

Synergy Motivation and Target Ownership Structure: Effects on Takeover Performance

Han Donker, School of Business, University of Northern British Columbia, Canada
Alex Ng, School of Business, University of Northern British Columbia, Canada

ABSTRACT

In this research, we find statistically significant positive abnormal returns around takeover announcements for combined firms. The cumulative average abnormal returns for combined firms are 4.62% over the event-window [-20, +20], which suggests that takeovers create shareholder wealth (synergy motive). In addition, we examine the impact of ownership structure in target firms on the abnormal returns to shareholders of combined firms. We show that management shareholdings have a significant negative impact on the returns to shareholders of combined firms (entrenchment). Institutional shareholdings and outside block holdings have a significantly positive influence on the abnormal returns to shareholder of combined firms. These results suggest that monitoring by large institutional shareholders and other outside shareholders increase the abnormal returns to shareholders of the combined firm. Furthermore, competition between bidders increases the abnormal returns to shareholders of combined firms. Competition between bidding firms might signal to high valuation bidders the availability of high, non-firm-specific synergistic gains. The positive relation between the market-to-book value of the target and the returns to shareholders of the combined firm indicate that the target firm has large growth opportunities, which will increase the value of the combined firm.

INTRODUCTION

The most commonly used argument for takeovers is synergy. The synergy motive for takeovers suggests that takeovers occur because of incremental gains that result from combining the resources of the bidding and target firms. The synergy motive for takeovers is based on wealth creation, while other motives such as: agency and hubris are mainly about redistributing wealth. For example, in agency theory redistribution of wealth occurs between managers and shareholders, and also between shareholders and bondholders. Firms can realize synergy through a better use of their assets (economies of scale) or by sharing common assets (economies of scope). Roll (1988) argues that the synergy motive holds when both firms create incremental value.

Synergy gains from takeover are elusive. How can we find it? The topic of merger and acquisition (M & A) performance near announcement is well studied in the literature for more than three decades. Bruner (2002) summarizes that acquirers earn zero abnormal returns or lose; abnormal gains accrue to the target. This literature suggests that synergy motivations are generally either not present or not realizable.

Synergy is valuable because it motivates takeovers that create value; and it gives incentives for industries to innovate, gain efficiencies and consolidate. However, the general conclusion of the absence of synergy evidence in much of the literature is based on studies on takeovers in the United States and United Kingdom. There are studies (Yuce and Ng, 2005) that consistently show synergy motivations exist such as takeovers in Canada because announcement effects result in increases in shareholder wealth. Indeed, this implies that a country's political, business, and regulatory context can support a firm's synergy motivations to make takeovers. Hence, it is valuable to study for evidence of synergy motivations in takeovers. Like in many countries, it is possible that takeovers in a country like the Netherlands could be motivated by synergy reasons, yet there is a scarcity of research on takeover performance on Dutch companies. Therefore, this study examines the wealth effects of announcements of Dutch takeovers.

In IPOs (Initial Public Offerings), Roosenboom and van der Goot (2005) conclude that firm value is positively related to ownership structure, namely management shareholdings and large shareholders. These factors are theorized to reduce agency costs. Indeed, recent advances in the M & A literature are paying attention to the role of ownership structure in explaining takeover performance. There are different shareholder owners which include managers, executives, institutional and block holders, and the presence and amount of shareholding by any particular group is found to influence performance. The question is which type of ownership matters? Changes in ownership (Akhigbe et al., 2004), block holder ownership (Faccio et al., 2006), and family ownership (Ben-Amar and Andre, 2006) are found to influence takeover performance. Kohers and Kohers (2001) conclude that "bidder ownership structure with high potential for agency problems" is related to poor post-merger performance. Yet, despite these studies, a gap exists in understanding ownership structure and performance issue. Current studies only examine ownership structure within the acquiring firm to explain performance; none of these studies examine ownership structure *within the target firm* to explain performance. Therefore, this study examines the ownership structure of target firms in explaining combined firm announcement returns.

