after announcement in the United Kingdom (79%), Italy (71%), and Benelux and Denmark (67%). Germany is the only country with a majority of deals effective on the date of the announcement (60%).

Table 2
Time to Completion

Percentage of deals completed on the announcement day and number of days from the announcement date to the completion date for deals completed after the announcement day, by deal size, acquisition technique, payment method, and target nation in EU-15 (2001–2007).

| | Percentage of Deals Completed on Announcement Day | No. of Days for Deals to Be Completed After Announcement |
|------------------------------|---|--|
| Grand total | 34% | 109 |
| Deal size (,000\$) | | |
| Up to 500 | 23% | 93 |
| 500 to 1,000 | 10% | 123 |
| 1,000 to 5,000 | 4% | 136 |
| 5,000 to 10,000 | 0% | 161 |
| 10,000 + | 0% | 157 |
| Acquisition technique | | |
| Open market purchase | 100% | n/a |
| Private | 49% | 77 |
| Public tender offer | 11% | 119 |
| Payment method | | |
| Cash only | 18% | 100 |
| Hybrid | 3% | 107 |
| Other | 61% | 125 |
| Shares only | 1% | 134 |
| Unknown | 42% | 87 |
| Target nation | | |
| Benelux and Denmark | 33% | 111 |
| France | 39% | 98 |
| Germany | 60% | 122 |
| Italy | 29% | 127 |
| Spain | 32% | 126 |
| United Kingdom | 21% | 95 |
| Rest of Europe | 42% | 128 |
| Domestic | 36% | 109 |
| Cross-border | 37% | 107 |

Source: Author calculations. See data appendix for description of original source.

completion for deals completed after the announcement date. Completion upon announcement occurs mainly in smaller deals, which are also completed more quickly after announcement than larger deals. The average size of deals completed on announcement is \$130 million, a tenth

of the size of the remaining deals. Completion on announcement is also much more likely in open market purchases and in private deals than in public offers. Only 3% of the top 100 deals are effective on the announcement date.

After the announcement, large deals and public tender offers (i.e., complex deals) take an average of 161 days to complete, considerably more than the average for the whole sample of deals (109 days). Specifically, larger deals involving domestic firms in regulated industries are the deals that take longest to complete. This is mainly due to the fact that domestic deals tend to involve industry concentration and are more likely to be subject to regulatory approval by competition authorities and other specific regulatory agencies (especially in financial, energy, and telecoms). Share deals are slower to complete, taking on average 134 days, 34 days more than cash deals.

As shown in Figure 1, the time of execution of cross-border deals decreases toward the end of the observation period. This may be due to several changes over time. First, on average, the time of execution of deals decreases. This evidence, jointly with the fact that over the observation period the likelihood of completion of cross-border deals is similar to that of domestic deals, suggests that European companies are learning more about how to engage in cross-border M&As.

Nevertheless, differences among countries also exist. The United Kingdom is the “quickest” country, with only 95 days from announcement to completion. In contrast, completion in other European countries, such as Germany, Italy, and Spain, where investor protection and accounting standards are weak, takes longer. A possible explanation is that the time of execution depends on country-specific legislation, which can hamper or ease the execution of M&As. These results also suggest that the European Commission at least partially succeeded in evening out differences between domestic and foreign targets, creating a homogeneous market for takeovers.

Industry analysis. The integration of the national economies and the deregulation of a large number of economic sectors have allegedly decreased the cost of making corporate acquisitions and transactions across European borders. In Eu-

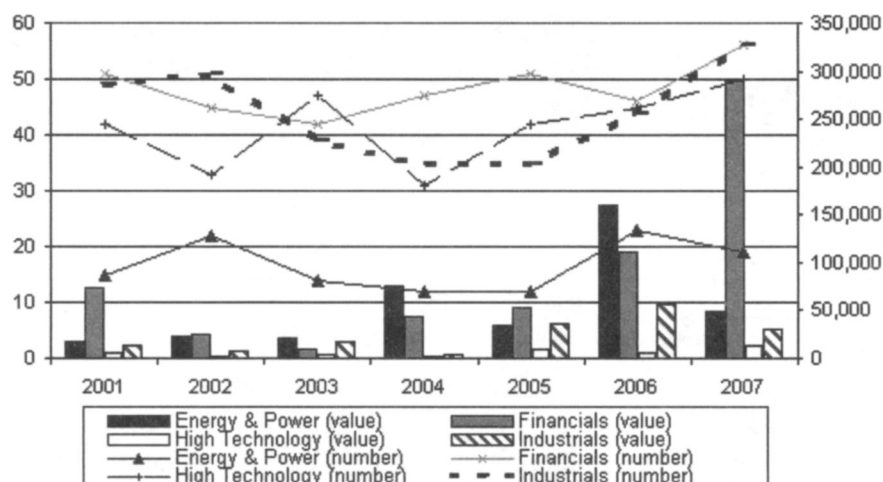
rope, many cross-border M&As made in the 1990s were between firms from the same or related industries. This trend continues after 2001, when M&A deals predominantly occur within the same industry, with a higher proportion for larger cross-border deals than before. This confirms that international business expansion was one of the goals encouraging firms to participate in European cross-border M&As in the 1990s (Martynova & Renneboog, 2006). The restructuring needs in the major national industries—together with processes such as deregulation and privatization—have led to cross-border consolidations in, among others, the financial sector and utilities, allowing formerly state-owned companies to acquire firms abroad and to have foreign investors participate in their equity capital (Martynova & Renneboog, 2006).

