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CROSS BORDER ACQUISITION AND SHAREHOLDER VALUE – A EUROPEAN BANKING CONTEXT PERSPECTIVE

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Abstract

This thesis presents an analysis of cross-border banking mergers and acquisitions in Europe. An event study and regression analysis of 141 transactions and stock data from the period of January 1, 1997, to January 1, 2020, is conducted to identify the impact of institutions on cross-border mergers and acquisitions in the banking sector and their effect on shareholder value.
The results of the event study shows a positive relationship between European cross-border banking acquisitions and shareholder value creation during a 21-day event period. The outcome of the regression research determined that the number of CBAs will have a negative effect on shareholder value creation in the European banking system. The study concluded that the moderating effect of institutions, effective law enforcement and political ideology, is limited on the relationship between European CBAs and shareholder value creation, however the results did not reach statistical significance.

Keywords: Mergers and acquisitions (M&A), cross-border acquisitions (CBAs), shareholder value, European banking, institutions

Preface

This thesis, 'Cross-border acquisitions and shareholder value – a European banking context perspective', has been written to finalise the Master of Business Administration requirements at Rotterdam School of Management, Erasmus University. My personal interest and motivation to research the topic were triggered by the contrast between European policymakers' aim to create larger European banks and the general opinion that sizeable banks helped the spread of the worldwide financial crisis of 2008 ('too big to fail'). An expanding strategy could be enabled via acquisitions. What is the effect of a European cross-border banking acquisition on the shareholder value of the bank, and what is the influence of the target home country? Today, my questions on shareholder value creation are answered through an examination of the European cross-border banking acquisitions and behaviour patterns of the countries involved. This study certainly provides food for thought.

I would like to express my sincere gratitude to my supervisor, Alina Andrei, for all the patient guidance and advice she provided throughout the thesis period. Additionally, thanks to my thesis co-reader, Mallory Flowers, for her detailed feedback. Furthermore, I gratefully acknowledge the effort of my managers at ING Bank, Rein Graat and Cornelis Blokbergen, to make this study possible.

My father and mother deserve a specific note of thanks: your kind words have, as always, served me well.

Thank you all for your solid support.

Clemens Röling

Amsterdam, August 20, 2020

Table of Contents

1 Introduction

The introduction of the Euro was one of the achievements of the European Union (EU), that led to a single European market for financial services. As a result, the economic growth of EU member states was supported by financial and monetary integration, from the simple currency area to the full monetary union (with a single currency)[1], which allowed them to achieve higher levels of competition and financial development. The consequence of this was a more comprehensive financial services system at a lower cost, which allowed member states to increase productivity and achieve higher levels of economic growth. Nevertheless, quantifying the advantages and disadvantages of financial integration has proven difficult (Faruqee, 2007). Prior to the launch of the Euro, it was possible for European banks to facilitate their cross-border banking activities by acquiring banks in foreign countries. Another option was 'de novo banking', wherein a new bank is opened in a (foreign) country. Demine (2003) indicates that starting new banking activities is expensive, and it would not be a swift process for a bank to enter a new market. Therefore, to further enhance and develop cross-border banking for production integration and strategic diversification, the acquisition of a European bank is necessary. The path to the cross-border acquisition (CBA) of European banks and European banking consolidation has been opened by the banks.

In 2015, a total of US1.6 trillion was invested in CBA activities, a 27% increase over the 2014 figure (Thomson & Reuters, 2016). CBAs have increasingly become one of the most important international strategies for firms to enhance their performance (Anand & Delios, 1997; Shimizu, Hitt, Vaidyanath, & Pisano, 2004). For financial institutions in Europe, the number of CBAs in the EU-25 fell from 9,747 in 2001 to 8,684 in 2005.[2] This decrease could be explained by the mergers and acquisitions (M&As) that occurred within national boundaries.

The current understanding is that European policymakers are aiming to create larger European banks.[3] The creation of large banking and financial groups - operating at the cross-border (European) level and subject only to restrictions and controls that have proven to be more or

[1] Report to the Council and the Commission on the realization by stages of Economic and Monetary Union in the Community, Luxembourg, 8 October 1970, Werner Report, 1970: (i) within the area of a monetary union, currencies must be fully and irreversibly convertible into one another; (ii) par values must be irrevocably fixed; (iii) fluctuation margins around these parities must be eliminated; (iv) capital movements must be completely free

[2] European Central Bank (2006).

[3] Weber, A. (2019, November 8). *European Banking Union*, retrieved from: https://www.bloomberg.com/quicktake/europes-banking-union; checked on March 5, 2020.

less inefficient and that have generated significant concentrations of risks - was responsible for the spread of the worldwide financial crisis of 2008 (Bottiglia et al., 2010). It is interested from a research perspective how a CBA can be initiated in the banking sector and the role of the home country and the shareholders in this process.

A vital aspect of CBAs in the banking sector is shareholder value creation. The assumption is that the interests of the shareholders lead the decision-making process within a company. Because the shareholders will share the risk of a bankruptcy and provide the resources to a bank, the success or failure of a CBA in the banking sector should be evaluated in terms of value creation for the shareholders of the bank. Theories that have attempted to explain and develop and developed the concept of M&A in general include the transaction cost theory, agency theory, the resource-based view, and the market-based view (Bösecke, 2009). Most literature on M&A focuses on the economic factors involved in the outcome of an M&A transaction, such as shareholder value. However, more commonly, the literature investigates the non-economic determinations of an M&A transaction (Lin et al., 2013; Fong et al., 2019). Lin et al. (2013) found that the banking regulations of a bank's home country are a determinant of that bank's CBA activity.