This study contributes to the strand of M & A literature on takeover performance and motivations by providing evidence of synergy motivations found in Dutch companies. Finding synergy motivations as a study is good news as this is not the case in the majority of takeover studies. That again, different country contexts continue to explain differences in motivation for takeovers. This study contributes to the strand of M & A literature on ownership structure and takeover performance by providing new evidence that target ownership structure influences performance. Specifically, managerial ownership is negatively related to performance; whereas, large institutional share owners and large block shareholders confer positive effects on performance. Hence, from this study, a deeper theoretical understanding of ownership structure influences on performance is that performance is the result of a complex interplay of differing objectives amongst different shareholder groups within a company. That is, managers may have agency motivations to entrench themselves to the company by making takeovers which undermine firm value. However, this negative motivation is counterbalanced by large shareholders who are motivated to monitor and discipline such managers to protect their shareholder wealth.

This study is organized as follows: the first section justifies and proposes its hypotheses. The next section describes the methodology and sample data used followed by a section on empirical results. The last section concludes.

HYPOTHESES

Empirical evidence suggests that shareholders of target firms receive most benefits from corporate takeovers (Jensen and Ruback, 1983). Berkovitch and Narayanan (1993) and Romano (1992) posit that, under the condition of shareholder wealth maximization, managers of bidding firms and target firms will be involved in takeovers when both firms realize positive gains. They suggest that the gains to target shareholders increase with total gains, when target shareholders have some bargaining power or when bidders compete for the target firm. They argue that the gains to target shareholders, bidding shareholders, and combined firms are positively correlated with each other. Berkovitch and Narayanan (1993) find a positive correlation between target and total gains in their sub-sample of positive total gains. Ravenscraft and Scherer (1987, 1989) tend to more skeptical assessment of the improvement in operating profitability of tender offer takeovers. They find a deterioration of the post-takeover operating performance, which is contrary to the synergy hypothesis. The synergy motive implies that the returns to bidder and target firms, and also the returns of the combined firm will be positive and positively correlated with each other.

H1: *The Synergy motive is dominant, if the gains to target, bidder, and the combined firm are all positive. In addition, target and total gains are positively correlated, and also target and bidder gains are positively correlated.*

Roll (1986, 1988) introduces a behavioral motive for the takeover phenomenon, which he terms the *hubris hypothesis*. Managers of bidding firms tend to overestimate the value of target firms because they believe that they will gain from synergy or the replacement of inefficient management. Roll's *hubris hypothesis* is strongly related to the winner's curse that comes from auction theory. When the valuation of the target firm is uncertain to the management of the bidding firm, the manager will win who has the most overestimated value of the target firm. The *hubris hypothesis* predicts that the premium paid to target shareholders is negatively related to the stock price movements of the bidding firm. The returns to bidding firms will be transferred to target shareholders. When the *hubris-hypothesis* holds, no positive total gains should be observed in takeovers. Berkovitch and Narayanan (1993), as well as Bradley, Kim, and Desai (1988), find some evidence for the *hubris hypothesis*. Varaiya and Ferris (1987) find support for the *winner's curse* in takeovers. They estimate a winning takeover premium that significantly overestimate the expected takeover gains. If the *hubris* theory holds, then no positive gains will be observed at all. Also the abnormal returns to bidding firms are negative, and the abnormal returns to target firms are positive. The correlation between the gains of target and bidding firms should be negative, and there should be no correlation between total gains and target gains, because the gains of the target are the result of a wealth transfer from the bidding firm to the target firm.