Figure 2 shows the trend of announced M&As in the EU-15 countries in the four industries that in 2001 through 2007 host the majority of M&A deals: energy and power, financial services, high technology, and industrials. In terms of number of completed deals, industrials have on average the highest number of announced bids, followed by deals in financial services and high technology. More recent large transactions take place in the power and energy industry, in real estate, in materials, and in industrials. Although there are great differences in number and value of deals per industry across the sample, the fact that most of the European deals (both horizontal and vertical ones) involve firms in related industries consolidates the trend to focus on core business. In other words, despite the emphasis on industry consolidation and the restructuring in the major national industries coupled with deregulation and privatization in the European Union, between 2001 and 2007 still about half of the transactions take place within the same industry.

Preponderance of private equity investors. M&A activity is fostered by the presence of private equity (PE) firms (Gaughan, 2007). In this respect, the U.S. market is more mature and further developed than the European market. However, European private equity funds and venture capital firms have increased their size and in the five years from 2001 to 2005 they account for 55%

Figure 2
Number and Value of Announced Deals by Industry Over Time

Total number (left axis, lines) and value (right axis, columns, mil. dollars) of announced bids by target industries (Energy & Power, High Technology, Financials, and Industrials; other industries, e.g., media, are not reported) in EU-15 (2001–2007).



Source: Author calculations. See data appendix for description of original source (Thomson Financial industrial classification).

of the global total value of PE investments (Thomson ONE Banker analysis, 2008). In Europe, the number of deals involving PEs slightly increases between 2001 and 2007, with a peak in value of M&As in 2006 and 2007. The United Kingdom is the country where the largest majority of deals with PE, both by value and by number of deals, take place, followed by France. The rise in M&A activity in Europe is closely associated with the increase in PE firms. The boom of European M&A activity in the last decade is fueled by capital-rich private equity firms and hedge funds (Gaughan, 2007).¹¹

Idiosyncrasies of the European M&A market.

The analysis of European M&A activity shows that takeovers within EU-15 countries have specific characteristics, different from those of M&As in the United States and Asia. These differences arise mainly in attitude, acquisition techniques, payment methods, and premiums.

Deal attitude and competing bids. Table 3 reports the deal attitude and competing bids for completed deals. Most completed deals in Europe

between 2001 and 2007 are either friendly or neutral (97%). The presence of hostile deals in European M&A transactions is very low (1%), although it increases slightly in more recent transactions. In contrast, worldwide the 10-year average of hostile takeovers is about 3%, with a peak of 12% of total deal volume in 2007 (Capaldo et al., 2008). Hostile bids in Europe tend to be slightly more likely in larger deals (3% of the top 100 deals by value) and much less likely to be successful (only 52% of announced hostile deals were completed, versus 64% of announced friendly deals).

The low proportion of hostile deals is a direct consequence of the concentrated ownership structure prevalent in most European companies. The concentrated ownership structure of the firms traded in countries such as Germany, Spain, and France determines that control transfers in many cases rely on the decision of one or two shareholders that exercise effective control over the target. Ownership concentration facilitates friendly transfers of control and not hostile deals (Shleifer & Vishny, 1986). Consistently, hostile deals are more common in countries with better shareholder protection, such as the United Kingdom (Rossi & Volpin, 2004).

Linked to the absence of hostile bids is the lack of competing bids in Europe. Competing bids are

¹¹ However, in the second half of 2007 and the first quarter of 2008, the value of M&A transactions participated in by PE starts to decline (HSBC, 2008). PE activity, representing 34% of the total M&A value at the beginning of 2007, falls to 29% at the beginning of 2008, and its value falls by three-quarters from \$230 billion at the end of 2007 to \$55 billion at the beginning of 2008 (HSBC, 2008).