Furthermore, Ahern et al. (2015) indicate that fewer mergers take place between institutions in countries that are culturally distant. These findings raise the question of what the influence of these non-economic determinants of the likelihood of engaging in CBAs are on the shareholder value of a company. The institution-based view could provide more insight into the impact of institutions on shareholder value creation (Barney, 1991; Peng et al., 2008; Williamson, 1975). According to North (1990), institutions function as the basis of a nation and influence the behaviours of companies in the nation. The literature indicates that there are two categories of institutions: formal and informal institutions (North, 1990; Meyer & Peng, 2016; Huang et al., 2016). Formal institutions are characterised by written norms, such as laws and regulations intended to streamline economic activities. In contrast, informal institutions express noncodified norms, such as the cultural values within a specific country.

In this study, theories concerning M&A are used to support the process of answering the research question; the research presented in this study is based on hypotheses informed by the institution-based view.

The central question investigated in this study is whether institutions influence shareholder value creation in the context of cross-border banking acquisitions in Europe. To answer this question, it is divided into the following three sub-questions: (i) How will do cross-border acquisitions create shareholder value?; (ii) What are the features of and catalysts for cross-border acquisitions in the European banking sector?; and (iii) What is the effect of institutions on shareholder value creation in an M&A context? These supporting questions lead to the central research question investigated in this study, which is formulated as follows:

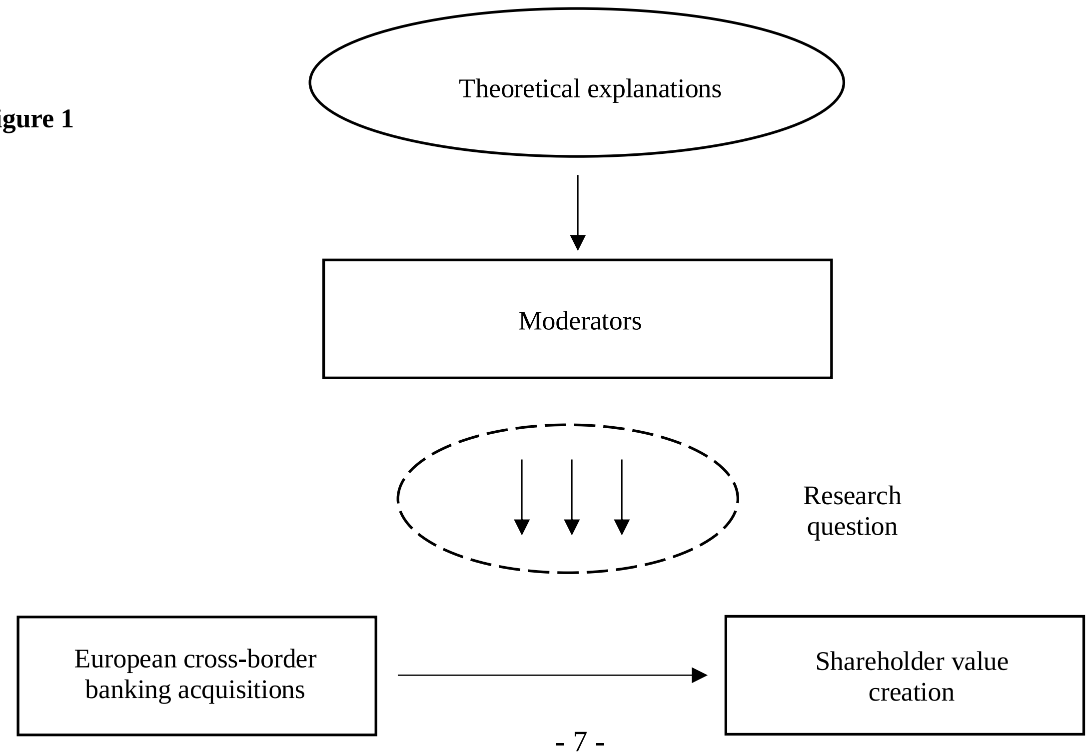
What is the relationship between cross-border acquisitions in the European banking industry and shareholder value creation, and do institutions moderate this relationship in Europe?

This thesis analyses the characteristics of cross-border mergers and acquisitions in the banking sector and their effect on shareholder value. The moderating factor for the analyses in the research is the institution of the target. This analysis is followed by the presentation of quantitative research based on the M&A datasets of cross-border banking acquisitions in Europe.

The purpose of this thesis is to study the effects of a target' home country background on shareholder value creation in cross-border banking acquisitions. Understanding the impact of institutions on bank acquisitions is invaluable for (local) policy and banks' decision-makers in the banking industry. From a banking consolidation perspective, it is important for the market to recognize that the institutional background of a bank could have an effect on shareholder value in a cross-border acquisition.

The hypothesis development is addressed in Chapter 3. The research design, including the data and methods of data collection, is explained in Chapter 4, while Chapter 5 presents the results. Finally, Chapters 6 and 7 present the discussion of the results, the limitation and the conclusion of this study, respectively.

Figure 1



2 Literature Review

This chapter explores the characteristics of an M&A transaction, the shareholder value creation of M&A, and M&A in the European banking sector in particular. In addition, institutions are defined and explored within an M&A context.

The literature review outline begins by highlighting how the topic M&A in the banking sector has been studied at length, including in empirical studies. This chapter starts with an introduction to the subjects explored in this thesis, which is followed by a discussion of the gap in the literature concerning the unexplained effects on the current literature gap on the unexplained effects of institutions in connection to cross-border banking acquisitions in Europe.

2.1 General introduction to mergers and acquisitions and related theories

To develop a better understanding of M&A and to gather additional perspectives on the drivers of M&A from a shareholder value perspective, this study outlines transaction cost theory, agency theory, the resource-based view, and the market-based view. As indicated in the introduction, the study this approach to determine the success of a M&A undertaking. The shareholder value approach requires that the decision-making process within a company leads to shareholder value creation (Bösecke, 2009). Therefore, if the starting point of the study is that an M&A transaction is a kind of an investment for the particular company, the only reason to execute an M&A transaction would be to obtain a higher market value for the company executing the transaction. Thus, in this research, the market value of the company is used as the benchmark by which to determine the success of a particular M&A transaction.