H2: *The hubris motive is dominant, if the total gains are zero or slightly negative. In addition, the correlation between target and bidder gains is negative and the correlation between target gains and total gains is zero.*

In agency theory, managers might be driven by self-interest to overpay for acquisitions, because they use shareholders' money to make manager-specific investments that will bind shareholders to themselves (Morck, Shleifer and Vishny, 1990), or use free cash flow to enlarge the firm (Jensen, 1986). Because of such entrenchment investments the replacement of these managers is costly and managers might claim a higher rent from their shareholders (Shleifer and Vishny, 1989). If incumbent management acquires a target firm, it will try to increase the dependency of the bidder's shareholders on their specific skills and knowledge. The management might exploit this and increase perquisite consumption. Berkovitch and Narayanan (1993) argue that target shareholders can appropriate a part of the management rent if they have some bargaining power. The more severe agency problems are, the higher the gains to target shareholders. Because management's rent reduces the total gains to shareholders, total gains and target gains are negatively correlated. Severe agency problems in the bidding firm cause losses to the shareholders of the bidder. Morck, Shleifer and Vishny (1988) argue that takeovers might be deployed to benefit managers of bidding firms rather than their shareholders.

H3: The agency motive is dominant, if the correlation between target gains and total gains is negative. In addition, the correlation between target and bidder gains is negative, and also the total gains and bidder gains are negative. Berkovitch and Narayanan (1993) develop testable hypotheses to distinguish between three takeover motives. Table 1 presents the three motives for takeovers (synergy, hubris, agency) and shows their distinguishing hypotheses.

Table 1. Motives for Takeovers: Synergy, Agency, and Hubris

This Table describes the correlation between the returns of bidding firms, target firms and combined firms.

Hypothesis	Correlation		Value
	Target vs Combined Returns	Bidder vs Target Returns	
Synergy	+	+	+
Agency	(-)	(-)	(-)
Hubris	0	(-)	0 or slightly negative

METHODOLOGY AND DATA

We compute abnormal returns using event-study methodology. Daily stock returns are used to estimate the abnormal returns associated with the takeover event. For each security we determine an estimation period and an event period. The estimation period starts at trading day -270 and ends at trading day -21 relative to the takeover event ($t=0$). The event period starts 20 trading days prior to the event day ($t=0$) through 5 trading days after the first announcement on the event day ($t=0$). For the firms on the Amsterdam Stock Exchange (AEX), we use the *Herbeleggings-Index* as the benchmark index.

For each security i , we estimate different measures of abnormal returns $AR_{i,t}$.

$$\text{Market model: } AR_{i,t} = R_{i,t} - (\hat{\alpha}_i + \hat{\beta}_i R_{m,t})$$

where $\hat{\alpha}_i$ and $\hat{\beta}_i$ are OLS values from the estimation period prior to the event window (270 to 21 trading days before the first bid announcement). To test the *null* hypothesis ($H_0: AAR_t=0$) that the average abnormal return AAR_t of the portfolio of firms in the sample for day t is equal to zero, we calculate a t -statistic by:

$$t_{statistics} = \frac{\frac{1}{N} \sum_{i=1}^N AR_{it}}{s/\sqrt{N}} = \frac{AAR_t}{s/\sqrt{N}}, \text{ where } s^2 = \frac{1}{N-1} \sum_{i=1}^N (AR_{it} - AAR_t)^2$$

$$\text{and } AAR_t = \frac{1}{N} \sum_{i=1}^N AR_{i,t}$$

To test the *null* hypothesis ($H_0: CAAR=0$) that the daily abnormal return over the event window is equal to zero, we calculate the cumulative abnormal returns (CARs) over the event interval $[t_1, t_2]$:

$$CAR_i = AR_{it_1} + \dots + AR_{it_2} \quad [t_1, t_2] \text{ is the event period.}$$

We employ the following test statistics for the event period $[t_1, t_2]$:

$$Z_{car} = \frac{\frac{1}{N} \sum_{i=1}^N CAR_i}{s(CAR)/\sqrt{N}} = \frac{CAAR}{s(CAR)/\sqrt{N}}$$

$$CAAR = \frac{1}{N} \sum_{i=1}^N CAR_i$$

where $s(CAR)$ is computed cross-sectional on CAR_i .

