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Varieties of Capitalism, Varieties of Markets:
Mergers and Acquisitions in Japan, Germany, France, the UK and USA

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Abstract

This paper compares the characteristics of M&A in 1991-2005 across five countries: Japan, France, Germany, the UK and USA. We ask what factors explain the growth of M&A markets across these countries, and what similarities and differences exist in the ways the M&A market operates. We find that the growth of M&A reflects a rather similar combination of sectoral, international, and financial factors. However, despite some convergence toward increasing levels, we find important differences in the characteristics of M&A transactions that reflect institutional differences found within different national 'varieties of capitalism'. We find systematic differences between what Hall and Soskice (2001) call liberal market economies (UK and USA) and coordinated market economies (Japan, France, and Germany) across a wide range of in deal characteristics: takeover bids, the size of stakes purchased, the prior stakes held, the use of private negotiation, degree of hostility, and takeover premium. In line with theories of the social embeddedness of markets (Granovetter 1985), we find that in countries with 'coordinated' market economies, M&A reflects greater 'coordination' of transactions through on going business relations. As such, the market for corporate control does not necessary entail a convergence of national business systems, but a pattern of change influenced by strong continuities.

JEL Classification Index:
G34 – Mergers, Acquisitions, Corporate Governance; D02 – Institutions;
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Keywords:
Mergers and acquisitions, market for corporate control, corporate governance, institutional change, path dependence.

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1. Introduction

A large social science literature has emerged in this regard as to the role of M&A in corporate strategy. Yet the frequency, motivation and type of takeover activity across countries are strongly influenced by various institutional characteristics of the national business system (Goergen/Martynova/Renneboog 2005; Hall/Soskice 2001b; Rossi/Volpin 2003). In the US and UK, the level of M&A is high and hostile takeovers are seen as being common (or at least realistic possibility). In Japan and other Continental European countries such as France or Germany, the level of M&A activity has been much lower prior to the 1990s. Moreover, hostile takeovers were extremely infrequent or even perceived as being impossible to implement.

This difference in the role of the market for corporate control reflects a central distinction among diverse national systems of corporate governance (Aguilera/Jackson 2003; Kester 1990). In the US and UK, takeovers represent a central market-based mechanisms for corporate governance. In Japan and Germany, corporate governance involves banks that undertake long-term relational lending and stable equity ties with industrial companies (Baums 1993; Hoshi/Kashyap 2001). Likewise, both countries have strong inter-firm groups bound by horizontal cross-shareholding arrangements or pyramidal blockholding. These features of stable ownership and banking monitoring effectively prevented hostile takeovers. France does not have a strictly bank-based system, but large blockholdings and interlocking directorates among financial, business and government elites (Goyer 2003). The *absence* of takeovers may help prevent 'breach of trust' and support firm-specific or relationship-specific investments by different stakeholder groups (Deakin, et al. 2002; Shleifer/Summers 1988).

In recent years, the diversity of national corporate governance systems has changed and M&A activity has increased globally. In many countries, bank-firm relations and cross-shareholding arrangements have eroded, and legal changes have facilitated mergers and acquisitions by liberalizing share swaps, spin-offs and holding companies. A small but growing number of unsolicited hostile takeover attempts have occurred in Japan, France and Germany with large symbolic importance. The hostile takeover of Mannesmann by Vodafone represents a watershed change toward to growing international market for corporate control (Höpner/Jackson 2006). In Japan, in particular, this growth in M&A is very new and raises many questions about the causes and consequences for the Japanese economy.

This paper aims to contribute to understanding the emerging role of M&A in Japan by a comparison of M&A deals in five countries: Japan, France, Germany, the UK and USA. The comparative analysis draws data from the Thomson Banker One 'Deals' database, and relates to all mergers or acquisitions of stakes completed between 1991and 2005. The paper focuses on two main questions: 1.) what factors explain the growth of M&A markets in Japan, France and Germany; and 2.) what similarities and differences exist in the ways the M&A market operates across countries. We find that growth of M&A

reflects a rather similar combination of sectoral, international, and financial factors across all five countries. However, despite some convergence toward increasing M&A, we find important differences in the characteristics of M&A transactions, which reflect institutional differences found within different national ‘varieties of capitalism’ (Hall/Soskice 2001b). We find systematic differences between liberal market economies (UK and USA) and coordinated market economies (Japan, France, and Germany) across a wide range of in deal characteristics: takeover bids, the size of stakes purchased, the prior stakes held, the use of private negotiation, degree of hostility, and takeover premium. We speculate that these aspects of transactions reflect different sociological characteristics of markets, such as their social embeddedness (Granovetter 1985; Podolny 2001; White 2002). The ‘coordinated’ nature of some economies is reflected in a path dependent influence of M&A, where transactions are ‘coordinated’ through preexisting inter-firm relationships. We argue that these constitute distinct types of markets characterized by different dynamics of price, coordination, and competition (Beckert 2007). As such, the market for corporate control does not necessary entail a convergence of national business systems, but a pattern of change influenced by strong continuities.

The paper proceeds as follows. Section 2 presents data on the growth in M&A activity during this period, and looks the drivers of M&A activity in terms of economic sectors, cross-border deals, financing patters and the institutional environment. Section 3 compares the characteristics of transactions themselves, arguing that the Japanese market and to a lesser extent the French and German markets are ‘coordinated’ relative to the more ‘arm’s length’ markets of the US and UK. Section 4 briefly discusses institutional aspects of the takeover market, focusing on the legal defenses to hostile deals in particular. Section 5 offers some preliminary conclusions about the development of the market corporate control across these five countries.

2. The Rise of M&A in Comparison

The section compares the volume of M&A deals over the period 1991 to 2005, and examines their sectoral, cross-border and financial characteristics. Comparative data on M&A activity was drawn from the Thomson One ‘Deals’ database. The database tracks all mergers and acquisitions of substantial stakes in both publicly listed and private companies based on public or media disclosure. Deals for each country are counted here to include the following: 1.) domestic deals (In-In); 2.) deals with foreign buyers and domestic targets (Out-In); and 3.) deals with domestic buyers and foreign targets (In-Out).

Much of the existing literature suggests that takeovers came in waves that have common characteristics. The period from 1993 is sometimes considered the fifth major historical wave of M&A, following waves of the early 1900s, the 1920s, the 1960s, and the 1980s. According to the historical precedents, the increase in M&A in recent years may be driven by a variety of economic causes (Martynova/Renneboog 2005):

- excess industrial capacity in particular sectors;
- technological innovation and new growth opportunities in particular sectors;

- deregulation of markets in previously regulated sectors or through regional integration of markets that either increase pressures for restructuring or open new growth opportunities (e.g. EU integration);
- changes in the availability of finance (e.g. high stock market valuations utilized in share-swaps, etc.).

2.1. Volume of Activity

Figure 1 shows the number of deals per year by country during the course of the 1990s up to 2005. All countries had a sharp rise in M&A transactions roughly around the period 1998-2002. The increase is most dramatic in Japan,[2] which lagged behind the UK and US, as well as Germany and France. Moreover, the rise in Japan has continued after 2002 and reached a peak year in 2005. France and Germany had high levels of M&A already in the early 1990s, although these levels represent a dramatic increase in M&A compared to the much lower levels for France and Germany during the 1980s (Martynova/Renneboog 2006). **Figure 2** presents annual volume activity in terms of total deal value, and show an even more dramatic merger wave in all five countries. **Figure 3** report a summary comparison of average annual deal volume in the periods 1991-97 and 1998-2005. All five countries show increases in the number of deals, and very large increases in deal value relative to GDP. The UK has the highest level of deal activity at roughly 21% of GDP, whereas Japanese M&A remains substantially lower than the other four countries totaling only 2.5% of GDP during the boom period.

The figures above account for M&A among all types of target firms, but the count may be partially biased by the quality of coverage among target firms that are small size or have different legal status. **Figure 4** shows the distribution across different legal types: listed public, private, government, subsidiary, or other firms. The distribution across legal types is broadly similar across all countries,[3] except that in Japan, fewer private firms and more publicly listed firms are among the targets. In order to standardize the comparison of market activity, **Figure 5** shows the annual proportion of domestic listed firms targeted in M&A deals in each country. Despite the potential differences in the scope of coverage in the Thomson database, the reporting of M&A involving publicly listed companies should be relatively even across countries and over time. In Japan, the number of targets increased from just 22 per year or 1% of listed firms in 1991-1997 to 262 per year or 7% of listed firms in 1998-2005. In the peak year of 2005, 11.5% of Japanese listed firms were targeted in M&A, which is very similar to the other four countries.

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[2] Specialists on Japan will note some discrepancies in the total figures based on the Thomson database compared to the well-know data collected by RECOF. The RECOF database provides somewhat more comprehensive coverage, although the overall trends and coverage of large deals is identical. In 2004 and 2005, the RECOF data shows an even sharper increase in the number of announced deals to 2,211 and 2,725 respectively. The Thomson data is retained here for purposes of comparability with other countries.

[3] In Germany, the early 1990s boom included a high proportion of government sector target firms, in large part due to the selling off of state-run enterprises in East Germany following unification.

2.2. Sectoral, Cross-border and Financial Drivers of M&A

In order to compare the causes of the recent merger boom in different countries, the level of M&A activity is examined across industrial sectors. The breakdown of M&A activity by industry sector may give evidence regarding whether changes are due to excess capacity, deregulation or technological innovation. If the rate of M&A has increased across all industries, this would suggest the importance of macroeconomic factors or reduction in institutional barriers towards M&A.

Sectors. In terms of industries, **Figure 6** and **Figure 7** present the sectoral distribution of deals based on the top 25 sectors defined by 2 digit SIC codes. These figures show sectoral distribution of deals in terms of number of deals and deal value, where the target firm was a publicly listed company. The sectoral composition shows important commonalities across countries. In terms of number, business services[4] were the leading sector in all five countries. Chemicals, industrial machinery, electronic equipment, food and communication were also high in all countries. Greater sectoral concentration can be seen in terms of deal value with very high percentages in growing sectors such as communications and chemicals, as well as sectors undergoing consolidation or deregulation such as banking and electric and gas utilities. In Japan, a very high proportion of deal value concentrated among banks (31%) and other credit institutions (4%) in the wake of financial deregulation, the banking crisis and subsequent consolidation of the industry.

Figure 8 presents an analytical breakdown of the sectors into the groups: consolidating, mature and high growth industries. Sectors were coded based on their 2-digit SIC scores in relation to changes in the number of listed firms within each industry. Consolidating sectors refer to sectors where the change in the number of listed firms was zero or negative between 1991-1997 and 1998-2005. Mature sectors showed moderate expansion of up to 20 firms in total and high growth sectors increased by 20 or more firms during this time period. In all five countries, about 2/3 of M&A activity was in high growth sectors. High growth sectors accounted for half to three-quarters of M&A activity in all five countries, both in number and in value. This pattern underlies the importance of M&A as part of strategic expansion in growing industries, such as business services, communications, electronics, and brokerages. In these industries, technological change and market expansion has been rapid and M&A may be important for growth strategies. Consolidating sectors generally accounted for less than 20% of M&A, both in terms of deals and value, in all countries. Consolidations were relatively less important in Japan and Germany in terms of value, although they were similarly important in terms of number. Key sectors here were electric and gas utilities, foods, construction, metals and mining, as well as some industries like printing and publishing in the UK. In terms of the growing in deal value in the period 1998-2005, high-growth industries accounted for the majority of value and M&A growth in all countries. However, the proportion of

[4] Business services represents a wide array of activities, such as advertising, consumer credit, personnel agencies, computer programming, security and many other activities.

high-growth sectors was somewhat higher in Germany, Japan and the USA, but lower in France and the UK.

Changes in sector composition may coincide with shifts on firms' business portfolio, such as diversification into newer, high-growth industries. **Figure 9** shows that around 40% of M&A were within the same 2-digit SIC industry. In the US, the rate was even higher at 51%. Another 15-20% of M&A were in industries related in terms of a broad SIC division. Thus, most of the recent wave in M&A is due to growth in businesses in the same related industries (Martynova/Renneboog 2006), whereas a smaller portion related to new entry into unrelated areas.[5] Meanwhile, 35-45% of M&A were unrelated at the level of broad SIC division. The main 'drivers' of such diversification were financial holding and investment companies, which made over 50% of unrelated acquisitions in the US and UK, 40% in Germany and France, and around 32% in Japan. In terms of target industries, firms diversified mainly into business services (16%), wholesale trades (13%), building construction (5%) and electronics (4%).