2.1.1 Transaction cost theory

According to Williamson (1985), transaction cost theory states that the best organisational structure is one that focuses on minimising the costs associated with exchanging activities by reducing the sum of the production (e.g., operations) and transaction costs, such as the costs associated with company negotiations. In the context of an M&A transaction, the transaction cost theory posits that an M&A transaction is efficient if the sum of production and transaction costs is lower than it would be in market transactions. Therefore, one reason to execute an acquisition or merger would be if the combination of two or more companies would lead to a reduction in the governance costs of the firm undertaking the merger and achieving economies of scale.

2.1.2 Agency theory

In the context of an M&A transaction, the shareholder of a company is considered to be the principal and the management the agent. The assumption is that management would have an information advantage due to the accessibility thereof (Eisenhardt 1989). For instance, an inappropriate choice of target company on the part of the shareholder and morally hazardous behaviour on the part of management could occur during an M&A transaction. As a solution, agency theory suggests that the principal initiate the framework through which control will be exerted and information exchanged to monitor the agent. The agency costs involved are the costs resulting from the principal's lack of information. Moreover, agency theory indicates the ways in which the principal's lack of information could lead to M&A transactions, such as the inappropriate choice of target company.

2.1.3 Resource-based view

According to Barney (1986), the resource-based view focuses on the importance of specific resources held by and the capabilities of a company when it is searching for a competitive advantage. The resource-based view suggests that a company's resources, not its industry profile, is vital in terms of its performance. To achieve a competitive advantage, the resources held by a company should be rare, imperfectly imitable, valuable, and difficult to substitute (Dyer & Singh, 1998).

In terms of M&A, a company with the goal of achieving access to resources that it does not currently possess to achieve economies of scale or to access expertise can obtain such resources via an M&A transaction.

2.1.4 Market-based view

In the context of M&A transactions, an acquisition or merger should offer benefits to the competitive position of a company. Based on the market view (Porter 1979), acquiring a strategic combination of companies to establish a competitive advantage could be a reason for completing an M&A transaction. Furthermore, an M&A transaction could enable a company to enter new markets quickly with the intention of increasing its competitive advantage.

In summary, the agency theory and the transaction cost theory both have a method for identifying reasons that would allow certain companies to produce above-average earnings

(Bösecke, 2009). In addition, the resource-based view and the market-based view each have an approach for identifying company strategies that could lead to stable profits. Table 1 presents each of the theories, along with its corresponding rationale for executing an M&A transaction.

Table 1: Rationales for business combinations according to major theories

Theory	**Rationales for M&A transaction**
Transaction cost theory	An M&A transaction is efficient if the sum of production and transaction costs is lower than in market transactions.
Agency theory	An M&A transaction could reduce the costs associated with the lack of information on the part of the principal and agent.
Resource-based view	M&A transaction creates access to the resources that a company does not have. M&A transaction creates access to resources with which to realise economies of scale. M&A transaction could provide access to expertise from the Target company.
Market-based view	M&A transaction enables entrance to new markets to create comparative advantages and to achieve economies of scale.

2.2 M&A in the banking industry

In an acquisition process, there are two mainstream deal arrangement processes, the (i) acquisition of stock and (ii) the acquisition of assets. In the acquisition of stock, the acquirer will buy shares from the shareholder of the target company with the aim of gaining a majority of the shares and voting rights. This results in a control function for the acquirer. An example of this process is the acquisition of ABN-AMRO Bank by Fortis Group, Royal Bank Scotland, and Banco Santander.[4]

The second mainstream acquisition process is the acquisition of assets, which means that the acquirer buys the assets of the target company. The purchase price of the assets is then distributed as a special dividend transaction to the shareholders of the target company (Stowell 2012).

[4] Heater Common (2007, October 17), *RBS faces bigger battle after winning fight for ABN Amro*, retrieved from: https://www.theguardian.com/business/2007/oct/14/money9, checked on: March 28, 2020.

As mentioned previously, the key parties involved in an M&A transaction are the acquired (or the target) and the acquirer (or the bidder) firm. The 'target firm' is a company that is bought by the acquiring company, while the 'bidder firm' is a company that tries to obtain or merge with another company (DePamphilis, 2011). As discussed previously, there are several deal arrangement processes, although M&A transactions can be divided into the following segments: (i) a horizontal segment, which indicates that the bidder and the target are members of the same sector; (ii) a vertical segment, which implies that the bidder and the target are members of the same sector but that both companies are active in a different stage of the production line; and (iii) a conglomerate segment, in which the bidder and target are members of unrelated industries (Giuliano, 2010).

There have been many M&A transactions in the banking industry since the beginning of the 1990s; these transactions have significantly altered the foundations of the financial and banking systems in both the United States and Europe. A primary result of M&A transactions in the sector has been the increased concentration of credit facilities, which has global economic implications. Numerous empirical studies have aimed to capture differing insights into the impact of such M&A activities. The first view is macro-economic, and it investigates the implications of M&A transactions for the structure of the global financial system. The impact of concentrated credit facilities on clients is an element in these investigations. The second view investigates strategic factors and the value creation of an M&A transaction in the banking sector (Bottiglia et al., 2010).

The formation of a European single currency began in 1989. The Committee for the Study of Economic and Monetary Union (CSEMU) created a report containing a recommendation to create a single currency with a transition period of 10 years. The conclusions of the CSEMU made their way into the Treaty on European Union 1991, the Maastricht Treaty.[5] One of the results of the implementation of the single currency was the clearing mechanism and the payment system. The national central banks organised the payment system and the settlements - Real-Time Gross Settlements (RTGS) - across the banks, which flow via the ECB's Target system. Consequently, a harmonisation of the banking regulatory systems was achieved (Demine, 2003).