To measure combined abnormal returns (CARC) to target and acquirer shareholders, we calculate the combined cumulative abnormal returns (CARC) as the sum of the market value of target (MVT) and bidding firm (MVA) 21 trading days before the first acquisition announcement ($t=0$), times the cumulative abnormal returns of target (CART) and respectively the acquiring firm (CARA), divided by the sum of the market value of equity of the acquirer MVA and the target (MVT) 21 trading days before the first announcement ($t=0$). The market value of target equity is adjusted for the fraction of target shares held by the acquirer TOE at the time the acquisition is announced (Bradley, Desai and Kim (1988), Houston and Ryngaert (1992), and Eun, Kolodny and Scheraga (1996)):

$$CARC_i = \frac{MVA_i \cdot CARA_i + MVT_i \cdot CART_i \cdot (1 - TOE_i)}{MVA_i + MVT_i \cdot (1 - TOE_i)}$$

Where:

- MVT_i market value of the target firm 21 days before the announcement (t=0) of acquisition i ;
 MVA_i market value of the bidding firm 21 days before the announcement (t=0) of acquisition i ;
 TOE_i initial shareholdings of the bidding firm in acquisition i ;
 $CARA_i$ cumulative abnormal returns to the bidding firm from 20 trading days before the acquisition announcement through 20 trading days after the announcement (t=0) of acquisition i ;
 $CART_i$ cumulative abnormal returns to the target firm from 20 trading days before the acquisition announcement through 20 trading days after the announcement (t=0) of acquisition i .

The OLS-regression has the following form:

$$CARC_i = \alpha_0 + \alpha_1 MAN_i + \alpha_2 INS_i + \alpha_3 BLOCK_i + \alpha_4 ACQ_i + \alpha_5 SIZE_i + \alpha_6 COMP_i + \alpha_7 BMTB_i + \alpha_8 BLEV_i + \alpha_9 TMTB_i + \alpha_{10} TLEV_i + u_i$$

Where:

- $CARC$ Cumulative abnormal returns of combined firms are measured by pooled samples of value-weighted abnormal returns of bidding and target firm. The cumulative abnormal returns are based on the market model and are estimated over -20 to 20 trading days surrounding successful acquisition announcements (t=0). $CARC$ is calculated as the sum of the market value of target and bidding firm 21 trading days before the first acquisition announcement (t=0), times the cumulative abnormal returns of target and respectively the acquiring firm, divided by the sum of the market value of equity of the bidder and the target 21 trading days before the first announcement (t=0). The market value of target equity is adjusted for the fraction of target shares held by the acquirer at the time the acquisition is announced;
- MAN Management shareholdings are defined as the total percentage of shares owned by members of the managerial board and the supervisory board of the target firm;
- INS Institutional shareholdings are defined as the total percentage of shares owned by banks, insurance companies, pension funds, investment companies, and venture capitalists;
- $BLOCK$ Block holdings are defined as shareholdings held by outside shareholders (other than managers or institutional shareholders) who own more than 5 percent of the target shares;
- ACQ Acquisition is defined as the percentage of all shares acquired by the bidder; Market-to-book is the market value divided by the book value; Leverage is total debt divided by total assets;
- $SIZE$ Size is the logarithm of the market value of the target 21 trading days prior to the takeover announcement (t=0), divided by the market values of the bidder 21 trading days prior to the takeover announcement (t=0);
- $COMP$ Competition is a qualitative variable that equals one if there are multiple bidders, and equals zero otherwise;
- $BMTB$ Market-to-book value of the bidding firm. Market-to-book value is the market capitalization of the bidding firm divided by total assets 21 trading days before the announcement day (t=0);
- $BLEV$ Leverage is defined as the total debt divided by total assets of the bidding firm;
- $TMTB$ Market-to-book value of the target firm. Market-to-book value is the market capitalization of the target firm divided by total assets 21 trading days before the announcement day (t=0);
- $TLEV$ Leverage is defined as the total debt divided by total assets of the target firm;
- u random error term

RESULTS

The sample contains acquisitions over the period 1987-1996 on the Amsterdam Stock Exchange (AEX). For each acquisition, we collect financial data for target and bidding firm from *Datastream*. Merger and acquisition transactions, announcement days are collected from the *Dutch Financial Times*. Table 2 shows the descriptive statistics of the sample. Institutional shareholders have the largest stake in the target firms (on average 12.46%). Table 2 also shows that the market-to-book ratio for bidding and target firm is 1.59 and 1.50 respectively.

