Mergers and Acquisitions: Causes and Effects
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ABSTRACT

The aim of this research is to investigate current trend in international and Italian M&A. At this aim we first recognize the main theoretical lines of research that identify determinants of M&A processes. Than, using Thompson Financial database, Zephyr database and KPMG reports, we mapped completed mergers and acquisitions (M&A) over the past decade, trying to identify main causes of the present boom. The present boom in M&A, started in 2005, bears a number of similarities as well as differences with the previous one, started in 1999. The value and number of M&A in 2005 were comparable to the averages in 1999-2001, as were the number of mega deals. The increase in global M&A in 2005 was driven by macroeconomic, microeconomic and institutional factors. The most important factor at the macroeconomic level has been continued economic growth. In 2005 in fact, world real GDP grew by 4.8% (IMF 2006). Favorable conditions in financial and stock markets prompted the growth of domestic and cross-border M&A. At the microeconomic level, a surge of financial flows to collective investment institutions, e.g. private equity funds, led to massive cross-border investments by these funds. The last part of this research is focalized on the Italian banking industry and the main cases of consolidation in this sector.

INTRODUCTION

In the 1960s and 1970s, diversification and creation of conglomerates were common reasons for merging with or acquiring other companies (Rumelt et al., 1994; Weston and Weaver, 2001). In the age of economic globalization, M&A are more international in scope, involving companies from more than one country, their focus is also more to bring intra-industry companies together (Hitt et al., 2001).

The present boom in cross-border M&A, started in 2005, bears a number of similarities as well as differences with the previous one, started in 1999. The value and number of M&A in 2005 were comparable to the averages in 1999-2001, as were the number of mega deals. The top three target countries in terms of shares of total sales by value, the United Kingdom, the United States and Germany, were the same as in the previous boom. On the other hand, there were some changes in the industrial distribution of M&A in the two periods. The share of the primary sector was higher in the latest boom, at the expense of services. This is reflected in the fact that the top three target industries in 2005 were mining, quarrying and petroleum. They pushed the two leading industrial categories in the previous M&A peak, transport, storage and communications, and finance, to the second and third positions respectively, and displaced business services from the top three. There are some noticeable differences in the factors underlying the present upsurge in cross-border M&A, compared to those that drove the previous one. The financial markets no longer play key roles. Moreover, there is reason to believe that the present boom is driven primarily by strategic choices of firms in light of opportunities provided by economic growth. Most cross-border M&A are undertaken within the same industry, except where new types of investors are involved, such as private equity firms, that usually invest in any industry.

The increase in global M&A in 2005 was driven by macroeconomic, microeconomic (corporate) and institutional factors. The most important factor at the macroeconomic level has been continued economic growth. In 2005 in fact, world real GDP grew by 4.8% (IMF 2006). Favorable conditions in financial and stock markets prompted the growth of domestic and cross-border M&A. At the microeconomic level, a surge of financial flows to collective investment institutions, e.g. private equity funds, led to massive cross-border investments by these funds.

THEORETICA BACKGROUND

Different theoretical perspective can be used to identify the determinants of mergers and acquisitions. Transaction costs economics (TCE) (Williamson, 1975, 1985, 1991) focuses on how an organization should organize its activities so as to minimize the sum of its production and transaction costs. In his early writings, Williamson (1975, 1985) identified markets and hierarchies as the two modes of organizing, and later acknowledged the additional role of inter-organizational forms (Williamson, 1991). In a free market, it is typically cheaper for a firm to buy a generic product from an organization that is an expert at producing it than it is to make the product...
itself. However, a market failure forces a firm to internalize an otherwise market exchange. In this way, TCE explains why an organization might choose to acquire another firm.

The choice to acquire another firm, however, needs to be based also on other criteria that go beyond the cost analysis. Resource dependence is a theory rooted in an open system framework, which argues that organizations must engage in exchanges with their environment to obtain resources (Scott, 1987). The need to acquire resources creates dependencies between organizations and outside units, such as suppliers or competitors. To successfully manage these dependencies, resource dependence theorists argue that organizations must acquire control over critical resources in an effort to decrease dependence on other organizations. In other words, an organization tries to increase its power relative to other organizations in its relevant environment (Thorelli, 1986; Pfeffer & Salancik, 1978). The process of internalization, through M&A, is a way to achieve these objectives. Acquisition are process that lead firms to obtain access to critical resources, to increase their power relative, to gain enough market power to neutralize the moves of a competitor, and plug a skill or resource gap.