Actors in the global banking sector had a desire to attract capital not only from their own countries of origin but also globally. The internal capital flow that resulted from the attraction of global capital served as a catalyst for exploring M&A transactions to ensure stronger market

[5] European Monetary Integration: 1958–2002

positions. As a result, strong and large domestic banking groups with local origins were formed via domestic M&A transactions. Therefore, the banking consolidation process began via domestic banking M&A transactions. The downside to the creation of so-called 'national champions' was the low number of banks and the increased level of concentration in the domestic banking sector. One consequence of this increased level of concentration was antitrust issues, such as price-fixing among banking competitors and monopolisation (Hernando et al., 2009). Subsequently, the large banking companies intensified their cross-border banking activities and integrated more activities, such as insurance and asset management, through CBA transactions (Bottiglia et al., 2010).

The different types of M&A transactions, which indicate the differences between the formation of new domestic banks and large international banking groups, are (i) a domestic bank transaction, an M&A transaction between banks operating in the same country; (ii) an international bank transaction, an M&A transaction between banks operating in different countries; (iii) a domestic conglomerate transaction, an M&A transaction between banks and companies with other financial expertise (e.g., insurance activities) operating in the same country; and (iv) an international conglomerate transaction, an M&A transaction between banks and companies with other financial expertise (e.g., insurance activities) operating in different countries. Table 2 provides an overview of the different types of M&A transactions:

Table 2: Types of banking M&A transactions

	Domestic	**Cross-Border**
Between banks	**Domestic bank** M&A transaction between banks operating in the same country (horizontal) Example: UK banking Acquisition: Woolrich bank acquired by Barclays bank in 2000.[6]	**International bank** M&A transaction between banks operating in different countries (horizontal) Example: Spanish – UK banking transactions: UK Bank Abbey National acquired by Spanish Banco Santander[7]

[6] BBC news (2000, August 11,), *Barclays buys rival Woolwich*, retrieved from: http://news.bbc.co.uk/2/hi/business/875639.stm, checked on: July 20, 2020.
[7] Heather Timmons (July 27, 2004), *Deal Gives Banco Santander a Foothold in Britain*, retrieved from: https://www.nytimes.com/2004/07/27/business/deal-gives-banco-santander-a-foothold-in-britain.html, checked on: July 20, 2020.

Cross-sector	**Domestic conglomerate**	**International conglomerate**
	M&A transaction between banks and companies with other financial expertise (e.g., insurance activities) operating in the same country	M&A transaction between banks and companies with other financial expertise (e.g., insurance activities) operating in different countries
	NL: ING bank buys majority stake in Dutch payment processor Payvision[8]	UK bank: HSBC expands the asset management activities: HSBC-owned company CCF buys majority stake in French based Sinopia Asset Management[9]

This study investigates the international bank M&A transactions and the international conglomerate M&A transactions caused by the cross-border component of the transaction (CBA). Furthermore, this thesis attempts to identify the determinants of a European international bank M&A transaction.

2.3 Determinants of M&A transaction in connection to value creation

Most of the literature on determinants of M&A transactions in the banking sector is related to American market and banks. In a study conducted by Hannan and Pilloff (2009), the targets of a US bank acquisition were analysed were analysed using datasets in which domestic and cross-border transactions were recorded separately. Studies on the determinants of European banking acquisition transactions indicate that domestic transactions are driven by cost efficiency reasons and that product diversification is more vital for CBA transactions (Molyneux, 2003). Hernando et al. (2009) concluded that domestic and CBA transactions differ in the area of market concentration. CBAs are more likely to be executed in concentrated markets, and domestic takeovers are less likely to occur. Hernando et al. (2009) describes six features of the most probable determinants of European CBAs.

The first feature is **capitalisation**, the interest in a bank as a possible target is based on its capital-asset ratio. There are positive and negative hypotheses in the literature concerning the relationship between the capital-asset ratio of a bank and the probability of it being considered

[8] Financial Times (2018, January 29), *ING buys majority stake in payment processor Payvision*, retrieved from: https://www.ft.com/content/528c8cb0-04c3-11e8-9650-9c0ad2d7c5b5, checked on: July 20, 2020.

[9] Hugh Wheelan, (2001, October 1), *HSBC-CCF buys back Sinopia Asset Management,* retrieved from: https://www.ipe.com/hsbc-ccf-buys-back-sinopia-asset-management/4472.article, checked on: July 20, 2020.

as a target. The positive relationship between a highly capitalised bank and being considered as a target could be predicted due to regulatory legislation or a regulator recommendation to increase the capitalisation of banks (Akhigbe et al., 2004). However, most investigations have found a negative relationship in their analyses, which indicates that the probability of a horizontal acquisition of a highly capitalised bank is low (Lanine & Vander Vennet, 2007; Hernando et al., 2009).

Second, **higher efficiency** on the part of the target is one of the determinants of European CBAs. On the one hand, a bank with a low level of profitability could be pursued as target, as the probability of gains for the acquirer are more achievable. On the other hand, such a level could indicate a negative performance of the bank, such as a high cost-income ratio and a high level of non-performing loans. In the study conducted by Lanine and Vander Vennet (2007), the relationship was found to be insignificant between the coefficients on the expense ratios (i.e., indication of potential improvements in efficiency). The results of the study did not indicate a positive relationship between a European banking acquisition and the underperformance of a target bank or efficiency improvements. Furthermore, based on the study's results, Hernando et al. (2009) suggest that inefficient and less profitable banks are not necessarily more likely to be targets in a CBA.