Table 3
Deal Attitude and Competing Bids

Deal attitude (friendly or neutral, hostile, and unsolicited) for completed deals in EU-15 in 2001–2007. The table reports the number of completed deals and the likelihood of completion for the different deal attitudes, for deals that received a competing bid, and for deals that did not receive a competing bid.

| | Number of Completed Deals | | | Likelihood of Completion | | |
|---------------------|---------------------------|---------------------|------------------------|--------------------------|---------------------|------------------------|
| | Total | With Competing Bids | Without Competing Bids | Total | With Competing Bids | Without Competing Bids |
| Friendly or neutral | 1,300 | 42 | 1,258 | 64% | 45% | 65% |
| Hostile | 15 | 8 | 7 | 52% | 67% | 41% |
| Not applicable | 18 | 1 | 17 | 47% | 33% | 49% |
| Unsolicited | 7 | 1 | 6 | 19% | 9% | 24% |
| Total | 1,340 | 52 | 1,288 | 59% | 64% | 43% |

Source: Author calculations. See data appendix for description of original source.

not only rare (3% of announced transactions receive competing bids) but also much less likely to succeed than noncompeting bids. The likelihood of completion of a deal facing a competing bid is only 43%, a third lower than for transactions without a competing bid (64%).

Several factors can explain the lack of competing bids in Europe. The single most important one is the lack of hostile transactions. Competing bids are typically present in hostile deals, where arbitrageurs are the significant decision makers (Bruner, 2004). Additional factors include the large presence of domestic transactions that result in consolidation in the industry, the relatively smaller role performed by financial investors (such as private equity and restructuring funds), and the predominance of financial and industrial conglomerates in most European countries.

Acquisition techniques. The first four columns of Table 4 report the percentage of deals completed over the total of announced bids by acquisition technique and target country. On average, M&As in Europe are mostly public tender offers (36% by number and 72% by value of all completed deals), which are also most frequent in large-value transactions. The second most common acquisition technique is private deals (27% by number and 15% by value), while divestitures, open market purchases, unsolicited deals, and white squires/knights represent only a minority of the completed deals, in both terms of number and total value of transactions.

In general, the preferred method of acquiring control of a company depends on transaction-specific aspects, such as the existing ownership structure of the firm, the liquidity of the shares of the target firm, and the specific takeover regulations of the country of the target. In Europe, the use of alternative acquisition techniques varies by country. This is probably a reflection of the ownership structure of publicly traded firms, which varies substantially among European countries, and of still existing country differences in corporate takeover regulations that establish the requirements for the launching of a public tender offer and/or the limits and size of such offers. This is particularly evident in the different proportion of public tender offers in the United Kingdom and in the rest of Europe. For example, in France deals are typically negotiated privately or via public tender offers (28% each, for a value respectively of 80% and 4% of the value of all completed deals). In contrast, in the United Kingdom the number of public tender offers (46%) is almost double the number of private deals (25%) and represents 86% of the value of all completed deals (versus 12% for private deals).

Payment method. Table 4 shows in its last four columns the percentage of deals completed by payment method and target country. It highlights another important feature of European M&As: They are predominantly cash deals (30% of completed deals). With a pattern similar to that in the United States, we found a significant difference in

Table 4
Acquisition Techniques and Payment Methods

Percentage of deals completed over total announced bids by acquisition technique (open market purchase, private negotiation, or public tender offer, in columns 2 to 4; other less used acquisition techniques are not reported) and by payment method (cash only, shares only, cash and shares, and other, in columns 5 to 8; "unknown" payment method deals are not reported) over the total number and total value of completed deals by target country of EU-15 (2001–2007).

| Target Nation | Acquisition Technique | | | Payment Method | | | |
|---------------------------|--------------------------|-------------|-------------------------|----------------|-----------------|---------------------|------------|
| | Open Market Purchase (2) | Private (3) | Public Tender Offer (4) | Cash Only (5) | Shares Only (6) | Cash and Shares (7) | Other (8) |
| By number of deals | | | | | | | |
| <i>Average</i> | 4% | 27% | 36% | 30% | 11% | 3% | 32% |
| Benelux and Denmark | 4% | 38% | 25% | 32% | 13% | 5% | 13% |
| France | 14% | 28% | 28% | 24% | 7% | 5% | 7% |
| Germany | 2% | 23% | 30% | 23% | 5% | 2% | 5% |
| Italy | 0% | 22% | 28% | 25% | 15% | 0% | 15% |
| Spain | 0% | 38% | 38% | 42% | 7% | 1% | 7% |
| United Kingdom | 10% | 25% | 46% | 33% | 16% | 10% | 16% |
| Rest of Europe | 2% | 9% | 13% | 29% | 17% | 3% | 17% |
| Domestic | 74% | 79% | 84% | 58% | 84% | 88% | 16% |
| Cross-border | 26% | 21% | 16% | 42% | 16% | 12% | 84% |
| By value of deals | | | | | | | |
| <i>Average</i> | 15% | 15% | 72% | 33% | 26% | 19% | 6% |
| Benelux and Denmark | 36% | 36% | 52% | 14% | 23% | 55% | 6% |
| France | 4% | 4% | 80% | 14% | 9% | 57% | 1% |
| Germany | 18% | 18% | 72% | 38% | 21% | 23% | 0% |
| Italy | 25% | 25% | 63% | 15% | 76% | 0% | 1% |
| Spain | 29% | 29% | 62% | 67% | 5% | 2% | 0% |
| United Kingdom | 12% | 12% | 86% | 27% | 14% | 6% | 51% |
| Rest of Europe | 2% | 10% | 10% | 34% | 29% | 23% | 4% |
| Domestic | 19% | 71% | 61% | 78% | 92% | 81% | 81% |
| Cross-border | 81% | 29% | 39% | 22% | 8% | 19% | 19% |