One of the most important resources for achieving a competitive advantage is knowledge. Following knowledge-based theory we underline that firms can acquire other society to capitalize on opportunities for organizational learning (Hamel, 1991; Kogut, 1988; Mowery, Oxley, & Silverman, 1996). This rationale for acquisitions formation is consistent with a growing body of research that suggests that firms enhance their competitive position through superior knowledge (Simonin, 1997). Firms place a high priority on the acquisition as way to achieve technical skills or technological capabilities. It is often difficult for a firm that does not have a particular skill to buy it in the marketplace, because knowledge is often tacit and difficult to price (Mowery et al., 1996). A firm that wants to learn a particular skill often stands a better chance of accomplishing its objective acquiring a firm that is exemplary in that area. Support for these assertions is found in the literature on biotechnology and pharmaceutical industry. However if we don’t consider only technical knowledge but also knowledge related to clients and market structure, cross border acquisition of firms belonged to different industry can be seen as way to achieve this kind of knowledge.

Firms realize M&A also at the aim to increase competitiveness, market power, speed to market, and to block the moves of a competitor. Through mergers, firms maximize their ability to offer attractive products or services, increase efficiency, reduce costs and share the risks in activities that are beyond the capabilities of a single organization. In an international context, firms use acquisitions as a means of entry into foreign markets or a means of obtaining a competitive advantage (Shan & Hamilton, 1991). This set of strategic motivations can be grouped in four categories: (1) increase market power through the erection of entry barriers or the creation of monopoly-type influence, (2) increase political power, or the ability to influence governing bodies domestically or internationally, (3) increase efficiency in research, production, marketing, or other functions, and (4) provide product or service differentiation.

Strategic choices to acquire other firms are influenced from macroeconomic and institutional factors. External changes in global and national regulation, macroeconomic trend and international events can affect competitive environment leading firm to find a new dimension to achieve a competitive advantage. DiMaggio e Powell (1983) suggest that institutional environments impose pressures on organizations to appear legitimate and conform to prevailing social norms. Applying Institutional theory to M&A, it is possible to underline how institutional pressures motivate firms to acquire other firms at the aim to be in agreement with the prevailing norms of their business environments (Oliver, 1990; Scott & Meyer, 1983; Zucker, 1977).

**CURRENT TREND IN M&A**

Merger and acquisition have long been a popular strategy for many firms, at the beginning only in North America but from the fifth merger wave of the twentieth century also in Europe, Asia and Latin America. Certainly, the growth in merger and acquisition was fed by activity in Europe with firms preparing for the full implementation of the European Union. The enlargement of European market introduced by Euro was a factor that affected the growth in M&A activities. In 2006, the global M&A market confirmed the recovery seen in 2005, outperforming forecasts made at the start of the year and reaching the peak recorded in 2000 in terms of number of transactions. The equivalent value of transactions on the global M&A market rose 50% on 2005 from Euro 2,583 million to Euro 3,870 million in 2006. Market volumes rose 18%. In 2006, approximately 32,000 transactions were concluded, compared to 27,000 in 2005, setting a new record after the 2000 peak of 30,000 transactions. The geographic areas most affected by M&A activities were the America with 40% of concluded deals, Europe with 34%, Asia with 18%
(excluding Japan), Japan with 6%, and Africa and the Middle East with 2%. The trend analysis of the M&A, with respect to developments in the major macroeconomic indicators, showed a substantial alignment of the Italian and international market trends, as both benefited from the boost supplied by the real economy (Figure n. 1).

Despite the worldwide process of consolidation and synergy development being one of the main driving forces behind the M&A market, in Italy, the main driver was the need for businesses to grow in size to be competitive. In particular, the concentration trend seen at local level, which mainly affected the banking sector, was the result of firms’ need to compete on international markets and to face main macroeconomic changes. The most important macroeconomic factor that affected M&A in 2006 was the process of gross domestic product’s growth.

The global economy in 2006 outperformed forecasts, with a slight increase in the growth rate of gross domestic product (GDP) worldwide from 4.8% in 2005 to over 5% in 2006, supporting the M&A market trend. In 2006, the Italian economy grew 1.9%, showing its most significant growth in the last five years and surpassing by far the expectations of major Italian and international forecast agencies. Italian GDP grew at current prices from Euro 1,295 billion in 2002 to Euro 1,477 billion in 2006. The pro-capita GDP showed a similar growth trend, reflecting a substantially stable demographic trend. The world economy experienced a substantially positive phase, which peaked in 2004. However, the last two years have been characterized by a slight slowdown. On the contrary, the European economy still is being below the world benchmark. In this context, the Italian economy, after the modest growth rate recorded between the 2002 and the 2005, now appears to be enjoying new propulsion (Figure n. 2).