The next feature is **size**, smaller banks might be pursued as targets, as anti-trust regulators do not foresee anti-trust challenges. Another reason could be that smaller sized banks could be merged with the acquirer without difficulties. However, if a bank is attempting to achieve economies of scale or seeking to increase its market share via a CBA, it is more likely to acquire a larger sized bank. Hannan and Pilloff (2009), Vander Vennet (2007), and Hernando et al. (2009) show a significantly positive coefficient on total assets of CBA transactions in their studies based on the hypothesis that larger banks are more likely to be acquired by other banks.

A fourth factor related to European CBAs is **growth**. A bank might draw more interest as a target if it can show high growth ratios. Potential gains could result after an acquisition, especially if the bank is operating in a growth market. However, an acquirer may also consider a bank as a target if the former's growth rate is low. Hernando et al. (2009) included a growth variable (i.e., the annual growth rate of the target country and the gross domestic product annual growth rate of the target's assets), although the study did not find any significant correlation between the growth of the target and the probability of an acquisition. Lanine and Vander Vennet (2007) and Hannan and Pilloff (2009) did not mention a clear growth variable.

The next element is **management incentives** in a CBA. There are many management incentives, such as losing job positions after the CBA. The potential loss of positions could result in the board of a target bank competing against the board of the acquirer, even if the CBA will create value maximisation for the shareholders. Due to the lack of data and studies, a positive or negative relationship between management incentives and the probability of being a target cannot be identified.

The final, most probable determinant of European CBAs is **industry concentration**. In this study, industry concentration is equated to consolidation in the banking industry. The probability of an acquisition could be affected by the level of concentration of the banking industry in a specific country (Hernando et al., 2009). This could indicate that foreign European banks are attracted to high rents. As a result, a CBA will not have an impact on the banking market concentration in a country, and it would not be affected by local anti-trust regulators. Hence, CBAs are more likely to occur in a European country in which many banks are consolidated.

Therefore, it can be concluded on the basis of several studies that larger sized banks are more attractive targets than smaller banks, that CBAs are more likely to occur in more concentrated banking markets, and that there is not a clear indication in the literature as to whether inefficient and less profitable banks are less likely to be considered as targets in cross-border transactions. This study has identified the characteristics sought in a target bank by analysing the differences between banks that were targets versus banks that were not acquired.

The abovementioned background information on M&As provides more insight into the reasons for M&A in the banking industry, as well as the likelihood of being acquired as a bank. However, based on the findings of these studies conducted by Jia (2018) and Shimizu et al. (2004), home country institutions affect CBAs. What is the nature of institutions, and what impact do both the formal and informal institutions in targets' home countries have on CBAs?

2.4 Institutions

CBAs have progressively developed as an important strategy for companies to improve their performance. However, Huang et al. (2016) suggest that acquirers fail to gain value from CBAs. In particular, in CBAs, the cultural distance and host country culture affect acquisition performance (Huang et al., 2016). However, this study emphasises that the extent to which acquirers gain benefits in the form of shareholder value from CBAs may differ among institutions.

According to North (1990), institutions function as the basis of a nation and influence the behaviours of companies in the nation. The literature indicates that there are two categories of institutions: formal and informal (North, 1990; Meyer & Peng, 2016; Huang et al., 2016).

Formal institutions are characterised by written norms such as laws and regulations intended to streamline economic activities. In contrast, informal institutions express noncodified norms such as the cultural values within a specific country. Formal and informal institutions are nation-specific. Table 3 presents examples of formal and informal institutions drawn from North (1990)

Table 3: Examples of formal and informal institutions based on North (1990)

Formal	**Informal**
Statutory law	Behaviour patterns
Social, public, financial regulation	Culture
Rule enforcement	Political ideology
Judicial system	Religion and beliefs
	Social trust

According to Peng and Khoury (2008) and Van Essen et al. (2012), the institutional framework dictating a company's strategy and practices is influenced by these national institutional factors. The institutional-based view focuses on the complementary set of national institutional factors that can offer a rationale for entering into an M&A transaction. For instance, the political environment of a country and its legal system could have an impact on a bank's decision to enter into an acquisition.

Formal and informal institutions appear to have an impact on CBA activities. An example of the impact a formal institution could have on CBAs is a national banking regulator approving an ownership transfer to a foreign-based bank. Additionally, there could be changes to local laws in an attempt to strengthen the liberalisation of a certain country (e.g., to encourage foreign acquirers' foreign acquirers).

The institutional-based view provides a valuable theoretical perspective for understanding the international expansion strategies of a company; however, national characteristics in combination with CBAs and the effect on shareholder value have not been mentioned in the literature.

3 Hypotheses Development

The following section describes the assumptions undergirding the ways in which shareholder value creation is connected to cross-border banking acquisitions in an institutional-driven landscape. Based on the resource-based and institutional-based views, the hypotheses are the hypotheses explored in this research are formulated.

This study takes as its starting point the connection between cross-border banking acquisitions and shareholder value creation (Lensink and Maslennikova, 2008). Going back to the Transaction cost theory and Market based theory, where an acquisition enables entrance to new markets to create comparative advantages and to achieve economies of scale including, one can then expect that a CBA creates positive gains for the acquirer. The resource-based view has been adopted to explain why cross-border banking acquisitions could create shareholder value. As previously explained, the literature indicates that the resource-based view focuses on the specific resources and capabilities of a company in searching for a competitive advantage (Barney, 1991). In an acquisition, the acquirer can gain access to resources that it would not otherwise possess. On this basis, the target could transfer the rare, imperfectly imitable, and valuable resource to the acquirer to achieve economies of scale. The literature on M&A suggests that the shareholder value gain for the acquirer is not ideal, since it is likely that the value of the target and the value of the resources of the target will be overestimated (Zajac & Bazerman, 1991). Premiums should be paid for the target's valuable resources, which may not lead to optimal gain due to the fact that the paid premium is above the fair value of the resources of the target in certain situations. This may limit the shareholder's value creation because the resources could be acquired via an inexpensive target in a specific case. However, the premium paid in the banking sector can be justified differently. In a cross-border banking acquisition, the justification for the premium could be explained so that there are similar advantages to both positions once resources are combined resources. Both European banks could leverage and integrate the resources in a structured manner given that they are part of the overarching European financial and monetary banking system (Hannan and Pilloff (2009). In the case of a small German digital retail bank with mostly German clients being acquired by a large by a large bank operating in another European country that engages in retail and wholesale activities, it would be expected that, for both banks, the combined resources could not have been achieved without the M&A. The digital German banking platform could be integrated into the European network of the European bank. The German bank would then be in a position to reach European clients, which could give it a competitive advantage via economies of scale. The European bank, in contrast, could further establish its presence in Germany and may use the German bank's retail activities, such as savings, for other funding-related activities in Europe. This is an economy of scale gain for the European bank, since obtaining a resource is more cost-efficient than creating it. However, there are likely a limited number of complementary (banking) resources to be obtained via a CBA (i.e., a limited number of products and services for the same customers and the same products and services for new customers).