Source: Author calculations. See data appendix for description of original source.

terms of attitude of the deal. European hostile deals are mostly cash deals. This reflects on the aggressiveness of the deals while removing any contingency about the assessment of the value of the bid. These results differ from the literature on deals in the United States, which has predicted that cash deals are typically not hostile bids and receive few competing offers (Fishman, 1989).

Although we found no major differences between the United Kingdom and the rest of Europe in the volume of deals paid in cash only or shares only, the number of cash-only deals in the United

Kingdom is higher than in the rest of Europe (33%). Again, this finding is different from previous literature that has reported that stock-only deals are more common in the United Kingdom, while all-cash bids are more common in the rest of Europe (Faccio & Masulis, 2005; Rossi & Volpin, 2004). This discrepancy may be linked to the fact that we observed a trend in which the proportional value of cash-only transactions increases from 2001 to 2007 (with a peak in 2006, when cash deals represented 43% of the total value of completed deals). We also observed that cash-

only deals are more likely to be completed than other forms of payments.¹² This suggests that cash became more frequently used in large deals at the end of the observation period.

Cash is usually preferred to stocks by sellers in M&As in periods of easy financing conditions and in smaller acquisitions. Previous research has suggested that stock deals are related to negative value creation, while cash purchases have zero or positive cumulative abnormal returns (Campa & Hernando, 2008). These returns are not only from tax savings due to debt and depreciation shields. Gains also accrue significantly from efficiencies and greater operational improvements implemented after the buyout by the new managers who tend to have a significant portion of their net worth committed to the success of the transaction (Healy, Palepu, & Ruback, 1997; You, Caves, Smith, & Henry, 1986). In fact, returns to buyer firm shareholders are positively related to share ownership by managers and employees.

In Europe, larger deals tend to be paid in shares or a hybrid of shares and cash. This is consistent with previous evidence from the United States, showing that deal value is more likely to increase when stock market valuations are at historically high levels. The share of megadeals—those with a value of more than \$10 billion—contributes 30% of 2007 overall volume, considerably higher than the 10-year average of about 20%. A bidder is more likely to pay a high price for a target firm during peaks of takeover activity, because bids become more aggressive and are more likely to trigger opposition from the target (Martynova & Renneboog, 2006).

Jointly these results suggest that M&As in Europe are characterized by a tension between cash and stock. On one hand, stock deals are associated with lower returns. Furthermore, companies observe the greater likelihood of success and the higher returns of cash deals and therefore become more prone to launch cash-only bids. On the other hand, the average deal size and stock market valuations have increased in the last decade. This

may have led to an increase in deals paid totally or partially in shares.

Premiums. Table 5 reports the average one-day and four-week premiums of completed M&As in the EU-15 countries. Premiums appear to be linked to the characteristics of the deal and of the companies involved rather than to the target country. In Europe the average one-day premium (i.e., the difference between the offer price and the target price the day prior to announcement) for completed transactions is 18%. This premium

Table 5
Premiums

Average one-day and four-week premiums of completed M&As in EU-15 (2001–2007) by target industry, deal size, acquisition technique, and target nation. The grand total refers to the average premiums for the whole sample of completed deals. All values are percentage.

| Average Premiums | 1 Day | 4 Weeks |
|------------------------------|-------|---------|
| Grand total | 18 | 24 |
| Across industry | 17 | 22 |
| Within industry | 18 | 24 |
| Deal size (,000\$) | | |
| up to 500 | 15 | 21 |
| 500 to 1,000 | 23 | 24 |
| 1,000 to 5,000 | 18 | 20 |
| 5,000 to 10,000 | 10 | 14 |
| 10,000+ | 25 | 47 |
| Acquisition technique | | |
| Open market purchase | 31 | 39 |
| Private | 11 | 18 |
| Public tender offer | 17 | 23 |
| Target nation | | |
| Benelux and Denmark | 15 | 27 |
| France | 22 | 33 |
| Germany | 38 | 35 |
| Italy | 14 | 17 |
| Spain | 9 | 14 |
| United Kingdom | 16 | 24 |
| Rest of Europe | 20 | 27 |
| Domestic | 16 | 20 |
| Cross-border | 24 | 34 |

Source: Author calculations. See data appendix for description of original source.

