

Shareholder Wealth Effects of European Domestic and Cross-border Takeover Bids

Marc Goergen, Luc Renneboog

First published: 20 February 2004

<https://doi.org/10.1111/j.1468-036X.2004.00239.x>

Citations: 318

We are grateful to Rafel Crespi, John Doukas (the editor), Julian Franks, Carles Gispert, Rez Kabir, Colin Mayer, Joe McCahery and an anonymous referee for stimulating comments. The usual disclaimer applies. Corresponding author: Luc Renneboog.

Abstract

This paper analyses the short-term wealth effects of large intra-European takeover bids. We find announcement effects of 9% for the target firms compared to a statistically significant announcement effect of only 0.7% for the bidders. The type of takeover bid has a large impact on the short-term wealth effects with hostile takeovers triggering substantially larger price reactions than friendly operations. When a UK firm is involved, the abnormal returns are higher than those of bids involving both a Continental European target and bidder. There is strong evidence that the means of payment in an offer has an impact on the share price. A high market-to-book ratio of the target leads to a higher bid premium, but triggers a negative price reaction for the bidding firm. We also investigate whether the predominant reason for takeovers is synergies, agency problems or managerial hubris. Our results suggest that synergies are the prime motivation for bids and that targets and bidders share the wealth gains.

References

Agrawal, A. and Mandelker, G., 'Managerial incentives and corporate investment and financing decisions', *Journal of Finance*, Vol. 42, 1987, pp. 823-37.

[Web of Science®](#) | [Google Scholar](#)

Agrawal, A. and Jaffe, J., 'The post-merger performance puzzle', in A. Gregory and C. Cooper (eds), *Advances in Mergers and Acquisitions*, volume 1, pp. 7-41 (Amsterdam: JAI Press, 2000).

[Google Scholar](#)

Barca, F. and Becht, M. (eds) *The Control of Corporate Europe* (Oxford: Oxford University Press, 2001).

[Google Scholar](#)

Berger, P. G. and Ofek, E., 'Diversification's effect on firm value', *Journal of Financial Economics*, Vol. 37, 1995, pp. 39–65.

[PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Berkovitch, E. and Narayanan, M., 'Motives for takeovers: an empirical investigation', *Journal of Financial and Quantitative Analysis*, Vol. 28, 1993, pp. 347–62.

[Web of Science®](#) | [Google Scholar](#)

Bhide, A., 'The causes and consequences of hostile takeovers', *Journal of Applied Corporate Finance*, Vol. 2, 1989, pp. 36–59.

[Google Scholar](#)

Blume, M., 'On the assessment of risk', *Journal of Finance*, Vol. 26, 1971, pp. 1–10.

[Web of Science®](#) | [Google Scholar](#)

Cebenoyan, A., Papaioannou, G. and Travlos, N., 'Foreign takeover activity in the US and wealth effects for target firm shareholders', *Financial Management*, Vol. 21, 1992, pp. 58–68.

[Web of Science®](#) | [Google Scholar](#)

Cheng, L. and Chan, K., 'A comparative analysis of the characteristics of international takeovers', *Journal of Business Finance and Accounting*, Vol. 22, 1995, pp. 637–57.

[Google Scholar](#)

Comment, R. and Jarrell, G., 'Corporate focus and stock returns', *Journal of Financial Economics* Vol. 37, 1995, pp. 67–87.

[Web of Science®](#) | [Google Scholar](#)

Conn, C., Cosh, A., Guest, P. and Hughes, A., 'Long-run share price performance of UK firms engaging in cross-border acquisitions', *Working Paper WP214* (Centre for Business Research, University of Cambridge, 2002).

[Google Scholar](#)

Conn, C. and Connell, F., 'International mergers: returns to US and British firms', *Journal of Business Finance and Accounting*, Vol. 17, 1990, pp. 689–711.

[Google Scholar](#)

Canyon, M. and Murphy, K., 'Stock based executive compensation', in J. McCahery, P. Moerland, T. Raaijmakers and L. Renneboog (eds), *Corporate Governance: Convergence and Diversity*(Oxford: Oxford University Press, 2002.

[Google Scholar](#)

Cosh, A. and Hughes, A., 'International merger activity and the national regulation of mergers: a UK perspective', *Empirica*, Vol. 23, 1996, pp. 279–302.