According to Barney (1986), the resource-based view focuses on the importance of specific resources held by and the capabilities of a company when it is searching for a competitive advantage. The resource-based view suggests that a company's resources, rather than its industry profile, are vital in terms of its performance. To achieve a competitive advantage, the resources held by a company should be rare, imperfectly imitable, valuable, and difficult to substitute (Dyer & Singh, 1998). A company with the goal of achieving access to resources that it does not currently possess to achieve economies of scale or to access expertise can obtain such resources via an M&A transaction.

Therefore, the assumption is that the combined resources could not be achieved in any way other than by a merger or acquisition. Hence, the expectation is that a transaction will initially increase shareholder value for the acquirer; however, too many additional products and services could be combined via the CBA, making them inessential or redundant for the acquirer. This could result in a loss of value.

Therefore, the expectation is that CBAs will have a positive effect on shareholder value creation in the European banking market.

Hypothesis 1: **The number of CBAs has a positive effect on shareholder value creation in the European banking system, ceteris paribus**

After the two central frameworks in strategy management—the market-based theory (Porter, 1980) and the resource-based theory (Barney, 1991)—the institutional-based view has attracted the most attention from scholars. According to Peng et al. (2009), the institutional-based theory draws on these two central frameworks while integrating the role of institutions in explaining why companies differ in terms of competitive advantage. North (1990) claims that rules and laws are required for doing business and that the boundaries humans enforce on themselves—in the form of the norms imposed by the institutions of their countries—affect their behaviour towards these laws, which indirectly relate to cross-border banking acquisition.

According to Scott (1995), a legal structure should be incorporated for companies to facilitate their activities. An internal governance mechanism could play a role; for example, in agency theory, governance effectiveness may involve protecting the shareholders' interests (Aguilera & Jackson, 2003, Aguilera et al., 2008). Furthermore, a legal structure creates a level playing field and decreases the level of uncertainty for a company. As indicated by Aguilera (2005), investor confidence could be restored if the director accountability bar is raised, which may translate into higher market capitalisation.

A robust legal system should incorporate effective law enforcement. An acquisition of a foreign European bank may lead to a legal dispute between the management and shareholders of the target on the one hand and the acquirer on the other. The legal dispute could be related to certain acquisition conditions, such as acquisition price and job security for the employees of the target. It is likely that an acquirer, as a foreign entity, would need assurance that the dispute would be handled in a fair and equitable manner. Moreover, the assurance would also provide the acquirer with sufficient resources to focus on improving the evaluation process of acquisition options. The acquirer could then use the available resources for due diligence in the search phase instead of wasting them on resolving future disputes.

This study tests whether effective enforcement of the laws of the target home country results in a stronger relationship between a cross-border banking acquisition and shareholder value creation. The acquirer would be in a position to better use, as opposed to misuse, the resources during the cross-border banking acquisition process. An example of misusing valuable resources would be resolving legal disputes emerging out of the cross-border banking acquisition. Therefore, it can be expected that the relationship will be positively moderated by the law enforcement of the target's home country.

Hypothesis 2a:

The relationship between European cross-border banking acquisitions and shareholder value creation will be stronger for target home countries where law enforcement is effective.

In the previous section, informal institutions were described as having noncodified norms. In the institutional-based view, these informal institutions are a response to economic or social problems and therefore guide human behaviour. In this way, informal institutions are maintained by behaviours rather than by laws or regulations. In addition to formal institutions, a CBA will also be influenced by the informal institutions of the home country.

There are key differences between the two institutional categories. While formal institutions rely on third-party rule enforcement (e.g., courts), informal institutions create self-enforcing rules of proper behaviour. Neither can be breached by the target company or the acquirer because the reputation of both would be damaged as a result (Van Essen et al., 2012). The following example should make this more concrete: The government of the target company has a strict banking policy in place that restricts foreign banks from owning more than 50% of the shares of a local bank. Although this policy is not a regulation, it restricts the potential behaviour of foreign banks in a way that the banks perceive to be ineffective. It might create strict or even inappropriate boundaries in terms of behaviour for a foreign bank. It could be argued that better outcomes could be realised via alternatives to laws and regulation by the government (e.g., industry self-regulation). Policymakers could stimulate such industry self-regulation standards (i.e., soft law), which might result in disputes heading directly to court. On this basis, Roe (2002) suggests shareholder value creation is impacted by politics. The effectiveness of governmental regulations is connected to the political ideology of the government in general (Gunningham & Rees, 1997). There are three key European political ideologies, which differ in their perspectives on the role of the government: conservatism, liberalism, and social democracy. Conservatism means that, as much as possible, a government will not make changes to the existing state of affairs. The antonym of conservative is progressive, which implies that a progressive government is in favour of improving matters through reform. There are two main progressive political ideologies, liberalism and socialism. The key focus of liberalism is freedom, both personal and economic, such as industry self-regulation. The realisation of freedom can be achieved via a smaller government and fewer laws. Lastly, social democracy prefers a government that has a greater influence on society, as theoretical freedoms only apply to the wealthy and not to the working class (Lavertu & Moynihan, 2013). To balance out inequality, social democracy suggests that a progressive tax system be implemented by taxing the wealthiest class and creating more funds for state programs such as social security.