Cross-border. Cross-border transactions are another important potential contributor to the growth in M&A. This aspect is examined by dividing deals into three groups: domestic, foreign acquirer, and foreign target. **Figure 10** shows that the three European economies have much higher levels of international M&A activity than the US or Japan. In Germany, France and the UK, cross-border transactions represent approximately 40-50% of deals compared to 20-25% in the US. Cross-border deals in France, Germany and the UK are largely within Europe, and point to importance of the common European market and opening of new markets in Eastern Europe as a driver of M&A in these countries. The development of the single European market and the introduction of the Euro in the 1990s placed great pressure on domestically-oriented European companies to reduce excess capacity and use M&A as a means to consolidate to face regional competition (Martynova/Renneboog 2006). Likewise, the Euro has eliminated all currency risks within the Eurozone and created a more liquid European capital market offering new sources of financing (such as Euro-denominated bonds). **Figure 11** shows that the proportion of deal value in terms of domestic deals, foreign acquirers, and foreign targets. These data confirm the higher importance of cross-border deals in Europe than in the USA or Japan. **Figure 12** shows the contribution of cross-border deals to the growth of M&A—whereas 70-80% of growth of M&A value in France, Germany and the UK was due to growing cross-border deals, only about 20-30% of growth in the US or Japan was international. The UK market is the most internationally open both in terms of foreign acquisitions and takeovers of foreign targets.

While cross-border transactions help explain the increase of M&A in France and Germany, the increase in Japanese M&A is largely due to huge increase in number of domestic deals. Japanese cross-border deals increased from just 164 per year in 1991-97 to 216 in 1998-2005, whereas domestic deals increased from 90 to 1,041 per year.

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[5] For example, 65% of Japanese firms answered that the purpose of M&A was to strengthen core businesses, and only 5% indicated diversification as the primary purpose of acquisitions in 2004 (RECOF 2004).

The value of domestic deals increased rapidly from 0.3% of GDP to 1.7% of GDP per year, whereas cross-border deals from just 0.1% to 0.5% of GDP between the same periods. The low level of cross-border activity has been an important point of debate in Japan. The Japanese government has proclaimed a goal of a five-fold increase in foreign direct investment. Several studies also show the positive impact of FDI into Japan, of which acquisitions are an important element (Fukao/Amano 2003). But the level of cross-border activity in Japan still lags considerably behind other markets. Whereas foreign acquirers made acquisitions worth 1.7% of US GDP during 1998-2005, the same figure was just 0.3% of GDP in Japan—which is similar to the level in Germany in the early 1990s. Likewise, Japanese firms have invested less in acquisitions of foreign firms than their counterparts in other countries.

Finance. Finally, macroeconomic factors have also played a role in the growth in M&A, particularly in the US and Europe. Two methods for an acquiring firm to pay for acquisitions are cash and shares. Firms may use cash if their shares are undervalued, but use equity (e.g. share swaps) if their stock is overvalued (Travlos 1987). **Figure 13** presents the percentages of deal value in terms of being cash-only, shares-only or mixed financing using cash, shares and/or debt. In all countries, cash-only deals account for nearly 50% or more of all deal value. However, a common trend exists toward greater use of share-based compensation, where shares act as an important acquisition currency. Shares are particularly important in large deals where the large size of the deal makes cash payment prohibitively expensive. Still, countries differ in how they use shares as acquisition currencies. US firms are the least likely to use cash-only, and use share swaps or mixed forms of consideration in a majority of deals. The UK and Europe are less likely to use pure share exchanges and thus tend to mix share with cash, which perhaps reflects requirements in the UK to include cash components under the mandatory bid rules of the UK Takeover Code.

These changes in finance have been reflected in the valuation of deals. **Figure 14** shows the average value of transactions relative to the earnings before interest, taxes and depreciation of target firm for two periods, 1991-97 and 1998-2005. The data are weighted by the percentage of shares acquired so as to estimate the proportion of cash flow rights acquired in the deal.[6] This data shows very high valuations in US and UK deals. These data also suggest that valuation grew in all countries after 1998. Japanese deals have strikingly low valuations relative to target firm earnings. These shifts in valuation reflect the use of share to share exchanges as a means of deal finance. Across all five countries, cash-only deals were valued at 2.4 times EBITD, whereas shares-only deals were valued at 8.4 times EBITD. Even among shares-only deals, Japanese deals were valued at 3.4 times EBITD compared to an average of 9.1 times in the US.[7] The peak level of valuation was the US in 1998, where deals using share swaps averaged a value 11.9 times EBITD.

[6] Given the large skewness of the distribution where earnings are very low or negative, the top and bottom declines of the distribution were dropped giving ratios ranging between zero and twenty.
[7] Further statistical analysis demonstrates that these country differences persist once controlling for the size, performance and sector of the target firms.

Rising levels of deal valuation relative to underlying earnings is at least indirectly suggestive about potential misevaluation (Dong, et al. 2003). Relative levels of (mis)valuation between targets and acquirers should impact transaction characteristics, including the means of payment (stock versus cash), the form of the offer (merger versus tender offer), the bid premium, hostility of the target to the offer, and shareholder returns. Most research on M&A assumes that if capital markets efficiently value firms, takeovers can cause target firm assets to be employed either more efficiently (Lang/R. Stulz/Walkling 1989; Servaes 1991; Jovanovic/Rousseau 2002). By contrast, the misvaluation hypothesis holds that acquirers profit either by buying undervalued targets for cash at a price below fundamental value; or by paying equity for targets that have lower relative valuations than the bidder (Shleifer/Vishny 2003). If bidders are overvalued relative to targets, especially among stock offers, then the bidder's relative overvaluation enables expropriation of target assets. In such circumstances, takeovers are not driven by generating value through the elimination of agency costs, but by overvaluation. While no conclusions can be drawn here regarding misvaluation, the dot.com boom and burgeoning stock market during the late 1990s certainly helped fuel M&A in Europe and the US, in particular. Meanwhile, the Japanese market reflected lower valuations and more deals centered on restructuring, whereas other markets reflected high valuations and the growing use of highly valued shares as an acquisition currency that can be used to 'leverage' large M&A transactions.

2.3. Is the Japanese Takeover Wave Unique?

The Japanese experience of an M&A wave since the mid-1990s has much in common with Europe and the United States. No one factor explains the increase in M&A across all five countries. M&A occurred both in growing and consolidating sectors, and was intensified by deregulation and cross-border market integration. Finance also played a role through the stock market boom of the late 1990s and growing use of finance using share swaps. France, Germany and Japan all removed some important institutional barriers to M&A transactions, which narrowed the gap in M&A activity with the US and UK. Despite these strong common trends across countries, the weight of these various factors differed among Japan, Europe and the USA.

M&A in Japan was historically as a tool for international expansion (Kester 1990), whereas domestic M&A remained infrequent. Unlike Europe, the Japanese M&A wave was not primarily driven by international expansion or market integration. Several high profile acquisitions were made by foreign companies had a strong symbolic impact, such as the cases of Nissan, Mitsubishi Motors or Shinsei Bank. Growth was actually driven by domestic M&A, where cross-border activity has grown only slowly. Domestic M&A was concentrated in emerging industries with strong growth and technological potential, as in Europe and the USA. Here M&A also became a tool for strategic expansion in areas of new technologies such as communication. Still, a substantial increase also occurred in consolidating sectors of the economy.[8] During the 1990s, Japanese firms

[8] Further statistical evidence shows that Japan has the highest proportion among the five countries of bankruptcy-related M&A transactions (about 3% of all deals) in the period 2000-5.

were slow to aggressively consolidate some industries experiencing slow economic growth and eliminate excess capacity that had accumulated during the long post-Bubble economic slump. The weakened effectiveness of the main bank relationship generally delayed restructuring (Arikawa/Miyajima 2005), but banks later became active promoters of M&A as they restructured themselves and again played a more active role in the corporate sector.

These developments were reinforced by legal change. After 1997, various new laws aimed to liberalize M&A transactions in Japan by permitting share swaps and spin-offs. Deregulation also allowed firms to adopt holding company structures for the first time since WW2.[9] These tools were rapidly adopted in the financial industry, which was driven to adopt new organizational structures and business strategies due to both the banking crisis and financial liberalization that shook up the boundaries of established business segments. Japanese banks formed new 'mega-banks' to consolidate their activities, rationalize the industry structure and deal with the problems of bad debts. The holding company type of merger also helped Japanese firms overcome the barrier of integrating distinct firm-specific employment systems or corporate, since some legal separateness could be maintained post-merger.

Meanwhile, M&A in Europe has been more dependent on the result of deregulation and market integration. Germany increased from a very low level of merger activity (Dietrich 1994), initially expanded in the early 1990s, as the East German economy was absorbed and excess industrial capacity was rationalized.[10] The boom shifted after 1994, when cross-border mergers also increased due to the liberalization of European markets. European firms could increasingly establish overseas operations in newly deregulated industries such as telecommunications, banking or energy and other utilities. For example, a record transaction value of EUR 477 million was reached in 2000 on the heels of the record breaking hostile takeover of Mannesmann by Vodafone. Other key German examples include the acquisitions of US and UK investment banks by German universal banks, as well as the case of DaimlerChrysler. France experienced a more gradual but significant rise in M&A compared to the 1980s, fueled by European privatizations and market liberalization. The UK, in particular, has been able to take advantage of cross-border integration of finance and insurance industries.

In the US, M&A has been concentrated in high-growth industries and a higher proportion has been industry-related acquisitions. One interpretation is that the unusually high number of M&As during the 1980s have already contributed to the rapid consolidation of some industries (Holmstrom/Kaplan 2001). As a result, US deals were focused largely on emerging industries. Deregulation also played a role, such as the areas of inter-state banking regulations and in utilities. But perhaps more than elsewhere, US

[9] For example, JFE Holdings was established in 2001 through the merger of NKK and Kawasaki Steel where new holding company was created through a stock for stock exchange with both companies, and operations were then consolidated across the various lines of business.

[10] From 1991 to 1993, up to 30% of German M&A were privatizations of state-owned enterprises held by the *Treuhandanstalt* (Thomson data, own calculations).

deals were also driven by financial factors, which were reflected in the very high intensity of M&A across all sectors.

3. Varieties of Capitalism, Varieties of Markets?

The previous section noted the ‘catching up’ of Japan, Germany and France to levels more similar to the US and UK. We suggested that this increase reflects several distinct drivers of M&A activity: restructuring of old industries, growth strategies in new industries, international market integration, and financial factors, such as the use of share exchanges under conditions of burgeoning stock market valuations. However, besides these ‘demand side’ factors, this section examines changes in the ‘supply side’ of M&A, namely the institutional conditions that affect the supply of target firms and the conditions under which corporate control may be purchased in the market.

In this section, we draw on a growing literature that compares the character of markets in different national business systems (for a review, see Deeg/Jackson 2007). Japan, Germany and France are often considered to be ‘coordinated market economies’ (CMEs) where corporate ownership, finance, inter-firm relationships and industrial relations all display higher degrees of coordination based on relationship-specific assets and long-term, cooperation ties (Hall/Soskice 2001b). Meanwhile, the US and UK are considered ‘liberal market economies’ (LMEs) where transactions are more market-driven and arm’s length. For example, differences in ownership concentration mean that M&A must be negotiated with key blockholders, banks or other stable shareholders in the case of CME countries. Likewise, German and Japanese banks have also tended to support management against hostile bids and few investors are willing and skilled in providing specialist finance for risky or aggressive takeovers.

While these institutional differences contributed to different levels of M&A across countries, the growth of M&A among CME countries raises questions as to whether these institutions have now converged upon the LME model, or whether the characteristics of M&A transactions still reflect these past sets of institutions in a ‘path dependent’ manner. In particular, institutions may shape not just the presence or absence of markets, but their fundamental characteristics – how prices are formed, the degree of competition, and forms of cooperation (Beckert 2007). Put another way, we hypothesize here that distinct varieties of capitalism may also lead to different varieties of takeover markets that reflect different levels of coordination of market transactions.

3.1. Changes in the Institutional Barriers to M&A

Several institutional factors are important in explaining cross-national variation in takeover activity (Rossi/Volpin 2003). First, M&A is higher where investor protection is greater, reflected in shareholder rights or good accounting standards. Second, M&A is also higher in countries with concentrated ownership, since transfers of control may be easier. However, ownership concentration acts as a major barrier against hostile takeovers and may generally only facilitate M&A during periods of time when concentrated owners may be willing to sell (Burkhart/Panunzi 2006). Finally, M&A may be facilitated in countries where legal protection for employment (e.g. rights regarding dismissal) are low (Pagano/Volpin 2004). To what extent have these types of barriers to M&A transactions have decreased in the last decade?