Table 2. Descriptive Statistics

This Table contains the summary statistics of 42 combined firms listed on the AEX. Management shareholdings (MAN) are the percentage of shares held by management; Institutional shareholdings (INS) are the percentage of shares held by banks, insurance companies, pension funds and other institutional shareholders; Outside block holdings ($BLOCK$) are all other shareholders who own more than 5% of all outstanding shares; Total shares acquired (ACQ) is the percentage of all shares acquired by the bidder; Relative size ($SIZE$) is the market value of the target 21 days prior to the takeover announcement (t=0), divided by the market values of the bidder 21 days prior to the takeover announcement (t=0); Market-to-book value ($BMTB$) of the bidding firm is the market capitalization of the bidding firm

divided by total assets 21 trading days before the announcement day ($t=0$); Leverage (BLEV) is defined as the total debt divided by total assets of the bidding firm; Market-to-book value (TMTB) of the target firm is the market capitalization of the target firm divided by total assets 21 trading days before the announcement day ($t=0$); Leverage (TLEV) is defined as the total debt divided by total assets of the target firm; Competition (COMP) is a qualitative variable that equals one if there are multiple bidders, and equals zero otherwise.

Variable	Mean	Median	Min	Max
Management shareholdings (MAN)	2.38	0.00	0.00	50.00
Institutional shareholdings (INS)	12.46	6.00	0.00	88.00
Block holdings (BLOCK)	9.76	0.00	0.00	99.00
Total shares acquired (ACQ)	82.83	100.00	19.67	100.00
Relative Size (SIZE)	0.56	0.35	0.01	2.92
Market-to-Book value of bidder (BMTB)	1.59	1.08	0.16	5.85
Leverage of bidder (BLEV)	0.63	0.64	0.68	0.94
Market-to-Book value of target (TMTB)	1.50	1.00	0.42	9.07
Leverage of target firm (TLEV)	0.65	0.62	0.32	0.96

The cumulative average abnormal returns for combined firms are calculated using a value-weighted basket, where the weights are equal to the market value of bidding firms and target firms 21 days before the announcement of the takeover. The results in Table 3 show that the abnormal returns to the combined firms are 2.5% over the pre-announcement period [-20, -1], and 2.1% over the post-announcement period [1,20]. Table 3 shows that the cumulative abnormal returns around takeover announcements for combined firms are positive and statistically significant. The cumulative average abnormal returns for combined firms are 4.62% over the event-window [-20, +20], which suggests that takeovers create shareholder wealth (synergy motive).

Table 3. Abnormal Returns Under Different Event Horizons

This table reports the Cumulative Average Abnormal Returns (CAAR) for combined firms during different event windows based on market model returns. The estimation of the CAAR for combined firms is based on a value-weighted CAAR of the i^{th} bidding firm and the i^{th} target firm, where the weights used are the market value on day (t_T-1) of event window $[t_1, t_2]$.

Event Horizons: CAAR	[-20, 20]	[-20, -1]	[1, 20]	[-1, 0, 1]	[-5, 5]
CAAR	4.62	2.53	1.67	0.58	2.12
t-test	(2.59)***	(2.55)***	(1.78)**	(0.83)	(2.14)**
Positive (%)	66.7	66.7	57.1	50.0	69.0

Note: ***, **, * indicates significance at the 1%, 5%, and 10% levels, respectively (one-tailed test);

We discussed three motives for takeovers to investigate which motive dominates in corporate takeovers: synergy, agency, and hubris (information asymmetry). Table 4 splits the total sample of combined firms into two sub-samples: positive cumulative average abnormal returns and negative cumulative average abnormal returns. To test which motive is valid, we derive correlation coefficients between the CARs of bidding firms, target firms, and combined firms. Panel B of Table 4 shows that we find significantly positive correlation coefficients between CARs of target firms *CART* and combined firms *CARC*, and between bidding firm *CARA* and combined firms *CARC*.