¹² On average, 19% of cash-only deals were completed, versus 8% of shares-only deals and 3% of shares and cash deals.

is very different from the 24% average premium relative to the target price four weeks prior to announcement. This difference suggests that there are opportunities for arbitrage through leveraged bids or option trading.

These opportunities are equally distributed across industries, despite the recent process of deregulation of some national industries in the EU-15. There are no substantial differences in average premiums across industries. However, diversifying M&As tend to yield lower [one day (four week)] premiums [17% (22%)] than intra-industry deals [18% (24%)]. In other words, investors in deals not originating from the restructuring of national industries and leading to industry concentration (Martynova & Renneboog, 2006) receive greater premiums than investors engaging in interindustry activity.

Table 5 also shows a slight negative correlation between the premium size and the value of the transaction. With the exception of very few individual megadeals that show a very high premium, average premium is smaller for larger transactions, decreasing to about 10%. The lower premium for large deals suggests that the deal was already anticipated in the stock price of the company.

Premium size also differs substantially by acquisition technique. Private deals are less likely to provide large premiums than other acquisition techniques. Private deals yield average one-day (four-week) premiums slightly above 10% (8%) while public tender offers show premiums 50% higher and open market purchases show premiums three times as high as private deals. One possible explanation is that the great majority of private deals in Europe are friendly or neutral, which typically yield lower takeover premiums (Grossman & Hart, 1980).

While the above-mentioned difference between one-day and four-week premiums holds in almost all European countries, consistent with previous literature (Nenova, 2003), we found that Scandinavian/Nordic countries yield on average the lowest premiums (Belgium, Luxembourg, Denmark, Sweden, the Netherlands, and Finland, according to the GLOBE classification based on country cultural differences) (Hofstede, 1980; House, Javidan, Hanges, & Dorfman, 2002).

M&As in Europe yield premiums on average slightly lower than those the literature has reported for M&As in the United States, where takeover premiums fluctuate in the 20% to 30% range (Haspeslagh, 1991; Jensen & Ruback, 1983). As higher premiums tend to accrue in countries with better shareholder protection (Rossi & Volpin, 2004), the lower average premiums in Europe may result from the higher likelihood of arranging friendly deals, which allows bidders to pay a lower takeover premium (Grossman & Hart, 1980).

Discussion and Conclusions

This European-wide study contributes to extant literature on M&A activity that has so far focused primarily on the M&A markets of the United States and the United Kingdom. It specifically analyzes the change process undergone by the European business environment and the key characteristics of takeovers in the EU. While M&A activity in Europe in the late 1980s and 1990s was characterized by an increase in intra-European consolidations driven mostly by domestic transactions to build large national firms, between 2001 and 2007 it features an increased importance of cross-border deals, despite the fact that most takeovers continue to take place within national borders. This paper proposes several factors to explain this change in the proportion of domestic and cross-border deals, mainly industry consolidation, the introduction of a single currency, the deepening of a single integrated market, and a more homogeneous regulatory framework arising from the European Union.

However, our analysis suggests that, despite this homogenization process, differences in M&A activity still hold across European countries. Countries have implemented the European Takeover Directive, which was supposed to provide a liberalization of the corporate takeover market in Europe, in a seemingly protectionist manner, so that takeover defenses and substantial regulatory discretion remain. By evaluating the impact of the introduction of the single currency and of a wide range of regulatory rules on the pattern, speed, and form in which M&A activity takes place, this European-wide study specifically identifies that

the U.K. market for corporate control differs in many aspects from the M&A markets of the rest of Europe. However, we believe that this dissimilarity derives from unique characteristics ingrained in the corporate structure of companies, which differs between the United Kingdom and the rest of Europe—not from a supposed failure in the creation of a harmonized, homogeneous market for M&As in Europe. The less concentrated ownership structure, the stronger investor protection, and the more developed capital markets of the United Kingdom (Barca & Becht, 2001; Faccio & Lang, 2002) lead to a higher proportion of hostile deals, competing bids, deals involving PE firms, cash-only bids, and public tender offers than in the rest of Europe. These characteristics are also reflected in a higher proportion of cross-border deals, while domestic, private deals are more frequent in the large European countries such as Germany, Italy, and Spain. Deals taking place in the United Kingdom are also “quicker” to complete. Nevertheless, these differences are not driven by discrimination against foreign companies. Cross-border and domestic deals take a similar period to complete after controlling for other factors.

These results also indicate possible future trends of the European M&A market. On one hand, even with increasing economic and regulatory convergence, European countries will maintain some unique characteristics in the market for corporate control, distinct from the United States and Asia. The concentrated ownership structure that characterizes European companies affects M&A attitude, acquisition techniques, payment methods, and premiums. European transactions are mostly domestic, are paid in cash or a mix of payment methods, yield premiums on average slightly lower than M&As in the United States (Haspeslagh, 1991; Jensen & Ruback, 1983), and are often arranged through private deals. On the other hand, the shift in the prevalence of payment methods, in the importance of cross-border deals, and in the role of financial investors suggests progress toward the development of a homogeneous, harmonized market for M&As. This progress is likely to be accompanied by an ongoing role for the European Commission in fostering a

level playing field for European takeover activity and in overseeing national industrial and competition authorities to construct a harmonized market.