Investor Protection. We first compare shareholders rights by using the six-point index of shareholders' rights devised by La Porta et al. for the years 1990 and 2000 (La Porta, et al. 1998; Pagano/Volpin 2004). The UK and US score 5 out of 6 on the index during both time periods. France increased its score from 3 to 4 points, and Germany from 1 to 3 points. Japan increased from 4 to 5 points by allowing shareholders to engage in voting by postal mail. In terms of accounting, firms in France and Germany have increasingly adopted international accounting standards that are more market-oriented and based on the notion of a true and fair view of company value. Similarly, Japan has introduced market based valuation into its accounting rules in the late 1990s, which affected the valuation of cross-shareholdings among Japanese companies. The introduction of consolidated accounting in Japan also reduced some of the benefits to having complex group structures, since losses cannot be easily hidden off balance sheet in subsidiary firms. These accounting rules and corresponding tax reforms have also made it easier to merge companies. Broadly, these legal factors suggest the growing openness in markets in Japan and Europe.

Ownership. Next, we compare changes in corporate ownership. Historically, the importance of concentrated blockholders in Germany and France or cross-shareholding in Japan limited M&A activity, especially hostile bids. Meanwhile, institutional investors in the US and UK have been more receptive to hostile bids and to takeover bids more generally. In Germany and Japan, banks have been at the core of these stable shareholding arrangements, and have tended to defend management against hostile bids (Baums 1993). However, in Germany, the density of the core inter-firm network has been weakening (Höpner/Krempel 2003). A new tax policy in 2002 has facilitated the unwinding of intercorporate and bank holdings (the so-called Eichel plan) by eliminating capital gains tax on the sale of corporate shares. Due the large discrepancy in reported book values and actual market values of large blocks held over long periods of time, German financial institutions had been reluctant to liquidate holdings because of the large tax burden. Likewise, French firms began to loosen and then consolidate patterns of cross-shareholding since the early 1990s. In Japan, cross-shareholding levels have also declined rapidly (Kuroki 2003). Much of the unwinding of shares has been between banks and firms during the banking crisis.

As a very broad ownership measure, we compare the percentage of "closely held shares" among listed companies reported by the Thomson Banker One database. The figure includes a wide variety of different owners, including families, inter-corporate holdings or even shares held by directors as being closely held. As such, the data is very vulnerable to disclosure practices across countries. For example, the Japanese figure reports the aggregate share of the top ten shareholders in a given year, since this information is available in company reports. These figures show that the percentage of closely held shares was 29% among UK and US listed firms in 1997, and gradually increased to 33% in 2005. Meanwhile, the same figure was 69% in Germany, 61% in France, and 48% in Japan in 1997. However, levels of closely held shares declined to 60% in Germany, 58% in France and 41% in Japan in 2004/5. These data suggest some unwinding or erosion of tightly held share ownership in Europe and Japan, although levels of concentrated or stable holdings remain much higher than in the UK or USA.

Still, attitudes among stable shareholders have also begun to change. In Japan, even stable shareholders increasingly consider the share price performance and might be tempted or need to justify to their own shareholders if they decline a bidder offering a large premium.[11] Likewise, German banks have shifted strategy overtly and dramatically toward UK or US-style investment banking (Hackethal/Schmidt/Tyrell 2005; Vitols 2005). Some banks have now played important roles in *supporting* hostile bids (Höpner/Jackson 2006). Japanese main banks still play a more influential role in protecting group companies, but also increasingly broker M&A transactions by offering LBO-type finance and making introductions among friendly firms.[12] Finally, the French system of state-led credits and inter-corporate shareholding has slowly collapsed and led to a more arms-length relationship between French banks and large firms (Cieply 2001; Hancké 2002).

Changes in ownership have gradually exposed firms to greater vulnerability to M&A bids. However, ownership patterns remain a balance of both institutional investors alongside more stable investors. Hence, public takeover bids remain risky, since the outcome may be decided by a small group of individual investors that may be hard to mobilize in order to gain a majority stake.[13]

Employees. A final set of barriers to M&A concerns the role of employees. It is often noted that takeover gains in the US and UK are associated with corporate restructuring and rationalization of costs, often through reducing levels of employment (Deakin, et al. 2002; Conyon, et al. 2002; Schnitzer 1995; Conyon, et al. 2001). This type of rapid employment adjustment is difficult to implement in France, Germany and Japan due to a variety of factors such as employment protection laws, employee participation and firm-specific human capital.

Notably, little change has occurred to alter this basic position of employees. First, employment law places greater restrictions on collective dismissals. Despite much debate since the mid-1990s, labour market reform has been modest and has not led to repeal of employment protection. Thus, even when redundancies do take place, firms are obligated to engage in costly efforts to reemploy or compensate employees through "benevolent employment adjustment" (Jackson 2005a). Rates of corporate downsizing have remained stable in France and Germany in the 1990s, whereas they have increased in Japan but remain at the lowest level among major OECD countries (Jackson 2005b).

[11] This point was stressed repeatedly in interviews, e.g. American Chamber of Commerce Japan, 5.Jan.2006 and IR Japan, 6.Jan.2006.
[12] Interview, Alternative Investments Corporation, 5.Jan.2006.
[13] Interview, JTP Corporation, 7.Jan. 2006.

Second, employees have an important role in participation in decision making to various degrees through works councils (in France and Germany), joint consultation committees (Japan) and board-level codetermination (Germany). These cooperative arrangements have largely remained intact, and have sometimes grown more intensive as firms undergo restructuring in recent years (Jackson 2005b). Strong employee participation does not appear to be a strong barrier on M&A per se, but perhaps reduce the threat of *ex post* redistribution of wealth following takeovers. Finally, firm-specific human capital may be an impediment to employment adjustment or mergers. Traditionally, the elaborate internal labour markets of large Japanese firms have been difficult to mesh with those of other firms. Likewise, the prospects for gainful reemployment at similar wages are very poor for mid-career employees in Japan. Hence, high consideration has been given to maintain company independence and draw upon the wider corporate group as a way to internalize employment adjustment and assure job and income security for employees in Japan (Sako/Jackson 2006). Japanese firms are increasingly overcoming the taboo of not "selling employees" and have become more likely to sell divisions to outside buyers, as long as employment considerations are met.[14] These barriers are rather less in Germany, where skill formation and wages are more occupation-based and pay is set on an industry-wide basis that minimizes firm-specific differentials (Streeck 1997). The French system of skill formation tends to be a mix of occupational and firm-specific elements (Lane 1995). Internal labour markets are more vertically segmented than in Japanese firms, and therefore represent less of a barrier to takeovers.

In sum, institutional barriers to M&A have become weaker in France, Germany and Japan. The legal infrastructure has become more market-oriented, ownership has become less concentrated, and banks play a less openly defensive role. Nonetheless, these institutions have not converged on the same legal rules, ownership patterns or role of stakeholders as found in the US or UK. This raises an interesting question as to how these past institutions shape the characteristics of M&A transactions across countries. The remainder of this section explores these issues by comparing some key characteristics of M&A transactions across countries. Differences in coordination are explored in terms of the following: a.) form of transactions; b.) use of takeover bids (TOBs), c.) ties between acquirer and target firms; and d.) the importance of hostile bids. Our basic hypothesis is that M&A in coordinated market economies will be characterized by the greater use of acquisitions over mergers, lesser use of takeover bids, stronger ties between bidder and targets, and lower degrees of hostility.

3.2. Forms of Transactions

The forms of M&A deals are shown in **Figure 15**. Deals are classified as mergers when a combination of business takes place or 100% of the stock of a public or private company is acquired. By contrast, acquisitions fall into various different categories where a majority or minority stake of the target company is acquired. Here some interesting differences emerge. Among deals where the targets were publicly listed firms,

[14] Interview, IR Japan, 6.Jan.2006.

mergers were the most common form of deals in the US and UK (45%), but mergers were relatively uncommon in Japan, France and Germany (7-12%). Acquisitions of majority interests were relatively common in France and Germany (23-30%), less common in Japan (13%) and rare in UK and USA (6%). Meanwhile, the acquisition of partial interests was the most common in Japan (68%), followed by Germany and France (52-55%) and then the US and UK (45-46%). Acquired firms are also more likely to remain independent in Japan, France and Germany than in the UK and US. In Japan, this may reflect the desire to retain firm-specific employment systems across different companies. More generally, the firm may be seen as an organic community, rather than a collection of assets, which can be transferred between communities. Overall, the importance of majority and partial acquisitions reflects the more coordinated nature of inter-firm groups in Japan, France and Germany (Hall/Soskice 2001a).

We further test these differences by estimating a logit model of the likelihood of adopting mergers rather than acquisitions across countries. After controlling for target firm size and industrial sector, acquisitions more significantly more common in France, Germany and Japan than in the US or UK. The likelihood of merger decreases when acquiring firms hold a prior stake in the target firm, as well as when the deal involves the purchase of a large block stake from a third party (indicating high ownership concentration). Target firms are often acquired, but remain independent members within a group of companies. Meanwhile, firms acquired in the UK and US tend to be merged and integrated within existing corporate hierarchies. M&A in liberal economies is not a strategy for building inter-firm groups, which coordinate their market strategies. However, in France 17% of deals involved acquisition of remaining interests, suggesting a consolidation among group companies.

3.3. Public Takeover Bids

Another indicator of market coordination is given by the relative importance of public takeover bids. Use of a public bid is a key aspect of market-oriented transactions, since the bid is public and open to all shareholders. Takeover bids often respond to high degrees of ownership dispersion since target firm shareholders are not known individually. Likewise, TOBs represent a strong element of shareholder rights in deciding the outcome of a takeover. **Figure 16** shows the number of takeover bids (TOB’s) based on tender offers for target companies. Notably the number of TOBs in Japan has increased in the last five years from 5 to 44 per year. TOBs are most common in the UK, which has strict mandatory bid rules, resulting in 43% of deals using TOBs where target firms are listed. In France, the use of TOBs has increased from 27% to 41% of deals with public targets. Rates of TOB usage remain much lower in the US (15% of deals with publicly listed targets), Germany (11%) and Japan (12%). **Figure 17** presents a logit model estimating the likelihood of using TOBs across countries. After controlling for target firm size, performance and industrial sector, TOBs were significantly less common in Japan than in the US. The UK, France and Germany used TOBs more frequently. This reflects the importance of mandatory bid rules in Europe. The likelihood of TOBs increases when acquiring firms hold a prior stake in the target firm.

TOBs are less likely either in partial acquisitions, or when the deal involves the purchase of a large block stake from a third party (indicating high ownership concentration).

In Japan, TOBs are used among foreign buyers or buy-out funds acquiring controlling stakes. But TOBs are also a tool of within-group transactions, such as when parent firms take majority stakes in listed subsidiary companies or take those firms private. In such cases, remaining publicly traded shares need to be acquired and cannot be acquired from any existing blockholders. For example, Matsushita Electric Industrial launched a TOB when it increased its stake in Matsushita Electric Works from 34% to 51%. Other examples can be found within NEC group or Mizuho Banking group. Only 7% of TOBs in Japan involved mergers, whereas 53% involved acquisitions of majority stakes, 33% partial stakes and 6% remaining stakes. Many market players also suggest that mounting a successful TOB in Japan remains very difficult, since the market infrastructure to mobilize sales of small investors through brokerage houses remains very underdeveloped, in part due to penalty fees for shifting securities deposits between different brokers.[15] Many major Japanese brokerages such as Nomura, Nikko and Daiwa Securities remain bank-affiliated or already advise clients on the defense side. Few are willing to risk their reputations by being involved in hostile bids. In liberal market economies, by contrast, mergers accounted for 77% TOBs in the US and 88% in the UK. France and Germany are similar to Japan in that only 12% of TOBs involved mergers, but 44% involved acquisitions of remaining interests, which suggests a consolidation of listed subsidiary firms within inter-company groups.

3.4. Relations between Target and Acquirer

Further evidence regarding coordination can be found by showing the percentages of shares previously held by acquiring companies and the size of stakes acquired during M&A. **Figure 18** shows the percentage held by the acquiring firm before the M&A transaction and the average percentage acquired during the transaction. These data are restricted to publicly listed target firms only. These data show that acquiring firms in the US and UK usually start with very low levels of shareholding, under 5% of the target firm shares. Takeovers are then usually for very large stakes such as 65-75% of target firm shares. In France or Germany, acquirers start with very large blocks of 10-25% depending on the time period, and then acquire roughly 30% of target firm shares. This pattern is consistent with the high proportion of deals for majority or minority participations found in Figure 15. In Japan, acquirers usually held roughly 4% of target shares during the early 1990s, but this figure has dramatically increased to nearly 11% after 1998. This suggests that Japanese target firms are increasingly members of existing business groups or have some other relationship to the acquiring company prior to the bid. Likewise, the average size of stake purchased during M&A deals is 25-30%. This pattern is again consistent in showing a very high proportion of Japanese deals involve acquisitions of partial interests.