A political ideology can have an effect on the relationship between CBA and shareholder value creation. The assumption is that a CBA can occur if complementary resources promise to generate more revenue. This results in higher shareholder value for the acquirer. In a liberal-oriented home country, the acquirer could make use of its resources more efficiently. If there are fewer M&A-related banking law restrictions (i.e., an open economy), acquisitions could be more swiftly established without governmental restrictions; this would be a more effective process from a resource perspective. The acquirer could make use of its resources more efficiently and not use resources that are unrelated to the core cross-border banking acquisition process. In a social-democracy-oriented home country, more resources would be distributed to comply with stricter employment-related regulations, and there would be stronger tax implications for the CBA. Therefore, it is expected that the relationship between cross-border banking acquisition and shareholder value creation for the acquirer will be positively moderated by a more liberal political ideology in the target's home country. This leads to the following hypothesis:

Hypothesis 2b:

The relationship between European cross-border banking acquisitions and shareholder value creation will be stronger for target home countries where a liberal political ideology is predominant.

4 Research Methodology

4.1 Sample description

This study uses a dataset obtained from Zephyr, a database that stores information concerning worldwide M&A-related transactions. Currently, the database contains more than 1.4 million historic records on M&As. The dataset extracted from the Zephyr database includes 1.2 million confirmed M&A transactions between January 1, 1997, and January 1, 2020. This study considers only completed M&A transactions, meaning those where the acquirer obtains more than 50% of the shares of the target. To determine what qualifies as a bank in this context, the North American Industry Classification System (NAICS) is used for the industry classification. Commercial banking and saving institutions are considered banks. In addition, the acquirer and target must be merged in either Western or Eastern Europe, and the acquirer should be listed on the stock exchange. Furthermore, only cross-border deals are considered. The application of these requirements led to the sample size decreasing to 807 M&A transactions. Moreover, samples are omitted in cases where the acquirer and target were not acquired within the EU (or Switzerland, Iceland, Norway and Lichtenstein). Eikon is used to obtain the stock prices of each acquirer for the specific periods surrounding the completion dates. Out of these 807 CBAs, the research is able to examine 141 CBAs owing to the data queries of historic stock prices of 606 acquirer banks which could not be found.

The data used to capture the variable of formal institution law enforcement effectiveness is obtained from the World Bank's Doing Business Project. This variable indicates and measures the time required to enforce a contract. The time is recorded in calendar days from the time the lawsuit is first filed until the decision is made by judges in a court of law. According to the World Bank, timeliness is a key indicator of the effectiveness of a country's legal institutions. Timeliness provides comfort to the parties involved in a dispute by confirming that the contractual obligations will be enforced through the courts (Doing Business, 2020). Besides time, money is required to enforce a contract through the courts. Overall, law enforcement effectiveness is assigned a score between 0 and 100. The ranking is determined by sorting the scores for enforcing contracts. These scores are the average of the scores for each of the component indicators.

The dataset of political ideology is taken from the World Values Survey. The survey began in the 1980s; it is coordinated by the Institute for Social Research and obtains informal institutions, such as values, from more than 90 countries across the globe (Kauffman, 2018).

The questionnaire collects data on, among other factors, religion, political preferences, health, and tolerance. The data used to evaluate the informal institution of political ideology is obtained through the responses of the participants. The respondents were requested to share their views on the role of government on a 10-point scale, where 10 = ‘Government should take more responsibility to ensure that everyone is provided for’ and 1 = ‘People should take more responsibility to provide for themselves’; therefore, lower scores on this variable indicate that the respondents living in a particular country want the government to be smaller and to ensure more personal and economic freedom. Such responses indicate a liberal political ideology. A 0 score means that no data was available for the specific country.

4.2 Sample statistics

The final dataset sample contains 141 European cross-border M&A transactions. The characteristics of the dataset sample are presented in Appendix A.

4.3 Methodology

This thesis adopts a quantitative methodology. In this section, the methodology and the model used to test the hypotheses are explained. Thereafter, the event study is elaborated on, and the event window is described. Finally, this section presents the regression analysis, including relevant information concerning the tested control variables.

4.3.1 Event study

The acquirer’s shareholder value creation is measured by the share performance of the acquirer. The most commonly used method in empirical research for testing share performance after an M&A transaction is an event study. As indicated previously, the performance of the M&A transaction is measured via the post-transaction share returns of the acquirer. To analyse an event study, the method developed by MacKinlay (1997) and Bowman (1983) is adopted and used. An event study measures the effect of an event on the share performance of a company using the share prices observed over a specific timeframe. Therefore, the event study is used to identify the cumulative average abnormal return (CAAR) of the share price during the cross-border acquisition transaction (event).

An abnormal return on the share price indicates a discrepancy between the normal return (i.e., benchmark return) and the actual return. The abnormal return functions as the dependent variable, which is moderated by the CBAs. According to Bowman (1983), five steps are involved in conducting an event study. This analysis employs three steps because the determination of the event (i.e., the announcement date of the cross-border banking acquisition) is straightforward in this situation.

These steps include (i) the determination and timing of the event, (ii) the specification of the benchmark model in order to identify the performance of the share returns, and (iii) the analysis of the abnormal return during the event date.