Overall, these results suggest that to understand M&As in Europe we may need to move beyond the extant frameworks and theoretical models, which are valid for U.S. M&As but may not work in the analysis of European deals. Drawing on our analysis, future research could further explore the European market for M&As and its idiosyncrasies. Literature has underscored the importance of various institutional factors (Peng, Sun, Pinkham, & Chen, 2009), specifically in the treatment of M&As (Kogut et al., 2002; Walker, Madsen, & Carini, 2002). However, little research has so far focused on the quality of the legal, regulatory, and economic environment within a country to study M&As (e.g., Calori et al., 1994; Lubatkin et al., 1998; Rossi & Volpin, 2004). Future research could examine the effect of the development of a homogeneous legal, regulatory, and economic framework on M&A deals.

The analysis of M&A deals before and after these changes would shed light on the effects of the transition to a more homogeneous regulatory and economic context. In the specific setting of European transactions, scholars could analyze the M&A activity before and after the introduction of the euro as a single currency, industry deregulation, and the development of a common regulation for acquisitions.

More broadly, new studies on the effect of the development of a homogeneous legal, regulatory, and economic framework for M&As could potentially also provide new explanations about the global economic downturn of the first decade of the 21st century and about the role of the U.S. economy versus other geographic regions, such as Europe (Davis, 2009). Future research could also focus on the speed at which the European M&A market is transitioning toward the model of other more active markets for corporate control, such as the United States. In this respect, it could also analyze the broader economic and social implications of this change.

Annex: Differences in M&A Regulation in EU Countries

For selected EU countries, this table illustrates the transposition of key provisions from the EU Directive and the availability of some control-enhancing mechanisms (CEMs) in relation to their availability under the law in the European countries, the United States, Japan, and Australia. The availability of a CEM provided for in a country's legislation does not necessarily translate into the actual utilization of such a CEM by companies. "No" means that the specified CEM is not available; "unclear" means that it is not clear whether the specified CEM is available; "yes" means that the specified CEM is available, but none of the companies examined introduced it; the percentage numbers indicate the frequency of occurrence of this CEM in relation to its availability under the law of each country. Data were collected and updated through the end of 2006 (September to December).

| | Provisions | | | | Control-Enhancing Mechanisms | | | | |
|-----------------------------------|--------------------------------|-----------------------|-------------------|--------------------------------------|------------------------------|-----------------------|---------------------------|-----------------------|-------------------------|
| | Transposition of the Directive | Board Neutrality Rule | Breakthrough Rule | Reciprocity | Pyramid Structure | Voting Right Ceilings | Super-Majority Provisions | Cross-Shares Holdings | Shareholders Agreements |
| Belgium | No | No | No | Yes | 40% | 0% | Yes | 0% | 25% |
| Denmark | Yes | No | No | Yes | 0% | 10% | Yes | 0% | 0% |
| France | Yes | Yes | No | Yes (only for board neutrality rule) | 25% | 20% | Uncl. | 20% | 15% |
| Germany | Yes | No | No | Yes | 15% | 5% | Yes | 10% | 0% |
| Italy | No | No | No | Yes | 45% | 10% | Yes | 5% | 40% |
| Luxembourg | Yes | No | No | Yes | 26% | Uncl. | Yes | 0% | 0% |
| Netherlands | No | No | No | Yes | 11% | 0% | Yes | 11% | 5% |
| Spain | Yes | Yes | No | Yes | 20% | 35% | Yes | 0% | 5% |
| United Kingdom | Yes | Yes | No | No | 0% | 10% | Yes | 0% | 5% |
| % companies subject to rule | 100 | 75 | 1 | 47 | | | | | |
| % value companies subject to rule | | 68 | 0 | 62 | | | | | |
| United States | | | | | Yes | No | Yes | Yes | Yes |
| Japan | | | | | Yes | Uncl. | Yes | Yes | Yes |
| Australia | | | | | Yes | No | Yes | Yes | Yes |

Source: Author calculations and Commission of the EU "Report on the Implementation of the Directive on Takeover Bids" (2007) and from Institutional Shareholders Services' report from the European Commission (2007).

Data Appendix

We examined the evolution of M&As in Europe between 2001 and 2007. We selected M&As announced from January 1, 2001, to December 31, 2007, from Thomson ONE Banker M&A module (Deal Analysis tool). For the announcement, we used Thomson's definition of date announced: the date one or more parties involved in the deal make the first public disclosure of common or unilateral intent to pursue the deal (no formal agreement required; the announcement can be a disclosure of discussions between parties, of a unilateral approach made by a potential bidder, or of a signed memorandum of understanding or other agreements).