[15] Interview, Barclays, 6.Jan.2006 and JTP Corporation 7.Jan.2006.

Likewise, **Figure 19** shows the percentage of deals involving acquisitions of large stakes. Here Japan has the highest level of large stake purchases at between 30-45% of deals. Notably, the trend is toward lesser involvement of stake purchases during the last two or three years. Predictably, Germany and France follow in typically having 15-25% of deals that involve stake purchases. The trend is gradually falling in France, but seems to be increasing in Germany. This indicates the growing willingness of German large blockholders to sell their shares, which has led to a rapid decline in the density of ownership stakes among the 100 largest German companies over the last ten years (Höpner/Krempel 2003). Importantly, the number of large stake purchases increased rapidly since 1999, perhaps related to the introduction of the Eichel-Plan in Germany, which eliminated capital gains taxation on the sale of large blocks (Höpner 2000). Finally, the US and UK have the lowest levels of large stake purchases at less than 10% of all deals. These differences reflect the overall differences in ownership dispersion between these economies.

Figure 20 shows the proportion of deals that involved privately negotiated purchases of stakes. Around 11-12% of deals were privately negotiated in Japan, compared to less than 5% in other countries. Among listed companies, the percentage of deals with private negotiation increased from 37% in 1991-1999 to 50% in 2000-2005. This compares to around 25% or less in other countries. Private negotiation is most commonly used during acquisitions of partial stakes. Conversely, relatively few deals (11%) among Japanese listed firms involve open market purchases of stakes, rather than private negotiation or agreed upon mergers. By contrast, US firms use open market purchases in 29% of deals ad UK firms in 20% of deals.

Other evidence of the 'coordinated' nature of transactions concerns buy-out funds. In liberal market economies, specialized buy-out funds play an important role in generating market activity. In Japan, buy-out funds are particularly recent, following deregulation in 1996 to allow funds to hold larger stakes and send managers to the board.[16] No buy-out funds had established track records and experience in the area was lacking. Some of the first buy-out funds were foreign ones, such as Ripplewood Holdings. The initial reaction to foreign funds was largely negative, perceiving them as "vulture funds" contributing little value. This perception changed, however, by 1999 once the rehabilitation of Shinsei Bank came to be seen as a positive example. Now two important types of domestic funds are also active. So-called "captive funds" are affiliated with major banks, and share personnel and contacts to client firms. Newer and independent Japanese funds now exist alongside bank-affiliated funds. Lacking the strong social capital and trust-based relationships of the banks, these funds are now struggling to establish themselves in the market but have encountered recent success. For example, SBI Capital has developed an interesting approach to finding poorly performing target firms and restructuring them, by relying on maintaining employees' skills and promotion of key insiders to prominent management positions. These practices are

[16] Interview, Alternative Investments Corporation, 5.Jan.2006.

viewed as being in line with traditional Japanese business culture, while guiding the firms swiftly back toward profitability.[17]

3.5. Hostile Bids

A final difference in M&A remains the low degree of hostile takeovers in France, Germany and Japan. **Figure 21** shows the number of attempted hostile takeovers and their outcomes for the period 1991-2005. The most hostile bids were in the US and UK, whereas France, Germany and Japan had relatively few bids. Notably, levels of hostile deals declined dramatically from the 1980s, when the US had an average of 52 hostile bids per year and the UK had 31 hostile bids per year—falling to 32 and 17 bids per year respectively during the 1990s, and just 7 or 8 hostile bids per year since 2000. Of the 332 hostile bids shown for the US, only 73 (22%) bids led to a successful takeover by the bidder. The target successfully remained independent in 156 cases (47%) and was sold to an alternative bidder in 103 cases (31%). By contrast, hostile bids are more successful in the UK. Of the 176 hostile bids in the UK, 74 bids (42%) were successful, 68 bids (39%) were unsuccessful and 34 bids (19%) led to the target being sold to an alternative bidder. Hostile bids are rare but more successful in France (12 out of 18 bids were successful) and in Germany (5 out of 6 attempts were successful). Hostile cases were the most infrequent and least successful in Japan, where only 1 out of 6 hostile attempts led to the firm being sold to the hostile bidder.[18] Not all hostile deals initially start as unsolicited offers—these deals make up just 1/3 of UK deals and 2/3 of US deals. Thus, hostility may arise as companies negotiate and perhaps fail to reach an agreement.

Figure 22 shows the use of various defensive strategies during hostile bids, in particular. As noted above, defensive strategies are more common in the US and UK, where battles for corporate control are more often contested. In the US, the most common form of defense is the poison-pill, which was found in 73 cases. White knights were involved in 23 cases and proxy fights in 15 cases. A few rare cases of self-tender, stock repurchases or stock lock-up agreements were used in the US. The UK pattern is strikingly different from the US, in that poison pills are nearly impossible to implement under the UK takeover rules and proxy fights play no substantial role. Most defensive strategies in the UK therefore involve white knights. Self-tender or scorched earth tactics are also used occasionally. However, the overall number of defensive tactics counted in the UK was just 37 compared to 133 in the US. The remaining countries have primarily

[17] In their own words, "One of the big barriers is the perspective of the target companies to the financial sponsors, and it takes time for them to know us. Sometimes they misunderstand." Interview, SBI Capital, 6.Jan.2006.

[18] In 1999, Cable & Wireless PLC (CW) raised its stake to 97.69% from 17.69% by completing a hostile tender offer to acquire 80% interest in International Digital Communications (IDC) for 84.2 billion Japanese yen (US$699 million). Previously, NTT Corporation and CW were bidding for the entire share capital in IDC.

relied on white knights in terms of defenses, although France has also had one case of pacman defenses.[19]

How powerful are various types of takeover defenses? For example, it has been widely argued that poison pills do not necessarily frustrate a deal entirely, but lead to further negotiations and may improve the price of a bid.[20] Looking at the entire sample of 538 hostile attempts in the five countries during 1991-2005, the overall success rate of hostile bids is just 30.7%. Comparing the likelihood of success in the presence of different defensive measures leads to some significant results. No hostile bids were successful in the presence of acquirer lock-up, repurchase defenses, and flip-over defenses—although their numbers are too small to assess their statistical significance. Recapitalization, pacman, and scorched earth defenses seemed quite ineffective and often reflected desperate measures once the target was loosing the takeover battle. Poison pills greatly reduced the success rate of hostile bids to just 16.7% (significantly different from the overall mean at p 0.0018). Likewise, the 15 cases of proxy fights led to a success rate of just 13.3% (just shy of statistical significance with p value of 0.0701). In the 48 cases of white knight defenses, only 10.4% were successful (significantly different from the overall mean at p 0.0007). Thus, poison pills, proxy fights and white knight defenses seem to lower the chance of successful hostile bids from one-half to one-third. It should be noted that this evidence is largely based on the US, and the same might not necessarily apply to Japan or elsewhere.

3.6. The Relationship between M&A and Corporate Performance

The growing role of M&A across countries raises questions about the economic impact on company performance. Some evidence suggests that target firm shareholders benefit, but acquiring firm shareholders may have zero or negative returns. Likewise, the impact on productivity or other operational aspects of performance post-merger is mixed at best (Datta/Pinches/Narayanan 1992; King, et al. 2004). It is beyond the scope of this study to investigate post-merger performance using rigorous methodology. But some indirect evidence regarding the role of M&A can be gained by comparing the performance characteristics of target firms across countries. Here we use two different measures. First, we calculate the proportion of target firms with price-book ratios (PBR) lower than one. Agency theory suggests that low market valuations relative to the 'real' assets of target firms will be an incentive for acquirers to takeover and restructure those poorly performing companies (Manne 1965). Second, we calculate the proportion of target

[19] Total Fina (TF) acquired a 94.93% interest in the Elf Aquitaine (Elf), the oil group, through a hostile bid in 1999-2000. Elf had initially attempted to make a counter offer to take over TF through a share swap, but later withdrew this offer.

[20] For example, in 2000, MGM Grand Inc initially offered a choice of $17 in cash or a combination of $7 in cash and $10 in common stock per share in Mirage Resorts Inc (MR). MR's board rejected the original offer, and adopted a poison pill plan giving shareholders the right to purchase stock at a deep discount in the event of an acquisition or an attempt to acquire a stake of 10% or more of the company. MGM later offered a sweetened $21 in cash per share, or a total value $6.483 bil, including the assumption of approximately $2 bil in liabilities.

companies with negative return on assets (ROA) in a given year. Negative ROA is a sign of poor operational performance that is independent of stock market valuations, which may vary according to the business cycle or other macroeconomic factors.

Figure 23 reports the number of low PBR and negative ROA firms for two time periods, 1991-1999 and 2000-2005. The numbers are reported as a percentage of all listed firms with low PBR and negative ROA, thus giving a standardized ratio that shows the proportion of low performers becoming the target of M&A activity. The takeover ratio of poor performers was very low in Japan during the 1990s, but increased to the highest level among the five countries since 2000. For example, 20% of Japanese firms with low PBRs were taken over compared to just 8% of French and UK firms, 6% of US firms and 2% of German firms. The Japanese ratio is nearly as high as the 25% of low PBR firms taken over in the US during the 1990s. These figures suggest that the emerging Japanese M&A market is playing a strong disciplinary role since 2000. The same pattern holds among negative ROA firms. Japanese firms with low ROA were twice as likely to be taken over as US or UK firms since 2000, demonstrating a similar level as the US and UK during the 1990s. This interpretation of the Japanese data is consistent with Arikawa/Miyajima, who estimate that the likelihood of becoming a target firm increases with low Tobin's Q and low ROA (Arikawa/Miyajima 2007). Moreover, the likelihood of being acquired is negatively correlated on firms' dependent on banks, and positively related to levels of foreign share ownership.

Agency theory suggests that the targets of hostile bids will be poorly performing companies, where managers attempt to preserve their entrenched positions by resisting outside bidders. Looking at 538 hostile takeover attempts (successful and unsuccessful) in the US, UK, France, Germany and Japan, some comparisons can be made about the proportion of firms targeted in hostile bids having poor corporate performance. The initial evidence suggests is rather mixed. In terms of ROA among targeted firms, the median was over 2% in all countries except Japan. Only in Japan were negative ROAs in 25% of deals or more. In terms of market valuation, comparing price-book ratios shows that the median PBR was above one in all countries except the UK (PBR = 0.96). However, PBR was below one in 25% or more of targets in all countries except France. Thus, while some target firms were clearly performing badly, these cases are not typical of the majority of firms target in hostile bids in any country.[21]

Figure 24 shows the share price premium of target firm shareholders based on the share price four weeks prior to the announcement of the deal. These data show the importance of large share price premiums among target firms in the US and UK relative

[21] While not reported here, we further assessed the performance of target firms in hostile bids 3,945 completed deals in 2000-2005 where the performance data was available for the target firm. We compared the performance of friendly vs. hostile targets using PBR, ROA, ROE and change in sales over the last five years. On all these measures except ROA, hostile targets appeared to be performing less well on average. However, the differences between the two groups were not statistically significant. Likewise, the one week and four week stock price premiums for target firm shareholders were 35% in hostile bids compared to 21% overall although this difference was not statistically significant. Thus, looking at cross-national data, we can find no clear evidence for the 'underperformance' hypothesis that hostile targets are performing less well than other target firms.

to France, Japan is somewhat unique in having very low or negative share price premiums during both the 1990s and thereafter. However, the low premium in Japan is typical of partial acquisitions, where firms typically are acquiring large-block stakes from other shareholders, such as when cross-shareholdings unwind and the like. Since most transactions occur on a relational basis, the players are determined first and negotiate the price without an open bid.[22] Looking only at full-scale mergers, Japanese target firms do receive a positive premium of around 10% on average. While this remains low, the premium has increased since the 1990s and reflects some growing openness in the market. **Figure 25** presents a regression estimate of the premium introducing controls for target firm size, sector and performance. The estimates in the first panel confirm the lower premiums in Japan, France and Germany relative to the US and UK. The second panel controls for the percentage of shares acquired, showing that the premium is higher when more shares are acquired such as in mergers rather than partial acquisitions. A number of other additional variables related to institutional arrangements for coordination above. A higher percentage of shares held prior to the deal increases premiums, but may be offset by fewer shares being purchased in the deal. The acquisition of large block of shares of the target firm had no significant impact on the premium. The final panel looks at market-oriented deal characteristics. The use of TOBs had a large a significant impact on premium, as did hostile transactions. Part of the high premiums for the UK reflect the importance of TOBs under the mandatory bid rule, since the UK is shown to have slightly lower premiums than the US once the TOB variable is introduced. Use of shares as a method of payment had a negative impact on the premium. Poison pill defenses had a positive but statistically insignificant impact.