[Google Scholar](#)

Cybo-Ottone, A. and Murgia, M., 'Mergers and shareholder wealth in European banking', *Journal of Banking & Finance*, Vol. 24, 2000, pp. 831–59.

[Web of Science®](#) | [Google Scholar](#)

Danbolt, J., 'Target company cross-border effects in acquisitions into the UK', *Working Paper*(University of Glasgow, 2002.

[Google Scholar](#)

Dewenter, K., 'Does the market react differently to domestic and foreign takeover announcements? Evidence from the US chemical and retail industries', *Journal of Financial Economics*, Vol. 37, 1995, pp. 421–441.

[Web of Science®](#) | [Google Scholar](#)

Dimson, E., 'Risk measurement when shares are subject to infrequent trading', *Journal of Financial Economics*, Vol. 7, 1979, pp. 197–226.

[Web of Science®](#) | [Google Scholar](#)

Dimson, E. and Marsh, P., 'The stability of UK risk measures and the problem of thin trading', *Journal of Finance*, Vol. 38, 1983, pp. 753–83.

[Web of Science®](#) | [Google Scholar](#)

Doukas, J., Holmen, M. and Travlos, N., 'Diversification, ownership and control of Swedish corporations', *Working Paper*(Old Dominion University, 2001.

[Google Scholar](#)

Eckbo, E. and Thorburn, K., 'Gains to bidder firms revisited: domestic and foreign acquisitions in Canada', *Journal of Financial and Quantitative Analysis* Vol. 35, 2000, pp. 1–25.

[Web of Science®](#) | [Google Scholar](#)

Elton, E. and Gruber, M., *Modern Portfolio Theory and Investment Analysis*, 5th edition(New York: Wiley, 1995.

[Google Scholar](#)

Feils, D., 'Shareholder wealth effects of international mergers and acquisitions? Evidence from the United States, the United Kingdom and Germany, PhD thesis. (University of South Carolina, 1993.

[Google Scholar](#)

Frame, W. and Lastrapes, W., 'Abnormal returns in the acquisition market: the case of bank holding companies 1990–1993', *Journal of Financial Services Research*, Vol. 14, 1998, pp. 145–63.

[Web of Science®](#) | [Google Scholar](#)

Franks, J., Harris, R. and Mayer, C., 'Means of payment in takeover: results for the United Kingdom and the United States', in A. Auerbach (ed.), *Corporate Takeovers: Causes and Consequences*(National Bureau of Economic Research, distributed by University of Chicago Press, 1988.

[Google Scholar](#)

Franks, J. and Harris, R., 'Shareholder wealth effects of corporate takeovers', *Journal of Financial Economics*, Vol. 23, 1989, pp. 225–49.

[Web of Science®](#) | [Google Scholar](#)

Franks, J., Mayer, C. and Renneboog, L., 'Who disciplines management of poorly performing companies?' *Journal of Financial Intermediation*, Vol. 10, 2001, pp. 209–48.

[Web of Science®](#) | [Google Scholar](#)

Froot, K. and Stein, J., 'Exchange rates and foreign direct investments: an imperfect capital markets approach', *Quarterly Journal of Economics*, 1991, pp. 1191–1217.

[Web of Science®](#) | [Google Scholar](#)

Goergen, M. and Renneboog, L., 'Strong managers and passive institutional investors in the UK', in F. Barca and M. Becht (eds), *The Control of Corporate Europe*(Oxford: Oxford University Press, 2001, pp. 259–84).

[Google Scholar](#)

Gregory, A., 'An examination of the long run performance of UK acquiring firms', *Journal of Business Finance and Accounting*, Vol. 24, 1997, pp. 971–1002.

[Google Scholar](#)

Gregory, A. and McCorriston, S., 'Foreign acquisitions by UK limited companies: long-run performance in the US, Continental Europe and the rest of the world', *Working Paper*(Financial Markets Research Centre, University of Exeter, 2002.

[Google Scholar](#)

Gupta, A., LeCompte, R. and Misra, L., 'Acquisitions of solvent thrifts: wealth effects and managerial motivations', *Journal of Banking and Finance*, Vol. 21, 1997, pp. 1431–50.