We then selected bids for which both the target company and the acquirer were based in the EU-15 area (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom). This gave us a sample of 56,230 European M&As. From this sample, we selected only those bids originated by publicly traded and private acquirers bidding on publicly traded companies (4,160 deals).

Our goal was to focus only on those deals that involved a change in control of the acquired firm. We used the acquisition of a significant ownership stake as a determinant of a change in control. We defined a 20% ownership as the threshold for having a controlling stake in a corporation. This threshold derives from the equity method, which requires companies to mention their participation in other organizations if it is above or equal to 20%. This mitigated form of consolidated statement reflects a significant influence over a controlled organization. We dropped from the sample those deals in which the ownership of the target company after the transaction controlled by the acquirer was still below 20%. For percentage of shares acquired, we used Thomson's calculation of the number of common shares acquired in the deal divided by the total number of shares outstanding.

We also dropped from the sample those transactions where the acquirer already had control over the target firm prior to the announcement, such as internal buybacks, exchanges, splitoffs, and bankruptcy acquisitions. For the same reason, we also dropped from the sample those transactions in which the acquirer already held 50% of the shares of the target company prior to the announcement, as this does not represent a change in control of the target company. For the percentage of shares owned after transaction, we used Thomson's calculation of the number of common shares acquired in the transaction plus any shares previously owned by the acquirer divided by the total number of shares outstanding.

We also dropped from the sample those transactions that were rumored.

Specifically, the sample included public tender offers (an aggregate category including leveraged buyouts, Dutch auc-

tion tender offers, stock swaps, three-way mergers, and scheme of arrangements), open market purchases, mandatory offers, acquisitions with white knights or white squires, divestitures, unsolicited deals, and private deals.

The final sample included a total of 2,122 announced deals, which account for a total deal value of \$1.834 trillion. Of these announced deals, 1,340 transactions were finally completed, for a total value of \$1.205 trillion. Of this sample, the top 100 completed deals account for \$982.9 billion in value, 82% of the overall value of completed deals.

For each deal, we collected data for the announcement and effectiveness date, a history and synopsis of the deal process, information about the target and the acquirer company (e.g., name, nation, industry, SIC codes), information about the deal itself (e.g., percentage of shares owned before the deal, percentage of shares acquired, percentage of shares sought, value of transaction, attitude, one-day and four-week premiums, payment methods, and acquisition techniques), and information about competing bids. From this data, we calculated other information, e.g., number of days from announcement to completion and geographic (domestic versus cross-border) and industry (across versus within) focus of the deal.

We defined a deal as domestic if both the target and the bidder resided in the same nation, and cross-border if they resided in two different EU-15 nations.

References

- Barca, F., & Becht, M. (2001). *The control of corporate Europe*. New York: Oxford University Press.
- Bjorvatn, K. (2004). Economic integration and the profitability of cross-border mergers and acquisitions. *European Economic Review*, 48(6), 1211–1226.
- Bruner, R. F. (2004). *Applied mergers and acquisitions*. Hoboken, NJ: John Wiley & Sons.
- Calori, R., Lubatkin, M., & Very, P. (1994). Control mechanisms in cross-border acquisitions: An international comparison. *Organization Studies*, 15(3), 361–379.
- Campa, J. M., & Hernando, I. (2006). M&A performance in the European financial industry. *Journal of Banking & Finance*, 30, 3367–3392.
- Campa, J., & Hernando, I. (2008). The reaction by industry insiders to M&As in the European financial industry. *Journal of Financial Services Research*, 33(2), 127–146.
- Capaldo, A., Dobbs, R., & Suonio, H. (2008). Deal making in 2007: Is the M&A boom over? *McKinsey Quarterly*, 1, 8–12.
- Cebenoyan, A. S., Papaioannou, G. J., & Travlos, N. G. (1992). Foreign takeover activity in the U.S. and wealth effects for target firm shareholders. *Financial Management*, 21, 58–68.
- Davis, G. F. (2009). The rise and fall of finance and the end of the society of organizations. *Academy of Management Perspectives*, 23(3), 27–44.
- European Commission. (2005). *Cross-border consolidation in the EU financial sector*. Commission Staff Working Document, SEC.
- European Commission. (2007). *Report on the implementation*