After controlling for these various factors, the low premium in Japan and France persist relative to the US. While some differences in premium can be explained by the elements of 'coordination' in those markets, country differences remain. The economic interpretation of the low Japanese premiums remains somewhat puzzling. Low premium may reflect poor market evaluation of future prospects of target firms. Likewise, low premiums are sometimes interpreted to reflect weaker legal protections of shareholders (Rossi/Volpin 2003). In support of this interpretation, Japan does lack a mandatory bid rule and accounting rules may be less protective of investors. Against this interpretation, our summary measure of investor protection discussed in earlier sections show Japan and France with very nearly the same levels of protection as the UK or US. Alternatively, premiums may measure the private benefits of control for acquiring firms. Here low premium may more positively reflect the absence of wealth transfer among stakeholders associated with 'breach of trust' and post-merger restructuring. This interpretation seems plausible in the case of Japan, since the protection of stakeholders remains strong and we further noted that many acquiring firms are particularly cautious in approaching issues such as employee restructuring.

[22] Interview, Barclay's, 6.Jan. 2006.

3.7. Summary

Comparative analysis of M&A suggests a broad difference in the 'style' of M&A transactions – market transactions follow a more arm's length pattern in the two liberal market economies and a more relationship-based pattern in the three coordinated market economies. In the US and UK, M&A activity was less influenced by inter-firm networks, as reflected in greater use of full mergers, public takeover bids, and an absence of previous ties between acquirer and target firms. M&A deals were also more hostile, although less in the 1990s and 2000s than in the 1980s. By contrast, in France, Germany and Japan, M&A markets remain more 'coordinated' through a past network or relationships and institutional legacies. A higher proportion of deals involve partial acquisitions of independent firms, and stronger prior relationships exist between acquiring and target firms. Hostile bids remain very rare in Germany and Japan, whereas France has a growing but still low level of hostile bids. Hostile bidders have been the least successful in Japan, whereas some watershed cases have occurred in France and Germany. Thus, the degree of coordination is particularly high in Japan and followed by a more intermediate position of France and Germany.

Despite the common trends in the growth of M&A, important differences remain across countries in the characteristics of M&A markets. Continued institutional differences lead to different degrees of 'coordination' of M&A transactions themselves. We argue that these differences are large enough to constitute distinct types of markets with different dynamics in terms three fundamental aspects: pricing (e.g. takeover premium), coordination (e.g. influence of social networks), and competition (e.g. frequency of hostile bids). However, a very interesting result is that the more 'coordinated' nature of M&A transactions appears to be quite compatible with an important disciplinary or monitoring role of the M&A market. Some preliminary evidence of corporate performance suggests that the rate of takeovers of poorly performing firms was particularly high in Japan during the period after 2000, where M&A have become a major vehicle for corporate restructuring.

4. The Future of Hostile Takeovers

Despite the general picture of coordination discussed above and the low levels of hostile bids in the US and UK during the last ten years, hostile takeovers remain a crucial issue for the further development of the market for corporate control. A growing number of firms have become potentially exposed to potential hostile bids due to erosion on non-legal barriers (as mentioned above). Hence, the issue of defensive measures has increased and sparked widespread political debate. This section briefly discusses the legal frameworks regarding takeovers with a particular emphasis on defensive actions (see detailed discussed in Jackson 2006).

Takeover rules can be distinguishes by two broad approaches: the UK and US. The UK is probably the most restrictive of frustrating actions of the board ("board neutrality") and stresses the shareholder rights aspects of takeovers through mandatory takeover bids.

Meanwhile, the U.S. allows a much wider range of defensive actions and has no mandatory bid rule. English case law in the 1960/70s and the 1968 City Code do not charge directors to deal with hostile bids on behalf of the target's shareholders, but give the essential power of decision to the shareholders. Consequently, the UK rules clearly contradict the rationale of poison pills to discriminate against the hostile bidder. It also implies that most predatory bidding techniques common in the US cannot be applied in the UK/EU and coercive bids become ineffective because of the mandatory bid rule aimed at protecting the rights and the equality of the target's shareholders and thus their ability to decide on the outcome of the bid.

In the US, directors deal with the hostile bidder on behalf of the target's shareholders. US law lacks the same emphasis the equality of the target's shareholders. This reflects the importance of political federalism in the US, where takeover rules are created by individual states. Following the hostile takeover wave of the 1980s, large corporations lobbied state governments to introduce protective legislation and regulate the use of certain takeover defenses. The limits placed on such defenses often relate to court decisions, such as the Revlon and Unocal rules. The Unocal rule stipulates that defensive measures may only be taken in response to a threat to corporate policy provided the response is proportionate to the threat. Meanwhile, Revlon duties impose a fiduciary duty on the board to evaluate competing proposals and refrain from implementing defensive measures that deprive shareholders of the opportunity to consider competing proposals. Thus, under the Delaware Law, US firms can adopt a "poison pill" whereby new shares are issued, at a heavily discounted price, to shareholders other than the hostile bidder so as to substantially dilute the hostile stake.

The EU Takeover Directive has taken the UK approach as its baseline, but still allows for substantial variation across countries in terms of defensive actions. France and Germany remain able to opt-out of some elements of board neutrality. Pending legislation in France, for example, will allow a form of poison pill that does not discriminate against any shareholder, including the hostile bidder (unlike poison pills under the Delaware Law). Germany has generally not allowed poison pills under its existing law, but does allow the shareholders to give the board a reserve authorization to undertake other sorts of defensive measures. The future deployment and impact of such measures remain highly uncertain, although their impact will likely be quite limited relative to US style poison pills.

Japan has adopted a more US approach in granting managers some degree of autonomy to develop takeover defenses. The Ministry of Economy, Trade and Industry (METI) has led efforts since 1997 to liberalize the M&A market, and make it easier for companies to engage in M&A transactions. However, given the largely domestic-orientation, most of the deals have been friendly and the issue of takeover defenses was not acute. Likewise, deregulation of cross-border deals had been undertaken, but stalled over a key issue of share-to-share exchanges with foreign companies. Specifically, the idea of a triangular merger of Japanese and foreign companies using share swaps has met with difficulties, delays, and continued problems regarding tax treatment and so on. As a result, Japan has not seen a large scale hostile takeover of a blue chip company along the lines of Mannesmann in Germany. Given the salience of the Livedoor bid for TBS and the use of “poison pill” defense tactics, one central issue was under what conditions defensive actions could be taken (Jackson 2006). The METI and Ministry of Justice “Takeover Defense Guidelines” were issued in May 2005 and outlined conditions for introducing a “poison pill” type of defense under certain conditions. Meanwhile Japanese courts have promoted the principle that most firms should use the AGM to assure that rights plans are considered reasonable and proportional to the takeover threat (Milhaupt 2005). As such, the Japanese rules appear to be more restrictive of defensive actions than under most U.S. state laws, while allowing for some degree of defenses.

5. Conclusion

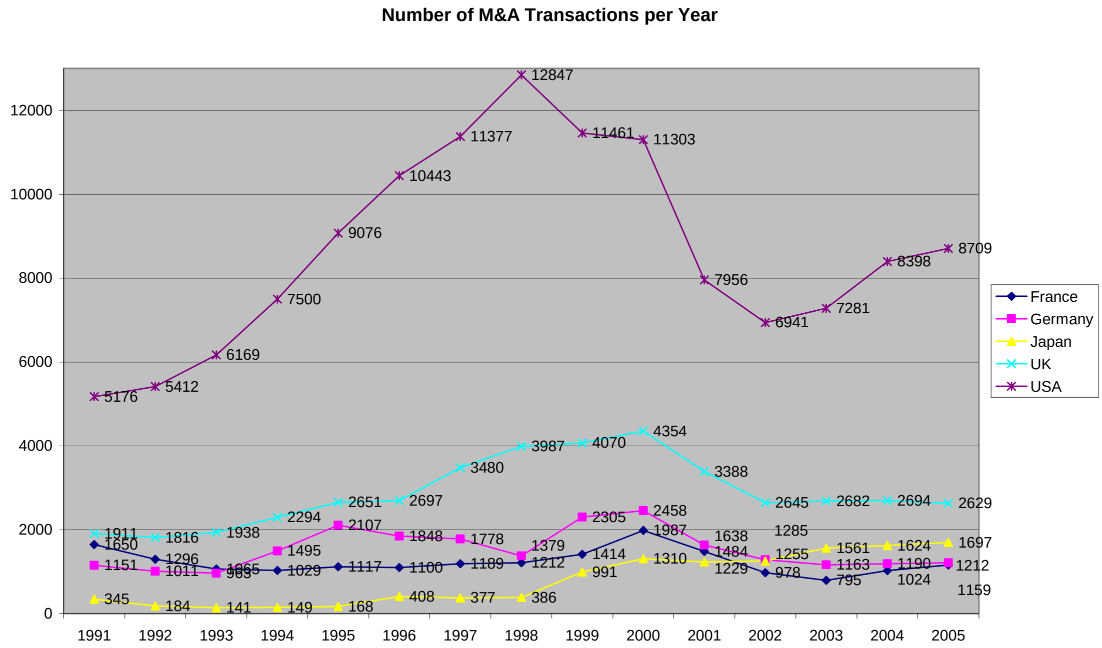
This paper has review the comparative evidence on the characteristics of M&A in France, Germany, Japan, the UK and USA. All five countries have experienced a significant M&A wave starting in the 1990s driven by a number of common features, such as the emergence of new technologies and growth in information and communications technology, and the consolidation of older industries. In Europe, cross-border transactions fueled these trends as European markets become increasingly integrated. Meanwhile, Japan and the US remain more domestically-oriented.

The “coordinated economies” of France, Germany and Japan have now gone a long way in terms of promoting an active M&A market. In addition, the ‘catching up’ of M&A in Japan, France and Germany reflects some important changes in the institutions governing corporate governance. All three countries have increased investor protection and transparency, facilitated new methods of financing transactions through share swaps, and faced erosion of stable shareholding among firms and banks. This paper has attempted to show that M&A has developed along a path dependent trajectory characterized by more ‘coordinated’ types of transactions in Japan, France and Germany as opposed to the more ‘arm’s length’ deals in the US and UK. Nonetheless, the “new” market for corporate control in France, Germany and Japan is nonetheless real and represents a fundamental shift in corporate governance in these countries and emerging sets of complementarities based on “new” M&A-related activities and “old” bank-based monitoring and strong relationships among stakeholders (Aoki 2007). An interesting result is that despite the distinctive nature of M&A transactions across countries, some preliminary evidence suggests some functional equivalence in promoting corporate restructuring. In Japan, the proportion of low performing firms targeted in M&A has increased dramatically and become comparable to liberal market economies, such as the US or UK.

Still, more research will be needed to estimate the longer term impact of the M&A market on coordinated market economies in particular. Here future developments will centre on the emergence of hostile takeovers or whether these markets maintain their ‘coordinated’ character over time. France, Germany and Japan have all made efforts to retain some protections against hostile bids, in particular. The future role of defensive measures is likely to remain uncertain in the face of political debates and legal interpretation by courts over the next decade. This debate raises the question of whether a distinct "variety" of takeover market may exist that potentially avoids some of the high social costs of the more open US and UK takeover markets associated with 'breaches of trust.' Given that the costs of exposure to a market for corporate control may be high, the coordinate nature of M&A may help Japanese and European firms retain their capacity for competitive advantages based on long-term business relationships and high levels of firm-specific human capital.