After the downturn registered in 2004-2005, the domestic inflation rate showed a slight increase in 2006, in line with the growth trend in the real economy. In Italy, the domestic unemployment rate, set at 6.8% in 2006, continues to steadily decrease by 5.7% per year in the last five years.

The Italian mergers and acquisitions market sped ahead at record-breaking pace in the first quarter of 2007, with transactions worth nearly Euro 40 billion (Euro 39.7 billion) already concluded, up 58% on the Euro 25 billion of the first quarter of 2006. However, it dropped slightly in terms of volumes, with 92 transactions, compared to 99
on the same period of 2006. Although the equivalent value was down on the previous year, 2006 confirmed the Italian M&A market’s recovery with the formalization of 467 transactions for an equivalent value of approximately Euro 100 billion. Both the value and number of M&A rose in 2005, to Euro 100 billion and to 467 respectively, levels close to those of 1999, the first year of the latest M&A boom. While this high level of M&A reflected strategic choices of enterprises, it was also fuelled by the recovery of stock markets, which led to an increasing number of mega deals (Figure n. 3).

![Figure n. 3 Italian M&A's trend](image)

In this context, cross border transactions were extremely significant (Italian deals abroad and foreign deals in Italy, 35% of all transactions) inverting their trend with Italian acquisitions abroad outnumbering foreign deals in Italy. This shows Italian companies’ entrepreneurship in using growth on international markets as strategic and competitive leverage. A number of cross-border M&A triggered intense political discussions in Italy, such as in France, Spain and the United States. Those discussions did not result in regulatory changes, but had a negative impact on certain cross-border mergers. FDI inflows to Italy rose to $20 billion as foreign investors undertook several acquisitions in the Italian financial sector, which, under pressure from the European Commission, is becoming more open to foreign investors. Thus, for example, the Dutch bank, ABN Amro, was able to purchase the Italian financial firm AntonVeneta for $9 billion after a long and controversial dispute involving the Central Bank of Italy.

In 2006, Italian deals in Italy accounted for 65% of all transactions, almost perfectly in line with 2005. The 2006 showed slight growth in volumes (up 2.2% on 2005) to 467 transactions. Deals carried out by Italian investors were substantially in line with the previous year (303 transactions, compared to 299 in 2005), while Italian companies showed growing interest in foreign targets: 91 deals in 2006, compared to 70 in 2005 (up 30%), roughly 33% of which were in the United States, France, Germany and Eastern Europe. Conversely, the number of transactions carried out by foreign players in Italy decreased during the year, with only 73 deals, compared to 88 in 2005 (down 17%).

The trend recorded shows a recovery in investor confidence backed by international economic performance. Italian companies have focused on “new markets” with more growth potential, particularly Eastern Europe, where Italian companies have carried out around fifteen acquisitions. Overall, in 2006, the countries that most interacted with Italy were the United States, England, Germany, France, Switzerland and Spain. As a whole, transactions between these countries and Italy made up for more than 50% of cross-border deals. In particular, with respect to Italian acquisitions abroad in order to enter new markets or consolidate existing positions, the countries with the largest number of opportunities were the United States, Germany, France and Eastern Europe Countries.

The United States played the most important role in transactions in which Italian companies were targeted by foreign investors, followed by the United Kingdom, Germany and France. A significant portion of deals carried out by US and UK companies in Italy involved private equity investors (e.g. Cinven on Avio Holding, Apax and Permira on Sisal, Bridgepoint on Limoni and Blackstone on Gardaland).

THE ROLE OF PRIVATE EQUITY

Private equity funds have played a crucial role in the sponsorship of mid-sized transactions. This reflects a proven global trend and confirms the existence of fertile ground for investors in the Italian market. Foreign funds are largely prevalent (63% of all transactions in the year) and the most attractive sectors were retail, consumer goods and the food sector. The 2006 also saw numerous secondary buy outs that involved Sisal, Gardaland and Arena, in
addition to important deals such as Seves, Grandi Navi Veloci and the transfer of Avio Holding shareholding from Carlyle to Cinven. An analysis of the size of transactions concluded in 2006 shows substantial continuity from 2005 to 2006. Consider that compared with 2004, transactions worth more than Euro 250 million have virtually doubled. Furthermore, in 2006, the total equivalent value of the top ten deals amounts to roughly Euro 60 billion, the equivalent of 60% of the entire market. In 2006, there were 152 transactions worth more than Euro 50 million (32% of all transactions). Compared with the previous year, although the distribution by value bracket is fairly similar, the number of transactions decreased by 6% (161 in 2005).