[Web of Science®](#) | [Google Scholar](#) |

Hanson, R. and Song, M., 'Managerial ownership, board structure, and the division of gains in divestitures', *Journal of Corporate Finance*, Vol. 6, 2000, pp. 55–70.

[Google Scholar](#) |

Harris, R. and Ravenscraft, D., 'The role of acquisitions in foreign direct investment: evidence from the US stock market', *Journal of Finance*, Vol. 46, 1991, pp. 825–44.

[Web of Science®](#) | [Google Scholar](#) |

Healy, P., Palepu, K. and Ruback, R., 'Does corporate performance improve after mergers?' *Journal of Financial Economics*, Vol. 31, 1992, pp. 135–75.

[Web of Science®](#) | [Google Scholar](#) |

Healy, P., Palepu, K. and Ruback, R., 'Which takeovers are profitable: strategic or financial?' *Sloan Management Review*, Vol. 38, 1997, pp. 45–57.

[Web of Science®](#) | [Google Scholar](#) |

Higson, C. and Elliott, J., 'Post-takeover returns: the UK evidence', *Journal of Empirical Finance*, Vol. 5, 1998, pp. 27–46.

[Google Scholar](#) |

Huang, Y. and Walking, R., 'Target abnormal returns associated with acquisition announcements: payment, acquisition form and managerial resistance', *Journal of Financial Economics*, Vol. 19, 1989, pp. 329–50.

[Web of Science®](#) | [Google Scholar](#) |

Jarrell, G. and Poulsen, A., 'The returns to acquiring firms in tender offers: evidence from three decades', *Financial Management*, Vol. 18, 1989, pp. 2–19.

[Web of Science®](#) | [Google Scholar](#) |

Jensen, M., 'Agency costs of free cash flow, corporate finance and takeovers', *American Economic Review*, Vol. 76, 1986, pp. 323–9.

[Web of Science®](#) | [Google Scholar](#) |

Kaplan, S. and Weisbach, M., 'The success of acquisitions: evidence from divestitures', *Journal of Finance*, Vol. 47, 1992, pp. 107–38.

Kang, J., 'The international market for corporate control – mergers and acquisitions of US firms by Japanese firms', *Journal of Financial Economics*, Vol. 11, 1993, pp. 345–71.

[Web of Science®](#) | [Google Scholar](#)

Kothari, S. and Warner, J., 'Measuring long-horizon security price performance', *Journal of Financial Economics*, Vol. 43, 1997, pp. 301–339.

[Web of Science®](#) | [Google Scholar](#)

Kuipers, D., Miller, D. and Patel, A., 'Shareholder wealth effects in the cross-border market for corporate control', *Working Paper*(Indiana University, 2002).

[Google Scholar](#)

Lang, L., Stulz, R. and Walkling, R., 'Managerial performance, Tobin's Q and the gains from successful tender offers', *Journal of Financial Economics*, Vol. 24, 1989, pp. 137–54.

[Web of Science®](#) | [Google Scholar](#)

Lang, L., Stulz, R. and Walkling, R., 'A test of the free cash flow hypothesis: the case of bidder returns', *Journal of Financial Economics*, Vol. 29, 1991, pp. 315–35.

[Web of Science®](#) | [Google Scholar](#)

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R., 'Law and finance', *Journal of Political Economy*, Vol. 106, 1997, pp. 1113–55.

[Web of Science®](#) | [Google Scholar](#)

Loderer, M. and Martin, K., 'Corporate acquisitions by listed firms: the experience of a comprehensive sample', *Financial Management*, Vol. 19, 1990, pp. 17–33.

[Web of Science®](#) | [Google Scholar](#)

Loughran, T. and Vijh, A., 'Do long-term shareholders benefit from corporate acquisitions?' *Journal of Finance*, Vol. 52, 1997, pp. 1765–90.

[Web of Science®](#) | [Google Scholar](#)

Maquiera, C., Megginson, W. and Nail, L., 'Wealth creation versus wealth redistributions in pure stock-for-stock mergers', *Journal of Financial Economics*, Vol. 48, 1998, pp. 3–33.

[Web of Science®](#) | [Google Scholar](#)

Martin, K. and McConnell, J., 'Corporate performance, corporate takeovers and management turnover', *Journal of Finance*, Vol. 46, 1991, pp. 671–87.