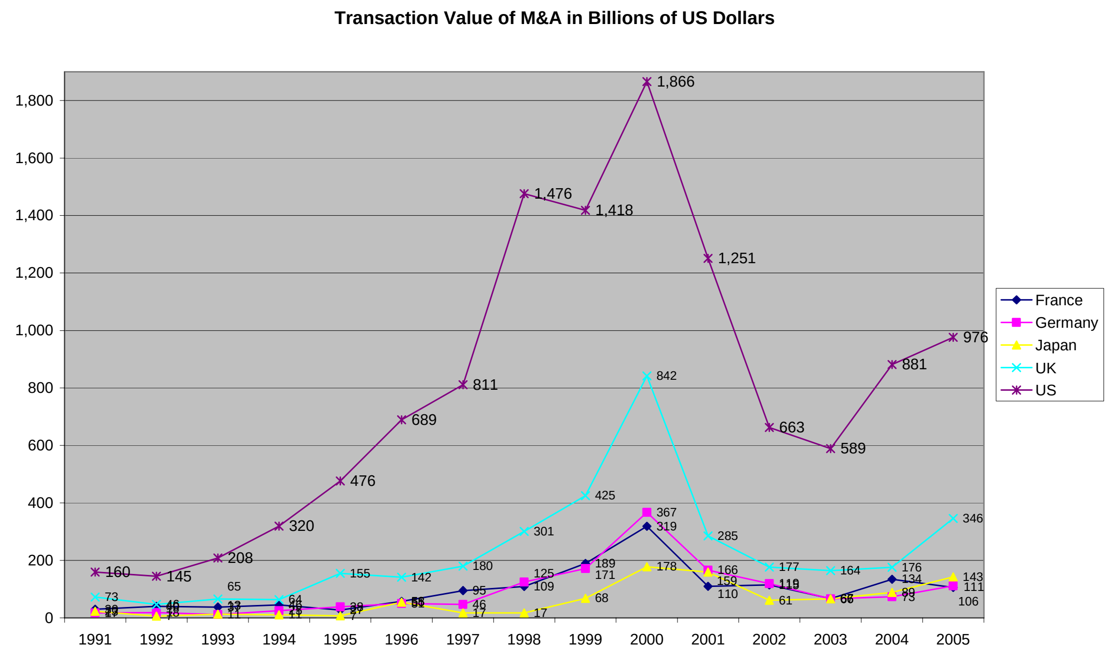
Data Appendix

Figure 1.



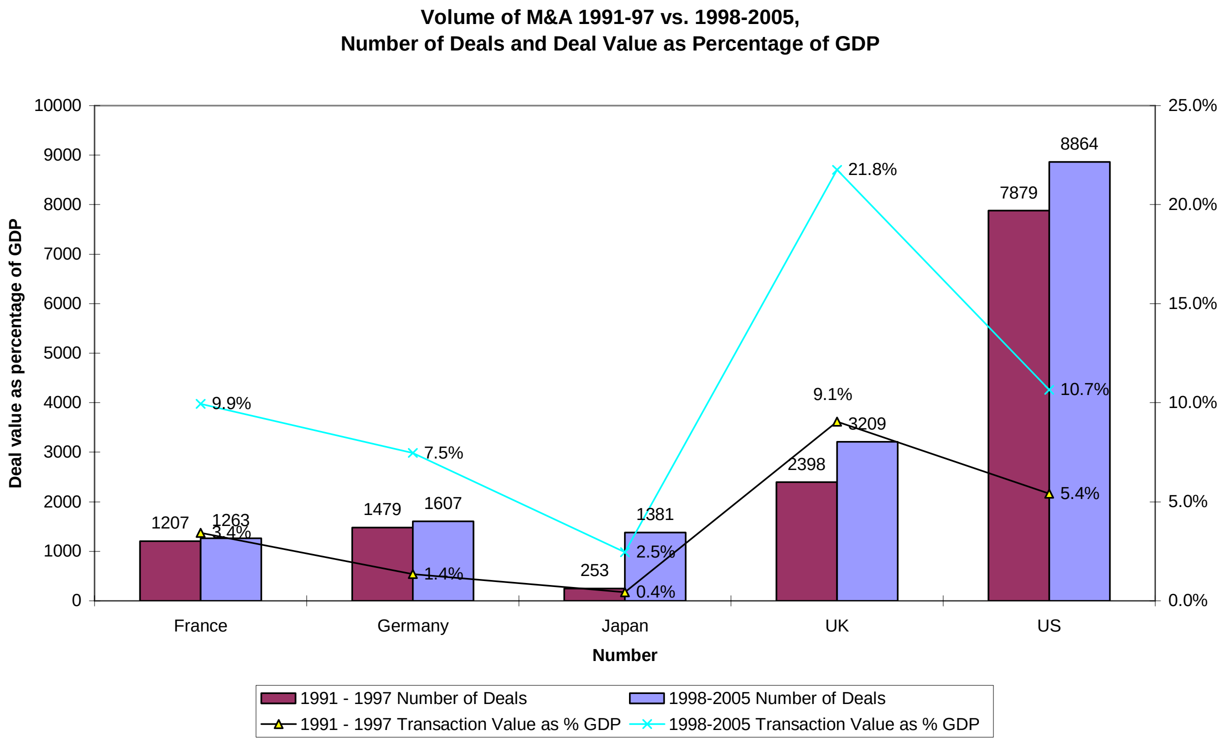
Number of M&A Transactions per Year
France
Germany
Japan
UK
USA

Figure 2.



Transaction Value of M&A in Billions of US Dollars
France
Germany
Japan
UK
US
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
1,866
1,476
1,418
1,251
976
881
842
811
689
663
589
476
425
367
346
320
319
301
285
208

Figure 3.



Volume of M&A 1991-97 vs. 1998-2005,
Number of Deals and Deal Value as Percentage of GDP
Deal value as percentage of GDP
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
France
Germany
Japan
UK
US
Number
1207
1263
3.4%
9.9%
1479
1607
1.4%
7.5%
253
1381
0.4%
2.5%
2398
3209
9.1%
21.8%
7879
8864
5.4%
10.7%
1991 - 1997 Number of Deals
1998-2005 Number of Deals
1991 - 1997 Transaction Value as % GDP
1998-2005 Transaction Value as % GDP

Figure 4.

Domestic Target Firms by Type of Legal Status, 1991-2005

	France	**Germany**	**Japan**	**UK**	**USA**
Publicly Listed	14.4%	7.8%	23.3%	9.5%	14.9%
Private	50.2%	50.4%	35.0%	49.3%	50.1%
Subsidiary	32.8%	35.8%	35.7%	39.0%	33.6%
Government	0.9%	4.1%	0.2%	0.5%	0.2%
Other	1.8%	1.9%	5.8%	1.7%	1.3%

Figure 5.

Proportion of Listed Firms Becoming Targets of M&A Deals	1991-97	1998-2005
France	26%	14%
Germany	11%	11%
Japan	1%	7%
UK	12%	9%
USA	22%	10%

Note: Calculated as the number of listed firms target in each year divided by the total number of domestic firms listed in the national stock exchanges.

Figure 6. Percentage of M&A Deals, by Selected Sectors

Sector	France	Germany	Japan	UK	USA	Country Average
Business Services	13.7%	12.2%	15.7%	14.0%	17.5%	14.6%
Chemicals and Allied Products	4.9%	6.3%	5.5%	3.4%	4.2%	4.9%
Industrial Machinery	4.0%	6.8%	4.8%	3.4%	3.8%	4.6%
Electronic Equipment	3.9%	4.4%	5.2%	3.1%	4.3%	4.2%
Food and Kindred Products	6.0%	4.2%	2.5%	3.0%	2.0%	3.5%
Communications	2.7%	2.6%	3.2%	2.6%	4.6%	3.2%
Real Estate	2.5%	2.3%	3.1%	4.6%	3.0%	3.1%
Wholesale Trade-Nondurable Goods	3.2%	2.8%	4.2%	2.4%	1.8%	2.9%
Holding and Other Investment	3.5%	2.4%	2.5%	3.2%	2.3%	2.8%
Depositary Institutions	2.7%	2.2%	2.2%	0.7%	5.5%	2.7%
Printing, Publishing	3.5%	3.2%	0.9%	3.5%	2.2%	2.7%
Transportation Equipment	2.6%	2.9%	2.5%	1.7%	1.5%	2.2%
Metal Products, Except Machinery	2.2%	2.3%	1.2%	2.1%	1.4%	1.8%
Electric and Gas	1.5%	3.3%	0.6%	1.4%	2.2%	1.8%
Security and Commodity Brokers	1.5%	0.9%	1.8%	1.8%	1.4%	1.5%
Insurance Carriers	1.7%	1.5%	0.9%	1.6%	1.9%	1.5%
Stone, Clay, Glass and Concrete	2.0%	2.5%	1.0%	1.2%	0.7%	1.5%
Primary Metal Industries	1.3%	1.9%	1.8%	1.2%	1.0%	1.5%
Health Services	0.5%	0.6%	0.6%	1.4%	3.5%	1.3%
Oil and Gas Extraction	0.7%	0.3%	1.0%	1.7%	2.8%	1.3%
Eating and Drinking Places	0.8%	0.3%	1.8%	1.9%	0.9%	1.1%
Nondepositary Credit Institutions	0.6%	0.4%	1.9%	0.8%	1.5%	1.0%
Paper and Allied Products	1.4%	1.2%	0.8%	0.9%	0.7%	1.0%
Food Stores	0.7%	1.1%	1.5%	0.5%	0.5%	0.9%
Motion Pictures	0.7%	1.0%	0.9%	0.7%	0.7%	0.8%
Petroleum Refining	0.2%	0.3%	0.2%	0.2%	0.3%	0.2%
Railroad Transportation	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

Figure 7. Percentage of M&A Deal Value, by Selected Sectors

Sector	France	Germany	Japan	UK	USA	Country Average
Communications	12.7%	30.0%	14.5%	18.5%	6.2%	16.4%
Depositary Institutions	8.3%	8.5%	31.4%	5.4%	3.3%	11.4%
Chemicals and Allied Products	9.3%	11.4%	5.6%	8.3%	5.0%	7.9%
Electric and Gas	3.1%	7.8%	0.5%	8.2%	4.5%	4.8%
Transportation Equipment	3.2%	5.5%	3.9%	1.4%	6.0%	4.0%
Insurance Carriers	5.7%	4.0%	3.2%	4.3%	1.6%	3.8%
Oil and Gas Extraction	7.9%	0.3%	0.8%	5.9%	2.1%	3.4%
Real Estate	3.5%	4.0%	2.5%	1.6%	1.6%	2.6%
Food and Kindred Products	4.6%	0.8%	0.9%	5.5%	1.0%	2.5%
Security and Commodity Brokers	2.2%	1.1%	1.6%	1.5%	5.8%	2.5%
Electronic Equipment	4.0%	2.2%	3.9%	1.5%	0.6%	2.4%
Nondepositary Credit Institutions	0.5%	0.4%	4.0%	1.5%	5.8%	2.4%
Motion Pictures	2.8%	0.1%	0.9%	0.5%	5.7%	2.0%
Business Services	4.4%	3.3%	0.5%	0.7%	0.8%	1.9%
Holding and Other Investment	2.1%	1.0%	1.6%	2.1%	2.0%	1.7%
Industrial Machinery	1.8%	1.6%	2.0%	1.5%	1.3%	1.6%
Food Stores	2.3%	0.5%	2.8%	1.1%	1.6%	1.6%
Printing, Publishing	0.0%	0.6%	0.5%	2.4%	3.5%	1.4%
Primary Metal Industries	1.6%	1.3%	1.3%	0.6%	2.0%	1.4%
Petroleum Refining	0.9%	0.7%	0.6%	1.4%	3.3%	1.4%
Stone, Clay, Glass and Concrete	2.1%	0.9%	0.7%	1.0%	1.0%	1.1%
Paper and Allied Products	0.6%	0.7%	0.6%	0.5%	2.9%	1.1%
Wholesale Trade-Nondurable Goods	1.0%	0.6%	1.0%	0.6%	2.1%	1.1%
Metal Products, Except Machinery	0.7%	0.6%	0.2%	0.8%	2.5%	1.0%
Eating and Drinking Places	0.4%	0.3%	0.4%	2.7%	0.9%	0.9%
Railroad Transportation	0.0%	0.1%	2.9%	0.6%	0.9%	0.9%
Health Services	0.2%	0.2%	0.1%	0.8%	2.2%	0.7%

Figure 8. Distribution of M&A by Type of Sector

Number of M&A

1991-1997	France	Germany	Japan	UK	USA
Consolidating Sectors	19%	24%	15%	19%	13%
Mature Sectors	23%	16%	18%	23%	14%
High Growth Sectors	57%	60%	67%	58%	73%
1998-2005					
Consolidating Sectors	14%	18%	14%	16%	13%
Mature Sectors	22%	16%	19%	27%	15%
High Growth Sectors	64%	67%	67%	57%	72%

Proportion of Total M&A Value, 1991-2005

	France	Germany	Japan	UK	USA
Consolidating sectors	21.9%	10.2%	9.3%	18.7%	14.2%
Mature sectors	20.1%	14.1%	12.9%	18.1%	14.0%
High growth sectors	57.8%	75.6%	77.8%	63.2%	71.8%

Contribution to Growth in Average Annual Value between 1998-2005 vs. 1991-1997

	France	Germany	Japan	UK	USA
Consolidating sectors	15%	4%	9%	16%	15%
Mature sectors	17%	12%	13%	13%	10%
High growth sectors	68%	85%	78%	71%	74%

Note: Consolidating, mature and high growth sectors are defined in relation to the change in the number of listed firms in each 2-digit SIC industry. Consolidation sectors refer to sectors where the average annual number of listed firms between 1998-2005 vs. 1991-1997 was zero or negative (e.g. utilities, construction, mining, metals). Mature sectors represent industries where the total number of listed firms expanded by up to 20 firms in total (e.g food, real estate, tobacco). High growth sectors indicate an increase of more than 20 firms (e.g. business services, communications, electronics, brokerages).

