Editorial

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We are proud to present this special issue on M&A to our readers. There is a voluminous body of empirical research on M&A, but most of this research examines US data. In this special issue, we present four papers that review and extend previous research by using European data. This is an important extension because there are significant differences among countries in terms of the laws, regulations and economic motivations that affect mergers and acquisitions. Extant research has shown that regulations and economic motivations have a significant impact on the volume and characteristics of M&A deals in any particular industry or sector at any given point of time (Harford, 2005).

Empirical research on corporate takeovers covers many topics and provides a rich opportunity to test different theoretical models [see Betton et al. (2008) for an excellent comprehensive survey of this literature]. The four papers in this special issue cover four topics that have engaged researchers in the past. In the first paper, Bertrand and Zitouna examine the impact of remoteness on efficiency gains in foreign takeovers; in the second paper, Donker and Zahir examine the returns to bidding firms that are listed on the Amsterdam Stock Exchange; in the third paper, Díaz and Azofra examine the determinants of premiums paid in European banking mergers and in the fourth paper, Ouzounis, Gaganis and Zopounidis examine the takeover prediction models for a sample of British firms and the usefulness of such models for portfolio construction.

Bertrand and Zitouna revisit the topic of efficiency gains in horizontal mergers by examining a sample of 171 French targets in 118 European and 53 non-European cross-border acquisitions between the years 1993 and 2000. The typical explanations for efficiency gains in domestic horizontal mergers include economy of scale and market power. The impact (and challenges) of remoteness in cross-border horizontal mergers has not been critically reviewed in the extant literature and Bertrand and Zitouna fill this gap by carefully analysing the effects of remoteness. They look at four different aspects of remoteness, viz., geographical, cultural, institutional, and economic distance and conclude that cultural and institutional distance seem to have a positive effect on performance, while geographic distance has a negative effect. For economic distance, the gap in sectoral total factor productivity has a positive effect on performance for European cross-border acquisitions. Bertrand and Zitouna employ a more recent econometric methodology by examining the post-acquisition factor productivity with respect to a control group that is identified through the propensity score matching technique. One interesting conclusion of this paper is that the difference in market size does not seem to matter. Previous research with US data suggests that acquisition of a relatively small firm is more likely to be value-increasing (Bruner, 2004).

Efficiency gains are a part of overall synergy that may be split between the acquirer and the target in many different ways. Donker and Zahir examine the effect of ownership structure on this split for a sample of 159 firms on the Amsterdam Stock Exchange covering the period 1987–1996. They found that the abnormal returns to shareholders of bidding firms increase with the degree of concentration in the ownership structure of the target company. This finding is consistent with the results of several theoretical models that show a negative relationship between bid premium and ownership concentration. Stulz et al. (1990) have examined the distribution of target ownership and the division of gains in successful takeovers. They show that, for multiple bidder offers, the target's gain increases with target managerial ownership and decreases with institutional ownership. Recently, Chatterjee et al. (2008) have shown empirically that takeover premium is negatively related to a bidder's pre-bid toehold position in the target. Betton and Eckbo (2000) examine toeholds and expected takeover payoffs, while Betton et al. (2007) provide some puzzling evidence on the relative infrequency of toeholds in takeover contests.

Bidding firms' shareholders earn a positive abnormal return if the premium paid is less than the overall synergistic gains from the merger. Díaz and Azofra examine the determinants of premiums paid in European banking mergers for a sample of 81 EU banks covering the period 1994–2000. Premium is measured by the ratio of purchase price to book-value of asset [which is consistent with many previous studies, although recent papers by Schwert (1996) and Officer (2003) employ a different measure]. The evidence seems to indicate that for the sub-sample of savings banks and cooperatives, a higher premium is paid for attaining higher diversification. This finding may have important policy implications with regard to current legislation 'that gives the government of each country the right to veto cross-border acquisitions in order to protect national institutions and to avoid control by foreign institutions'.

The typical price dynamics of bidder and target share prices in an acquisition leads to interesting arbitrage strategies and therefore it is not surprising that both practitioners and academics are interested in developing accurate takeover prediction models. Ouzounis, Gaganis and Zopounidis first develop a prediction model with a sample of 658 London Stock Exchange-listed non-financial firms that received a takeover bid between 2001 and 2005 and then test this model on a validating sample of 918 firms in 2006. The central premise of this paper is that sophisticated classification techniques may lead to abnormal portfolio gains where standard discriminant analysis fails to turn up such abnormal profit opportunities. The paper presents supportive evidence based on several such advanced classification techniques.

Taken as a whole, this special issue brings to our readers four important contributions that extend the empirical research on M&A to new data and new analytical techniques. On behalf of the entire editorial board, we say 'bon appétit'!

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