Table 4. Motives for Takeovers

This Table contains the sample of combined firms, where we measure simultaneously abnormal returns of bidding firms and target firms. The CAARs of combined firms are measured by pooled samples of value-weighted abnormal returns of bidding and target firms. The values are based on the market values of bidding and target firms prior to the event period. The sample of combined firms is split up into two sub-samples with positive and negative cumulative abnormal returns. In Panel B, Pearson correlation coefficients are calculated between *CARA*, *CART*, and *CARC*.

Panel A: Abnormal returns CAAR [-20,20]	Total	Positive	Negative			
Bidding firms	4.43 (2.54)***	10.41 (6.10)***	-6.33 (-4.09)***			
Target firms	13.76 (4.27)***	16.88 (3.82)***	8.16 (2.00)**			
Combined firms	4.62 (2.59)***	9.53 (4.96)***	-4.21 (-2.41)**			
Panel B: Pearson correlation coefficients	<i>CARC</i>	<i>CART</i>	<i>CARC</i>	<i>CART</i>	<i>CARC</i>	<i>CART</i>
Acquirer gains (<i>CARA</i>)	0.76***	0.18	0.59***	0.16	-0.73***	-0.34
Target gains (<i>CART</i>)	0.54***		0.69***		-0.11	

Notes: *t*-statistics are in parentheses

***, **, * indicates significance at the 1%, 5%, and 10% levels, respectively (one-tailed test).

In Panel A of Table 5 we find a positive relation between the target gains and the total gains for the regressions in the total sample and positive sample. In Panel B of Table 5 we find no significant relation between the returns to bidders *CARA* and the returns to target firms *CART*. Our empirical study suggests that the synergy motive dominates in our sample. But we should notice that the analysis is on a high level and other determinants might also influence the takeover motives. Our results are consistent with Berkovitch and Narayanan (1993). They find support for the synergy hypothesis in their sub-sample of positive total gains.

Table 6 shows OLS-estimates, using the abnormal returns of value-weighted portfolios of the bidder and the target as the dependent variable. The estimates of the OLS regression show that institutional shareholdings (*INS*) and outside block holdings of the target firms (*BLOCK*) have a significantly positive influence on the cumulative abnormal returns of combined firms (*CARC*). These findings suggest that large institutional and outside shareholders intensively monitor incumbent management. Furthermore, if management of the target firm (*MAN*) has a stake in the target firm the abnormal returns of the combined firms are significantly negative which might indicate some form of managerial entrenchment.

Table 5. Motives for Takeovers

The Table shows estimates of OLS regressions between *CARC*, *CART* and *CARA* for different sub-samples.

Panel A: OLS regression $CART = \alpha + \beta \cdot CARC$	Total sample	Positive	Negative
Intercept	9.22 (3.12) ***	2.98 (0.68)	7.05 (1.41) *
Coefficient	0.98 (4.10) ***	1.46 (4.71) ***	-0.26 (-0.41)
R^2	29.6%	47.0%	1.3%
<i>F</i> -statistics	16.83 ***	22.15 ***	0.17
Panel B: OLS regression $CART = \alpha + \beta \cdot CARA$	Total sample	Positive	Negative
Intercept	12.26 (3.55) ***	12.68 (1.83) **	2.54 (0.43)
Coefficient	0.34 (1.19)	0.40 (0.79)	-0.89 (-1.29)
R^2	3.4%	2.4%	11.3%
<i>F</i> -statistics	1.41	0.62	1.65

Notes: *t*-statistics are in parentheses

***, **, * indicates significance at the 1%, 5%, and 10% levels, respectively (one-tailed test).

Table 6. Regression Estimates of Combined Cumulative Abnormal Returns

This table contains OLS estimates of the effects of ownership characteristics of target firms, control variables, financial variables, market variables on the cumulative abnormal returns of the value-weighted portfolio of target and bidding firms (*CARC*). The cumulative abnormal returns are estimated over -20 to 20 days around successful acquisition announcements ($t=0$). Please refer to page 5 for detailed explanation of each variable.