Figure 9.

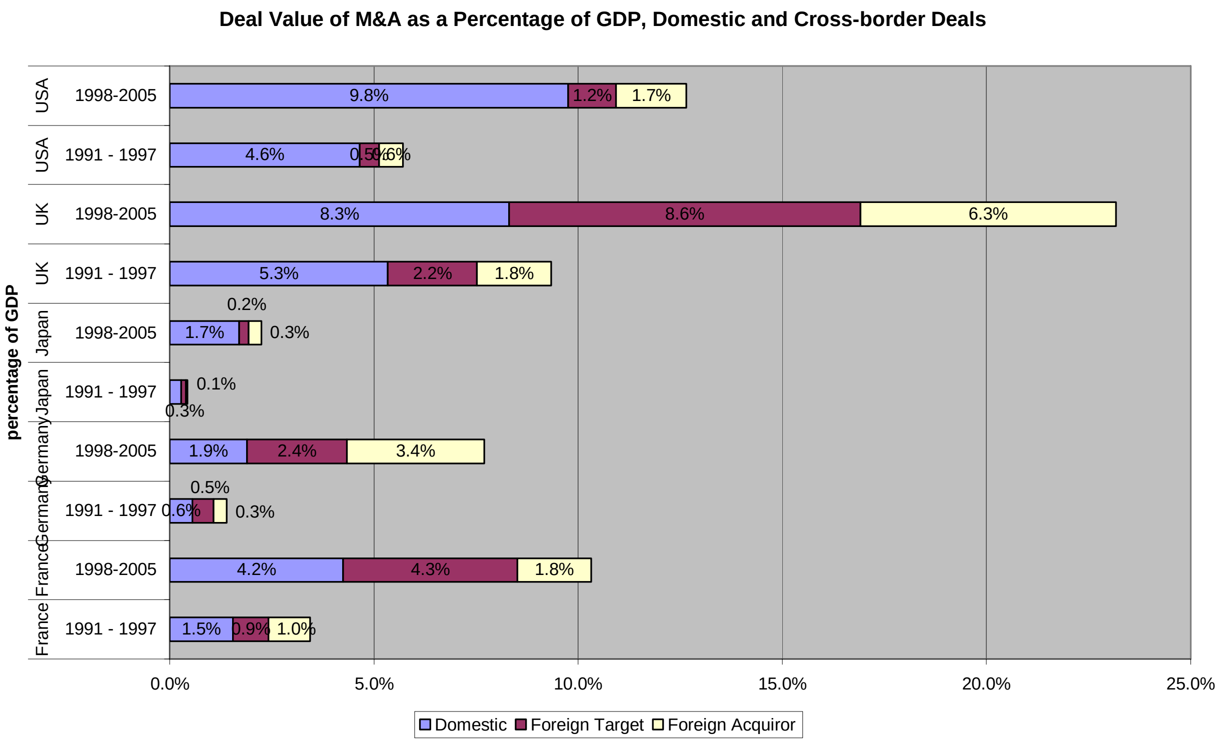
M&A of Listed Firms by Diversification Type, 1991-2005

	France	Germany	Japan	UK	USA
Same Industry (2 digit SIC)	39%	42%	40%	40%	51%
Related Diversification (1 digit SIC)	20%	18%	18%	16%	14%
Unrelated Diversification	41%	40%	43%	43%	35%

Figure 10.

		Domestic	Foreign target	Foreign acquirer	Percent Domestic	Percent Foreign
France	1991 - 1997	4722	1564	2159	55.9%	44.1%
	1998-2005	4900	2617	2538	48.7%	51.3%
Germany	1991 - 1997	6025	1810	2517	58.2%	41.8%
	1998-2005	6088	3302	3246	48.2%	51.8%
Japan	1991 - 1997	628	916	228	35.4%	64.6%
	1998-2005	8331	1010	714	82.9%	17.1%
UK	1991 - 1997	6088	3302	3246	48.2%	51.8%
	1998-2005	15894	5694	4865	60.1%	39.9%
USA	1991 - 1997	43974	6764	4415	79.7%	20.3%
	1998-2005	56311	11078	7510	75.2%	24.8%

Figure 11.



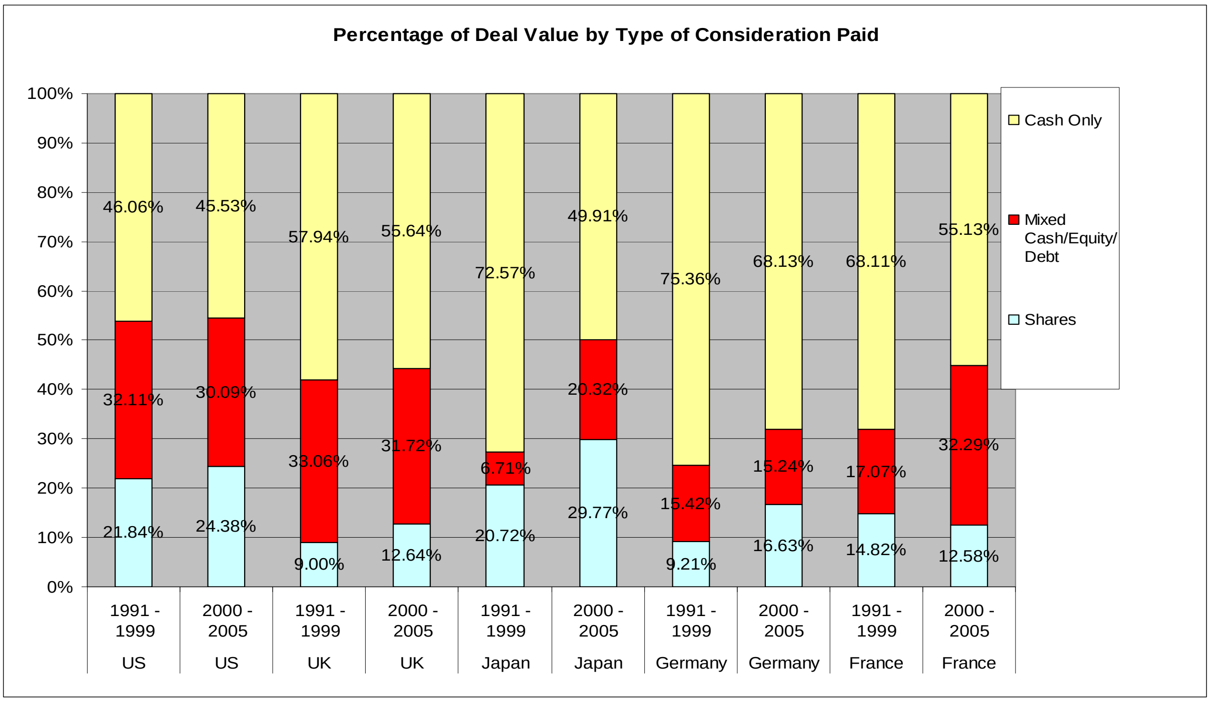
Deal Value of M&A as a Percentage of GDP, Domestic and Cross-border Deals
percentage of GDP
USA 1998-2005
USA 1991 - 1997
UK 1998-2005
UK 1991 - 1997
Japan 1998-2005
Japan 1991 - 1997
Germany 1998-2005
Germany 1991 - 1997
France 1998-2005
France 1991 - 1997
9.8% 1.2% 1.7%
4.6% 0.5% 0.6%
8.3% 8.6% 6.3%
5.3% 2.2% 1.8%
1.7% 0.2% 0.3%
0.3% 0.1%
1.9% 2.4% 3.4%
0.6% 0.5% 0.3%
4.2% 4.3% 1.8%
1.5% 0.9% 1.0%
0.0% 5.0% 10.0% 15.0% 20.0% 25.0%
Domestic Foreign Target Foreign Acquiror

Figure 12.

Contribution to Change in Annual Deal Value 1998-2005 vs. 1991-1997

	France	Germany	Japan	UK	USA
Domestic	39%	21%	78%	26%	75%
Foreign Target	49%	31%	6%	43%	10%
Foreign Acquirer	11%	49%	15%	30%	15%

Figure 13.



Percentage of Deal Value by Type of Consideration Paid
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
46.06%
45.53%
57.94%
55.64%
72.57%
49.91%
75.36%
68.13%
68.11%
55.13%
32.11%
30.09%
33.06%
31.72%
6.71%
20.32%
15.42%
15.24%
17.07%
32.29%
21.84%
24.38%
9.00%
12.64%
20.72%
29.77%
9.21%
16.63%
14.82%
12.58%
1991 - 1999 US
2000 - 2005 US
1991 - 1999 UK
2000 - 2005 UK
1991 - 1999 Japan
2000 - 2005 Japan
1991 - 1999 Germany
2000 - 2005 Germany
1991 - 1999 France
2000 - 2005 France
Cash Only
Mixed Cash/Equity/ Debt
Shares

Figure 14.

Ratio of Deal Value to EBITD

weighted by percentage of shares acquired

	1991 - 1997	**1998 - 2005**
France	4.94	5.02
Germany	3.8	5.14
Japan	0.96	1.42
UK	5.5	6.91
US	4.02	6.8

Figure 15.

Mergers and Acquisitions of Listed Firms, by Form of Transaction, 1991-2005

	France	Germany	Japan	UK	USA
Acquisition of Majority Interest	23%	30%	13%	6%	6%
Acquisition of Partial Interest	52%	55%	68%	46%	45%
Acquisition of Remaining Interest	17%	8%	7%	3%	3%
Merger	8%	7%	12%	45%	45%
Number of Transactions	2000	1110	2256	2715	13398

Logit Model: Likelihood of Adopting Merger Rather than Majority or Partial Acquisition

Log likelihood	-5559.4266	1527.9636
Log of Assets	-1.21** (.29)	.20** (.03)
Price Book Ratio of Target	-.002** (.000)	-.000 (.000)
Shares Held Prior to Deal		-.06** (.00)
Deal Involved Purchase of Stake		-6.65** (.15)
France	-2.29** (.16)	-3.71** (.21)
Germany	-1.98** (.23)	-2.99** (.31)
Japan	-2.43** (.97)	-1.90** (.17)
UK	.96 (.07)	1.80** (.17)
USA		
Sector Dummies	YES	YES
Year Dummy	YES	YES
Constant	-3.35 (.626)	.49 (.94)
Pseudo R-square	0.196	0.758
N	10195	9152

Figure 16.

Average Number of TOBs per Year

	1991 - 1999	2000 - 2005
France	57	51
Germany	8	13
Japan	5	44
UK	109	77
US	153	120

Percentage of Deals when Target Firm is Publicly Listed using TOBs

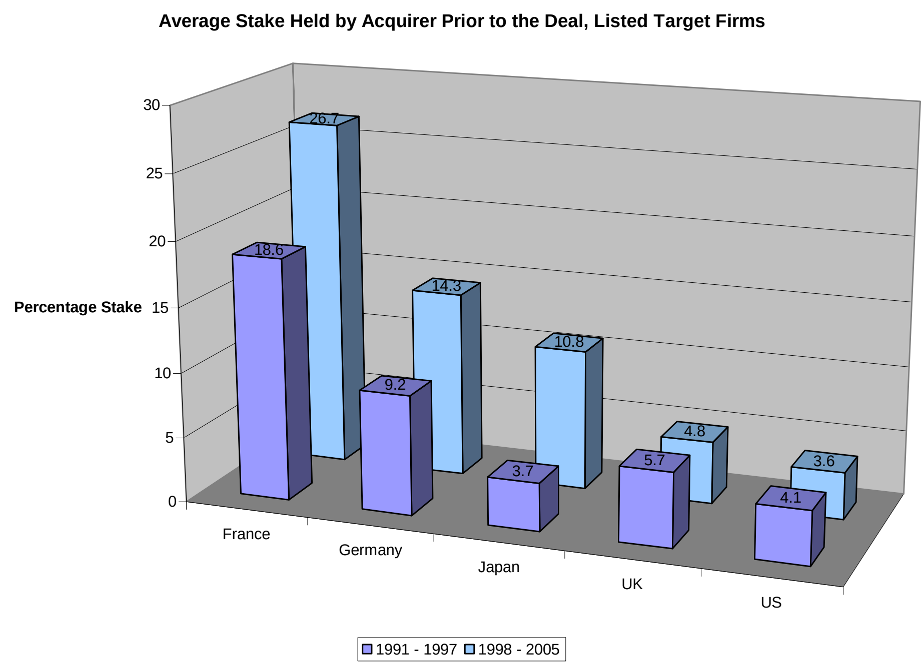
	1991 - 1999	2000 - 2005
France	27%	41%
Germany	9%	11%
Japan	10%	12%
UK	38%	43%
US	10%	15%

Figure 17.