[Web of Science®](#) | [Google Scholar](#) |

McCahery, J. and Renneboog, L., 'Recent developments in corporate governance', in J. McCahery, P. Moerland, T. Raaijmakers and L. Renneboog (eds), *Convergence and Diversity of Corporate Governance Regimes and Capital Markets*(Oxford: Oxford University Press, 2002).

[Google Scholar](#) |

McCahery, J., Moerland, P., Raaijmakers, T. and Renneboog, L., *Corporate Governance Regimes: Convergence and Diversity*(Oxford: Oxford University Press, 2002).

[Google Scholar](#) |

Mitchell, M. and Stafford, E., 'Managerial decisions and long-term stock price performance', *Journal of Business*, Vol. 73, 2000, pp. 287–329.

[Web of Science®](#) | [Google Scholar](#) |

Morck, R., Shleifer, A. and Vishny, R., 'Managerial ownership and market valuation: an empirical analysis', *Journal of Financial Economics*, Vol. 20, 1988, pp. 293–315.

[Web of Science®](#) | [Google Scholar](#) |

Mulherin, J. and Boone, A., 'Comparing acquisitions and divestitures', *Journal of Corporate Finance*, Vol. 6, 2000, pp. 117–39.

[Google Scholar](#) |

Rau, P. R. and Vermaelen, T., 'Glamour, value and the post-acquisition performance of acquiring firms', *Journal of Financial Economics*, Vol. 49, 1998, pp. 223–53.

[Web of Science®](#) | [Google Scholar](#) |

Roll, R., 'The hubris hypothesis of corporate takeovers', *Journal of Business*, Vol. 59, 1986, pp. 197–216.

[Web of Science®](#) | [Google Scholar](#) |

Scholes, M. and Wolfson, M., 'The effects of changes in tax laws on corporate reorganization activity', *Journal of Business*, 1990, pp. 141–64.

[Google Scholar](#) |

Schwert, G. W., 'Hostility in takeovers: in the eyes of the beholder?' *Journal of Finance*, Vol. 55, 2000, pp. 2599–2640.

[Web of Science®](#) | [Google Scholar](#)

Servaes, H., 'Tobin's Q and the gains from takeovers', *Journal of Finance*, Vol. 46, 1991, pp. 409–19.

[Web of Science®](#) | [Google Scholar](#)

Servaes, H. and Zenner, M., 'Taxes and the returns to foreign acquisitions in the United States', *Financial Management*, 1994, pp. 42–56.

[Web of Science®](#) | [Google Scholar](#)

Shelton, L. M., 'Merger market dynamics: insights into behaviour of target and bidder firms', *Journal of Economic Behavior & Organization*, Vol. 41, 2000, pp. 363–83.

[Web of Science®](#) | [Google Scholar](#)

Shleifer, A. and Vishny, R., 'Managerial entrenchment: the case of manager-specific investments', *Journal of Financial Economics*, Vol. 25, 1989, pp. 123–39.

[Web of Science®](#) | [Google Scholar](#)

Sirower, M., *The Synergy Trap: How Companies Lose the Acquisition Game*(Free Press, New York, 1997.

[Google Scholar](#)

Vasicek, O., 'A note on using cross-sectional information in Bayesian estimation of security betas', *Journal of Finance*, Vol. 28, 1973, pp. 1233–9.

[Web of Science®](#) | [Google Scholar](#)

Walker, M., 'Corporate takeovers, strategic objectives and acquiring-firm shareholder wealth', *Financial Management*, 2000, pp. 53–66.

[Web of Science®](#) | [Google Scholar](#)

Warner, J. B., 'Bankruptcy costs: some evidence', *Journal of Finance*, Vol. 32, 1977, pp. 337–47.

[Web of Science®](#) | [Google Scholar](#)

Wansley, J., Lane, W. and Yang, H., 'Shareholder returns to US acquired firms and domestic acquisitions', *Journal of Business Finance and Accounting*, Vol. 10, 1983, pp. 647–56.

[Google Scholar](#)

Yook, K., 'Larger return to cash acquisitions: signaling effect or leverage effect?' *Working Paper*(Johns Hopkins University, 2000.

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)