INDEPENDENT VARIABLES	OLS regression	t-statistics
Intercept	-5.750 (10.021)	-0.57
Management shareholdings (<i>MAN</i>)	-0.754 (0.204)	-3.70***
Institutional shareholdings (<i>INS</i>)	0.209 (0.077)	2.70***
Outside block holdings (<i>BLOCK</i>)	0.107 (0.048)	2.24**
Total shares acquired (<i>ACQ</i>)	0.078 (0.052)	1.49
Relative size (<i>SIZE</i>)	0.914 (2.115)	0.43
Competition (<i>COMP</i>)	22.988 (6.108)	3.76***

Market-to-book value (<i>BMTB</i>)	-2.859 (1.399)	-2.04**
Leverage (<i>BLEV</i>)	0.140 (0.077)	1.81*
Market-to-book value (<i>TMTB</i>)	2.420 (1.104)	2.19**
Leverage (<i>TLEV</i>)	-0.113 (0.117)	-0.97
<hr/>		
<i>Number of observations</i>	<i>n</i> =39	
<i>R</i> ²	39.43%	
<i>F</i> -statistics	3.47***	

Note: ***, **, * indicates significance at the 1%, 5%, and 10% levels, respectively (two-tailed test);

The coefficient of the market-to-book variable of bidding firms (*BMTB*) is negative. This is consistent with Stulz, Walking and Song (1990) who estimated a significantly negative coefficient for the market value of the bidder. The coefficient of the market-to-book variable of target firms (*TMTB*) is positive and significant. A high market-to-book value might indicate that the target firm has large growth opportunities, which will increase the value of the combined firm.

This result is consistent with Stulz, Walking and Song (1990). Finally, the estimated coefficient on the competition dummy variable (*COMP*) is positive and significant. This is consistent with the findings of Bradley, Desai and Kim (1988), Stulz, Walking and Song (1990) and Eun, Kolodny and Scheraga (1996). The significantly positive coefficient supports the view that competition among bidders generates new information to the market that potential benefits may be available. This will attract high valuation bidders, who can create high synergistic post-takeover gains. Our findings show some form of managerial entrenchment, since the coefficient of managerial shareholdings (*MAN*) is significantly negative. Furthermore, our results show that monitoring by institutional shareholders (*INS*) and outside block holders (*BLOCK*) will increase the returns to shareholders of the combined firm (*CARC*). The positive relation between the market-to-book value of the target (*TMTB*) and the returns to shareholders of the combined firm (*CARC*) indicates that the target firm has large growth opportunities, which will increase the value of the combined firm.

CONCLUSION

Our study contributes to the strand of M & A literature on takeover performance and motivations by providing evidence of synergy motivations as found in Dutch companies. We find a significant cumulative average abnormal return of 4.62% over the event-window [-20, +20] for combined firms, which suggests that takeovers create shareholder wealth (synergy motive). Finding synergy motivations is valuable as this is not the case in most takeover studies. We analyze the determinants of the returns to the shareholders of the combined firm. We find empirical evidence that institutional shareholdings, outside block holdings competition and the market-to-book value of the target firm have a significantly positive influence on the returns to the combined firm. Our study contributes to the strand of M & A literature on ownership structure and takeover performance by providing new evidence that target ownership structure influences performance. Competition between bidding firms signals to high-valuation bidders the availability of high, non-firm-specific synergistic gains. As competition provides new information to the market that high potential gains might be available, it will attract high-valuation bidders to enter the contest. The empirical results are consistent with the findings of Stulz, Walking and Song (1990) and Eun, Kolodny and Scheraga (1996).