- of the directive on takeover bids. Commission Staff Working Document.
- European Commission. (2008). *Report from the Commission: Report on competition policy 2007*.
- Faccio, M., & Lang, L. (2002). The ultimate ownership of Western European corporations. *Journal of Financial Economics*, 65, 365–395.
- Faccio, M., & Masulis, R. W. (2005). The choice of payment method in European mergers and acquisitions. *Journal of Finance*, 60(3), 1345–1388.
- Fishman, M. (1989). Preemptive bidding and the role of the medium of exchange in acquisitions. *Journal of Finance*, 44(1), 41–57.
- Franks, J., Mayer, C., & Renneboog, L. (2001). Who disciplines management in poorly performing companies? *Journal of Financial Intermediation*, 14, 943–977.
- Gates, S. R., & Egelhoff, W. G. (1986). Centralization in headquarters-subsidiary relationships. *Journal of International Business Studies*, 17(2), 71–92.
- Gaughan, P. (2007). *Mergers, acquisitions, and corporate restructurings*. Hoboken, NJ: John Wiley & Sons.
- Ghoshal, S., & Bartlett, C. A. (1990). The multinational corporation as an interorganizational network. *Academy of Management Review*, 15(4), 626–625.
- Goergen, M., Martynova, M., & Renneboog, L. (2005). *Corporate governance convergence: Evidence from takeover regulation reforms in Europe*. Utrecht School of Economics - Tjalling C. Koopmans Research Institute, Discussion Paper Series 05-19.
- Grossman, S., & Hart, O. (1980). Takeover bids, the free-rider problem and the theory of the corporation. *Bell Journal of Economics*, 11, 42–64.
- Harris, R. S., & Ravenscraft, D. (1991). The role of acquisitions in foreign direct investment: Evidence from the U.S. stock market. *Journal of Finance*, 46, 825–844.
- Haspeslagh, P. C. (1991). *Managing acquisitions: Creating value through corporate renewal*. New York: Free Press.
- Healy, P. M., Palepu, K. G., & Ruback, R. S. (1997). Which takeovers are profitable? Strategic or financial? *Sloan Management Review*, 38(4), 45–57.
- Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage.
- House, R., Javidan, M., Hanges, P., & Dorfman, P. (2002). Understanding cultures and implicit leadership theories across the globe: An introduction to project GLOBE. *Journal of World Business*, 37(1), 3–10.
- HSBC. (2008). *Global M&A: Down but not out?* In HSBC Macro Global Equity Strategy.
- Institutional Shareholders Services. (2007). *Proportionality between ownership and control in EU listed companies*. In European Commission: *European Corporate Governance Institute* (Ed.).
- Jensen, M. C., & Ruback, R. S. (1983). The market for corporate control. *Journal of Financial Economics*, 11(1–4), 5–50.
- Kogut, B. (1991). Country capabilities and the permeability of borders. *Strategic Management Journal*, 12, 33–47.
- Kogut, B., Walker, G., & Anand, J. (2002). Agency and institutions: National divergences in diversification behavior. *Organization Science*, 13(2), 162–178.
- La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (1999). Corporate ownership around the world. *Journal of Finance*, 54, 471–517.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1998). Law and finance. *Journal of Political Economy*, 106, 1113–1155.
- Lubatkin, M., Calori, R., Very, P., & Veiga, J. F. (1998). Managing mergers across borders: A two-nation exploration of a nationally bound administrative heritage. *Organization Science*, 9(6), 670–684.
- Martynova, M., & Renneboog, L. (2006). *Mergers and acquisitions in Europe*. Tilburg University Working Paper.
- Martynova, M., & Renneboog, L. (2008). A century of corporate takeovers: What have we learned and where do we stand? *Journal of Banking and Finance*, 32(10), 2148–2177.
- McCahery, J., Renneboog, L., Ritter, P., & Haller, S. (2003). *The economics of the proposed European takeover directive*. CEPS Research Report in Finance and Banking, 32.
- Nenova, T. (2003). The value of corporate voting rights and control: A cross-country analysis. *Journal of Financial Economics*, 68(3), 325–351.
- Peng, M. W., Sun, S. L., Pinkham, B., & Chen, H. (2009). The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives*, 23(3), 63–81.
- Rossi, S., & Volpin, P. F. (2004). Cross-country determinants of mergers and acquisitions. *Journal of Financial Economics*, 74(2), 277–304.
- Seth, A., Song, K. P., & 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.
- Shleifer, A., & Vishny, R. (1986). Large shareholders and corporate control. *Journal of Political Economy*, 94, 461–488.
- Smith, R., & Walter, I. (1990). Economic restructuring in Europe and the market for corporate control. *Journal of International Securities Markets*, 4, 291–313.
- Walker, G., Madsen, T. L., & Carini, G. (2002). How does institutional change affect heterogeneity among firms? *Strategic Management Journal*, 23(2), 89–104.
- You, V., Caves, R. E., Smith, M., & Henry, J. (1986). Mergers and bidders' wealth: Managerial and strategic factors. In L. Glenn (Ed.), *The economics of strategic planning: Essays in honor of Joel Dean* (pp. 201–221). Lexington, MA: Lexington Books.
- Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal*, 38, 341–363.
- Zollo, M., & Meier, D. (2008). What is M&A performance? *Academy of Management Perspectives*, 22(3), 55–77.