Logit Model: Likelihood of Adopting TOB

Log likelihood	-5559.4266	-2822.4006
Log of Assets	.01 (.00)	.01 (.02)
Price Book Ratio of Target	-2.47 (.00)	-2.29 (.00)
Shares Held Prior to Deal		.02** (.00)
Deal Involved Purchase of Stake		-.75** (.23)
Majority Acquisition		
Partial Acquisition	-1.18** (.18)	.15
Acquisition of Remaining Stake	-3.62** (.18)	-2.97** (.33)
Merger	-.22 (.15)	1.11** (.24)
France	2.43** (.16)	2.26** (.17)
Germany	1.73** (.24)	1.55** (.25)
Japan	.78** (.13)	.55** (.14)
UK	3.08 (.07)	3.09** (.11)
USA		
Sector Dummies	YES	YES
Year Dummy	YES	YES
Constant	-2.14 (.91)	-3.92 (.95)
Pseudo R-square	0.410	0.401
N	10176	9139

Figure 18.


Average Stake Held by Acquirer Prior to the Deal, Listed Target Firms
Percentage Stake
30
25
20
15
10
5
0
18.6
26.7
9.2
14.3
3.7
10.8
5.7
4.8
4.1
3.6
France
Germany
Japan
UK
US
1991 - 1997
1998 - 2005

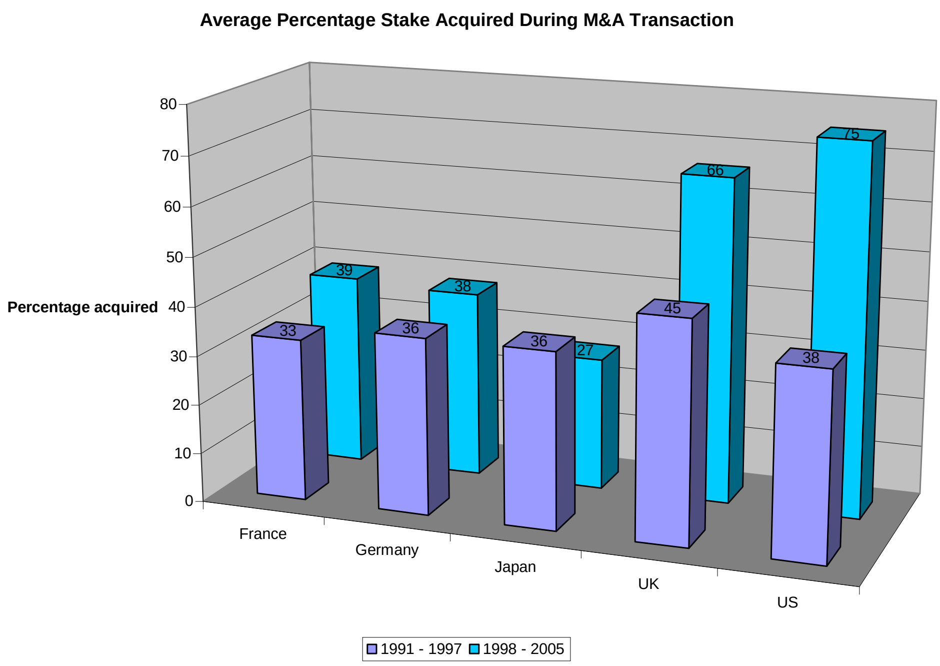

Average Percentage Stake Acquired During M&A Transaction
Percentage acquired
80
70
60
50
40
30
20
10
0
33
39
36
38
36
27
45
66
38
75
France
Germany
Japan
UK
US
1991 - 1997
1998 - 2005

Figure 19.

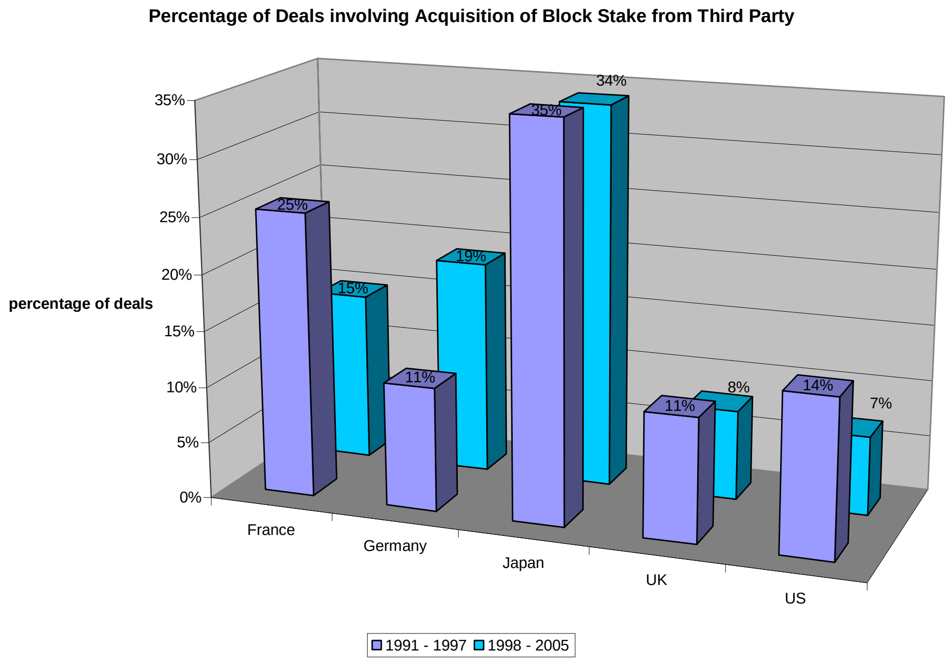
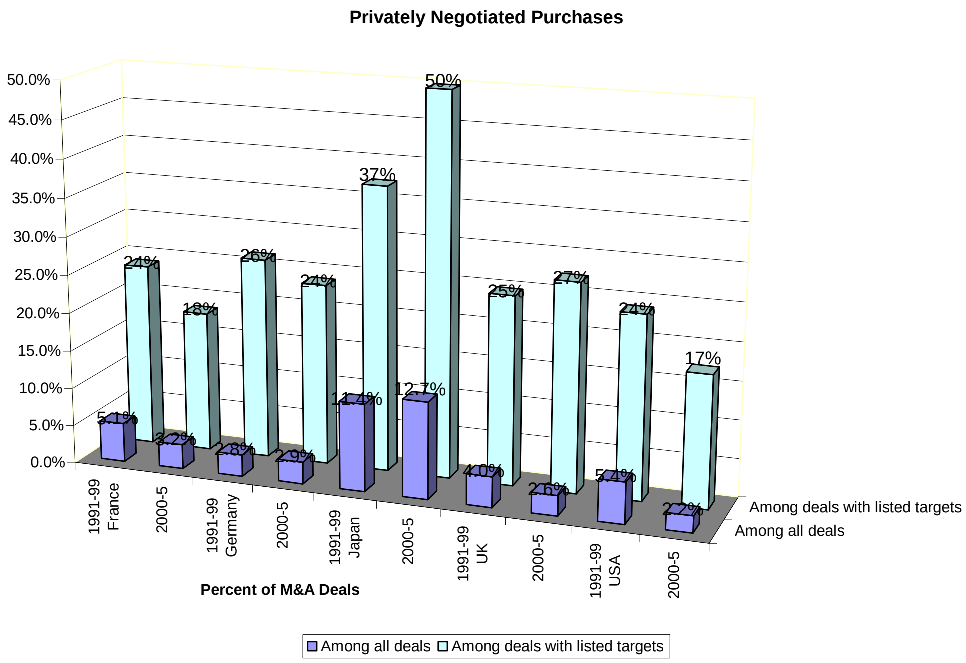

Percentage of Deals involving Acquisition of Block Stake from Third Party
percentage of deals
35%
30%
25%
20%
15%
10%
5%
0%
25%
15%
11%
19%
35%
34%
11%
8%
14%
7%
France
Germany
Japan
UK
US
1991 - 1997
1998 - 2005

Figure 20.



Open Market Purchases	France	Germany	Japan	UK	US
Among deals with listed targets	15.6%	9.8%	11.7%	20.6%	29.9%

Figure 21.

Hostile Takeover Attempts in 1991-2005, by Outcome

	Hostile Attempts	**Sold to Raider**	**Sold to Alternative Bidder**	**Remained Independent**
France	18	12	4	4
		67%	*22%*	*22%*
Germany	6	5	0	1
		83%	*0%*	*17%*
Japan	6	1	0	5
		17%	*0%*	*83%*
United Kingdom	176	74	34	68
		42%	*19%*	*39%*
United States	332	73	103	156
		22%	*31%*	*47%*

	Initially Unsolicited	**Outcome influence by Defense**
France	12	0
	67%	*0%*
Germany	5	0
	83%	*0%*
Japan	6	0
	100%	*0%*
United Kingdom	69	16
	39%	*9%*
United States	221	67
	67%	*20%*

Figure 22.

Defensive Tactics Used in Hostile Takeover Attempts, 1991-2005

	France	Germany	Japan	United Kingdom	United States
Acquirer Lockup	0	0	0	0	2
Back-End Defense	0	0	0	0	0
Recapitalization Defense	0	0	0	2	0
Repurchase Defense	0	0	0	0	3
Self-Tender Defense	0	0	0	5	4
Flip-Over Defense	0	0	0	0	3
Greenmail	0	0	0	0	0
Lockup Flag (Y/N)	0	0	0	0	2
Pacman Defense	1	0	0	1	1
Poison Pill	0	0	0	2	76
Proxy Fight	0	0	0	0	15
Scorched Earth Defense	0	0	0	5	2
Stock Lockup	0	0	0	0	2
White Knight Defense	4	0	1	20	23
Voting Plan Defense	0	0	0	0	0
White Squire	0	0	0	2	0

N = 538 attempted hostile deals.

Figure 23.

Proportion of Firms with Low Price-Book Ratios (less than 1) Targeted in M&A

	1991-1999	2000-5
France	4%	8%
Germany	2%	2%
Japan	1%	20%
UK	7%	8%
USA	25%	6%

Proportion of Firms with Negative Return on Assets Targeted in M&A

	1991-99	2000-5
France	22%	13%
Germany	13%	10%
Japan	5%	21%
UK	18%	11%
USA	32%	10%

Figure 24.

Average Share Price Premium of all M&A Transactions,
4 weeks prior to announcement date

	1991-1999	2000-2005
France	30.6	22.3
Germany	18.3	24.1
Japan	-2.1	1.78
UK	35.1	34.4
USA	58.1	40.8

Average Share Price Premium of Full Mergers,
4 weeks prior to announcement date

	1991-1999	2000-2005
France	47	28.2
Germany	-5.1	20.3
Japan	2.5	10.9
UK	45.1	39.9
USA	46.6	52.1

Figure 25.

Estimate of Share Price Premium based on 4 weeks prior to deal announcement

Premium				
Log of Assets	-1.77** (.52)	-1.88** (.42)	-2.10** (.41)	-2.01** (.42)
ROA	-.00 (.00)			
PBR		-.14** (.03)	-.12** (.03)	-.12** (.03)
Shares Acquired			.35** (.04)	.36** (.05)
Shares Held Prior to Deal			.20** (.06)	.19** (.06)
Purchase of Major Stake			5.33 (3.79)	5.38 (3.77)
TOB				8.50** (1.98)
Payment method is shares				-5.43** (2.10)
Hostile Transaction				11.78* (5.98)
Poison Pill				9.54 (18.32)
France	-20.91** (4.34)	-18.24** (3.37)	-13.09** (3.53	-15.25** (3.55)
Germany	-18.71 (6.92)	-14.22** (5.39)	-7.09 (5.45)	-9.45 (5.45)
Japan	-42.97** (2.76)	-39.07** (2.14)	-25.99** (2.39)	-25.17** (5.44)
UK	-3.07 (2.68)	-1.25 (2.08)	-3.88 (2.08)	-9.95** (2.48)
USA				
Sector Dummies	YES	YES	YES	YES
Year Dummy	YES	YES	YES	YES
Constant	-11.02 (71.58)	-9.94 (53.74)	-28.10 (62.86)	-30.75 (3.55)
Adj. R-square	0.070	0.123	0.149	0.157
N	6183	5707	5422	5422

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