ITALIAN BANKING INDUSTRY’S CONCENTRATION

Despite growing activity, the degree of integration in banking in Europe has gone behind expectations. In several European countries with a relatively large number of banks, the consolidation process in the banking sector has been relatively slow. The single market, the introduction of the euro and several deregulation measures, such as the Financial Services Action Plan, increased cross-border financial flows in the EU, but integration via cross-border expansion of banking institutions has advanced slowly (Berglöf et al., 2005).

Even if relatively recent, the phenomenon of the M&A in bank industry is really pervasive, including all credit field independently from the dimension of the banks, their geographic positioning or the category of belongings. From ‘90s, liberalization of bank activity and enlargement of a competitive scene on European scale, the credit institutions began to realize operations of concentration based on precise entrepreneurial choices and, different from it had happened until then, not to guarantee stability to the system. In a little time, therefore, the framework of the financial markets was drastically transformed in terms of number and the unitary dimensions of the Italian banks, in terms of property, for the privatization process and in terms of territorial distribution of the system. M&A are strategic options for the companies that decide to increase their business. The big wave of operations of merger and acquisition in all Europe is favoring the creation of an efficient financial market. Such change is evidenced by numerous of cross border operations realized in the European bank industry in the last years. Santander (Spain) acquired Abbey (United Kingdom) for $15.8 billion of 2004, Unicredito (Italy) acquired the German Bank of the Hypo of Bayerische for $18 billion of 2005 and the ABN Italian Antonveneta was acquired from Dutch ABN Amro in 2006. In some European countries the process of consolidation in the field has been relatively slow. In Italy in fact it requested ten years for the formations of banks with a sufficient competitive dimension in order to face the world-wide market. In the last decade the number of the operating banks has been reduced and the degree of concentration of the bank industry has increased. The main factors that have guided the consolidation process are constituted by the improvements in the technology of the information, the process of deregulation of financial institution, the globalization of the financial markets.

The technological advances constitute an important factor in stimulating the process of consolidation of financial industry. In the last 20 years many governments have removed prescribed and legal barriers that constituted an obstacle of relief to the consolidation. This change has opened the road to new operations of concentration within and outside the national borders and between the various segments of the industry financial institution. The deregulation process has been one of the factors that has affected consolidation process. The globalization is, for many aspects, one consequence of the technological change and the deregulation. Its influence as factor of stimulus to the consolidation of the industry has been particularly important on the enterprises that distribute financial services, in that placing in prominence the importance covered from the process of expansion of the capital markets them. The widening of the geographic markets in which not financial institutions operate the enterprises modification the question of services that the customers turn the financial intermediaries and such circumstance can promote the consolidation process.

In Italy, the market share of the top five banks in 2005 is small (35% and 25% respectively) compared to 75% in France and 80% in the Netherlands (Berglöf et al., 2005). The market share of foreign-dominated institutions in many European countries is also small. Part of the reason for this situation lies in the existence of institutional and regulatory barriers to foreign takeovers of resident banks in some countries. According to previous legislation, in Italy, an acquisition of more than 5% of shares in any Italian bank had to be approved by the Bank of Italy. The Bank of Italy could therefore resist any foreign acquisitions of Italian banks, as illustrated by the case of the Netherlands’ ABN Amro’s acquisition of Antonveneta. After the European Commission initiated proceedings in early December 2005 against Italy for possible infringement of Single Market provisions on the free flow of capital, the Italian Government transferred part of the responsibility for dealing with anti-competitive behavior, which was in the past often assumed by the Bank of Italy, to the anti-trust authority (IMF 2006). After the normative change,
the integration process between Antonveneta and ABN Amro, which begun in 2005, continued in 2006 with the mandatory tender offer ensuring the Dutch bank to increase its shareholding in Antonveneta to more than 98%, with its consequent delisting in early April 2006 and the subsequent exercise of the squeeze-out option. The parties witnessed a rise in their previous forecasts for revenue synergies (Euro 200 million from 2008), while restructuring costs were lower than expected (from Euro 200 to Euro 140 million). In terms of business goals, from 2007, Antonveneta reinforced its position through cross-selling operations, corporate derivative market penetration and M&A development. On the other hand, ABN Amro had European roots but also enjoyed a consolidated global presence. It acquired Antonveneta to strengthen its business and boost it in Italy, with the aim of launching a diversification process into the most sophisticated financial services. The bidder’s and target’s numbers show the creation of a large company that incorporates an Italian player with substantial growth potential and deep roots in Italy with a structure of 1,000 branches spread out mainly in the Northeast and a staff of 10,800 employees (ABN Amro has roughly 105,000 employees).