REFERENCES

- Akhigbe, A., J. Madura, and C. Spencer (2004). Partial acquisitions, corporate control, and performance, *Applied Financial Economics* 14(12), 847-857.
- Ben-Amar, W. and P. Andre (2006). Separation of ownership from control and acquiring firm performance: The case of family ownership in Canada, *Journal of Business Finance & Accounting* 33(3,4), 517-543.
- Berkovitch, E., and M.P. Narayanan (1993). Motives for Takeovers: An Empirical Investigation, *Journal of Financial and Quantitative Analysis* 28, 347-362.
- Bradley, M., Desai, A. and Kim, E.H. (1988). Synergistic gains from corporate acquisitions and their division between the stockholders of target and acquiring firms, *Journal of Financial Economics* 21, 3-40.
- Bruner, R.F. (2002). Does M&A pay? A survey of evidence for the decision-maker, *Journal of Applied Finance: Theory, Practice, Education* 12 (1), 48-65.
- Eun, C.S., R. Kolodny, C. Scheraga (1996). Cross-border acquisitions and shareholder wealth: Tests of synergy and internalisation hypotheses, *Journal of Banking & Finance* 20, 1559-1582.
- Faccio, M., J.J. McConnell, and D. Stolin (2006). Returns to acquirers of listed and unlisted targets, *Journal of Financial and Quantitative Analysis* 41(1), 197-220.
- Houston, J.F. and M.D. Ryngaert (1994). The overall gains from large bank mergers, *Journal of Banking & Finance* 18, 1155-1176.
- Jensen, M.C. (1986). Agency costs of free cash flow, corporate finance and takeovers, *American Economic Review* 76, 323-329.
- Jensen, M.C., and R.S. Ruback (1983). The Market for Corporate Control. The Scientific Evidence, *Journal of Financial Economics* 11, 5-50.
- Kohers, N. and T. Kohers (2001). Takeovers of technology firms: Expectations vs. reality, *Financial Management* 30(3), 35-54.

- Morck, R., A. Shleifer, and R.W. Vishny (1990). Do Managerial Objectives Drive Bad Acquisitions?, *Journal of Finance* 45, 31-48.
- Morck, R., A. Shleifer, and R.W. Vishny (1988). Management ownership and market valuation, *Journal of Financial Economics* 20, 293-315.
- Ramaswamy, K. P., and J.F. Waagelein (2003). Firm financial performance following mergers, *Review of Quantitative Finance and Accounting* 20 (2), 115-126.
- Ravenscraft, D.J., and F.M. Scherer (1989). The profitability of mergers, *International Journal of Industrial Organization* 7, 101-116.
- Ravenscraft, D.J., and F.M. Scherer (1987). Life after takeover, *Journal of Industrial Economics* 36, 147-156.
- Roll, R. (1988). Empirical Evidence on Takeover Activity and Shareholder Wealth in J.C. Coffee (ed.), *Knights, Raiders, and Targets*, Oxford University Press, 241-252.
- Roll, R. (1986). The Hubris Hypothesis of Corporate Takeovers, *Journal of Business* 59, 197-216.
- Romano, R. (1992). A guide to Takeovers: Theory, Evidence, and Regulation, *Yale Journal on Regulation* 9, 119-180.
- Roosenboom, P. and T. van der Goot (2005). The effect of ownership and control on market valuation: Evidence from initial public offerings in the Netherlands, *International Review of Financial Analysis* 14 (1), 43-59.
- Shleifer, A., and R.W. Vishny (1989). Management entrenchment. The case of manager-specific investments, *Journal of Financial Economics* 25, 123-139.
- Stulz, R., R.A. Walking, and M.H. Song (1990). The distribution of target ownership and the division of gains in successful takeovers, *Journal of Finance* 45, 817-833.
- Varaiya, N.P., and K.R. Ferris (1987). Overpaying in Corporate Takeovers: The Winner's Curse, *Financial Analysts Journal* 43 (May-June), 64-70.
- Yuce, A. and A. Ng (2005). Effects of private and public mergers, *Canadian Journal of Administrative Sciences* 22 (2), 111-125.