In February 2006, following a strategic agreement between Unipol and BNP Paribas, the BNPP Group acquired BNL ordinary shares. The acquisition process was based on an agreement signed by BNPP and the 13 main shareholders (including UNIPOL) for the purchase of approximately 1,468 million ordinary BNL shares (roughly 48% of the share capital) for Euro 2.925 per share. Subsequently, following additional agreements signed before the launch of the bid, the group acquired more than 50% of BNL. In May 2006, once authorization had been received from the Bank of Italy, BNPP launched a friendly takeover bid for BNL shares. Upon its completion, the French bank held 97% of ordinary capital. In addition BNPP acquired roughly 37.90% of BNL savings shares. This transaction then enabled it to launch a residual tender offer, which ended on 20 July 2006, bringing BNPP’s holding to approximately 98.4% of total BNL capital. The transaction gave BNP Paribas control over the sixth largest bank in Italy in terms of deposits and lending, with a network of 900 branches and roughly three million retail customers. The acquisition made the group the leading foreign player in Italy and the Italy became BNP Paribas’ second largest market. Furthermore, through this transaction, BNPP is now able to strengthen its position in those sectors where BNL already has a strong competitive edge (asset management, private banking and life insurance), also benefiting from an important brand in Italy. The BNP Paribas Group is a European leader in banking and financial services. It is one of the top 15 banks worldwide in terms of stock market capitalization and assets. The group holds key positions in three important sectors: financing and investing, assets under management and services and retail banking. BNP Paribas is present in 85 countries around the world, with deep roots in the most important financial markets. In Italy, the group has the following companies/businesses: Arval (car leases), Banca UCB (loans), Cortal Consors (financial advisory network), Banca CR Firenze and Fidomestic Banca (consumer credit). In terms of total assets, BNL, established in 1913, is the sixth largest banking group in Italy and one of the top 60 banks in Europe and the top 100 in the world. The BNL Group covers all major banking and financial activities for corporate and retail customers. The BNL distribution model is based on a multi-channel strategy that uses traditional bank branches as leverage, along with self-banking stations and phone-banking and e-banking services. The BNL Group offers its banking and financial services to more than 2.6 million customers.

The most significant Italian M&A transaction in 2006 was the merger of Banca Intesa and Sanpaolo IMI at the end of the summer. Once again, the deal involved a bank merger, as in 2005 with the combination of Unicredit and HVB. Banca Intesa-Sanpaolo IMI merger reflected the clear-cut strategy of creating the number one banking group in Italy, with the aim of making the joint operating structure of the two banks more profitable, while achieving the size required to compete with Europe’s leading financial institutions in a sector that is increasingly competitive and global. For this transaction, defined “Merger of Equals”, Banca Intesa increased its share capital by more than Euro 3.0 billion by issuing nearly 6.0 million shares to Sanpaolo shareholders, with a share exchange ratio of 3.115 Intesa Sanpaolo S.p.A. shares for every Sanpaolo share. The expected cost synergies are approximately Euro 100 million by 2010. In Italy, the new group has assumed the role of leader in all banking segments, with a market share of more than 20% in customer loans and deposits and a strong position abroad. In this regard, Intesa Sanpaolo consolidated its presence, drawing on an operating platform that covers already 34 different countries. Banca Intesa, created in 1998 as the result of the combination of Cariplo and Banco Ambrosiano Veneto, was one of the largest banking groups and leading players on Europe’s finance scene at the time of the merger. At the time of the merger operation. Its organizational structure was comprised of five business areas: the Network Division, Corporate Division, Infrastructure and Development, Italian Banking and Foreign Banking. The bank had a network of around 3,106 branches in Italy and 864 abroad (20 countries). Through its subsidiaries, it was a leading bank in Croatia, Slovakia, Serbia and Montenegro, Hungary, Ukraine and Bosnia-Herzegovina. At the time of the merger, Sanpaolo IMI was one of Italy’s most important banking and insurance groups. With a network of 3,289 branches in Italy, it
had 29 locations in the world’s major financial markets, with a total of roughly 7 million customers. Its business model focused on commercial banking, Corporate Finance 53 companies specialized in consumer credit and leases, public sector activities (Banca OPI), asset management, investment banking and personal finance services. Together Banca Intesa and Sanpaolo IMI have created IntesaSanpaolo group that is the leader on Italian banking industry.

REFERENCES