For a specific bank, *i*, and event date, *t*, the abnormal return of the share price is calculated as follows, where AR_{it} is the abnormal, R_{it} is the actual, and $E\,(R_{it}/X_t)$ is the normal return:

$$AR_{it} = R_{it} - E(\frac{R_{it}}{X_t}) \tag{1}$$

As indicated previously, the normal return is used to determine the return if no cross-border transactions were to happen. To model the normal return, this study uses the market model. The market return is the same as X_t. A linear relation is considered between the security return and the market return, which is based on β of the acquirer. This study aims to find the *ab*normal returns and uses the market model in its analysis.

Furthermore, this analysis uses an estimation window and an event window and identifies the announcement of the cross-border transaction as the event. The calculation of the normal returns is based on a specific timeframe, which is referred to as the estimation window. There is no consensus in the literature regarding the normal return window. According to Brown and Warner (1985), the window should start 45 months before the event, for a total period of 35 months. This analysis uses a shorter period because, according to Martynova and Renneboog (2006), a shorter period is still valid. An estimation window of 300 days until 60 days before the event is used [-300;-60].

Furthermore, calculation of the *ab*normal returns is based on a specific timeframe referred to as the event window. Because the expectation is that the cross-border banking transaction announcement will be reflected directly in the share price, the focus of the analysis is on a relatively short timeframe. Although the merger of resources and reflection on the stock will take more time, short timeframe event studies have found abnormal returns, showing abnormal performance in the longer run (Brown & Warner, 1985). Therefore, an event window of 10 days before the event (t = -10) and 10 days after the event (t = +10) will be used, for a total of

21 trading days.

When the analysis identifies the *ab*normal returns of the specific acquirer bank, the cumulative abnormal return (CAR) can then be determined, which is the sum of the individual abnormal returns of the specific acquirer banks.

4.3.2 Testing abnormal performance

To calculate the CARs, the stock performance of the acquirer would need to be analysed over a longer period on the basis that the event date causes the abnormal return to span beyond the event date.

The CAR is calculated as follows:

$$CAR_i = \sum_{t=t_1}^{t_2} AR_{it} \tag{2}$$

Large deviations of the average *ab*normal return from zero indicate abnormal performance. The abnormal returns reflect the effect of the event because the abnormal returns are all centred on the event. Therefore, information unrelated to the event is not included.

In this study, we analyse the stock performance over a longer timeframe. Consequently, the cumulative average abnormal return is used, where the abnormal returns are combined from the start of the event period, $t_1$up to t_2.

$$CAAR = \frac{N}{1}\sum_{i=1}^{N} CARi \tag{3}$$

where:

$CAAR$ = *cumulative average abnormal return*

The CAAR in this analysis indicates the average of the 21-day CARs of the 141 CBAs and allows for an analysis of the cross-border banking acquisition performance of the sample.

A positive CAAR leads to a conclusion that the average returns are positive in the event window period. If the CAAR is negative, this indicates that the CBA has a negative effect on share price performance during the event window period.

4.3.3 Regression analysis

The CAARs found in the event study are used for the regression analysis. The effects of the CBA sample on the share price are determined. The results of the ordinary least squares regression (OLS) analysis are used to test empirical predictions in the analysis.

The obtained CAAR from the event study analysis is used as a dependent variable in a regression analysis to see what variables have an influence on the CAAR.

Regression Model

The following regression is used to test the effect the various variables have on the CAARs of the sample:

$$CAAR_{-t;+t} = \alpha_{0,it} + \beta_1 PERFE + \beta_2 PERFA + \beta_3 LEF\,THC + \beta_4 PI\,THC + \beta_5\,YEAR + \varepsilon \tag{4}$$

where:

$PERFE$ = *Performance indicator 1: Return on Equity*

$PERFA$ = *Performance indicator 2: Return on Assets*

$LEFTHC$ = *Law effectiveness score Target Home Country*

$PITHC$ = *Political Ideology score Target Home Country*

YEAR = the year of the announced CBA

The provided CAAR results from the event study analysis are used as the dependent variable in a regression analysis to see what variables have an influence on the CAAR. The study is interested in the linear effect; hence, a method to find a linear model of the relationship between the dependent variable and the independent variable is included.

Variables

In this study, the dependent variable is CAAR 21-day, calculated via the event study method. This is the key variable for this thesis. The changes to the dependent variable are what this research tries to measure. As emphasised in the Hypothesis section, this study supposes that the number of CBAs will affect the CAAR. Therefore, the number of CBAs is the independent variable used in this study. For the moderating relationship two moderating variables are used in this study. First, law enforcement effectiveness of the target home country and, second, political ideology of the target home country are used as the moderating factor between the key relationship.

The control variables of this study are performance indicators of the acquirer bank. This study controls for firm performance measured via the return on equity (ROE) ratio, defined as net profit/total equity. Past research has theorised that performance and the interest in a bank as a possible target are based on its ROE ratio. There are positive and negative hypotheses in the literature concerning the relationship between the ROE of a bank and the probability of it being considered as a target. The positive relationship between a highly performing and capitalised bank and being considered as a target could be predicted due to regulatory legislation or a regulator recommendation to increase the capitalisation of banks (Akhigbe et al., 2004). Moreover, this study also controls for firm performance measured via the return on asset (ROA) ratio, defined as net profit/total assets. The ROA helps to understand how assets or resources are used to generate more income. Lastly, this research controls for time effects – for instance for the financial crisis in 2008 - through a categorical year variable.

5 Data Analysis and Results

The analysis results of the acquirer CAARs in the event of a CBA are shown in the following section. The characteristics of the acquirer bank in connection to the CAARs are described.

5.1 Findings

5.1.1 CAAR

Table 4 indicates that around the announcement date (t = [-10:10]), 10 days before the announcement date, and 10 days after the announcement date, the CAAR of the acquirer banks is positive, 0.54%. In the below figure the acquirer's abnormal return's change is stated.

Table 4: Summary statistics

The below table indicates the CAAR for the acquirer banks during the event window. T=0 indicates the day of announcement of the CBA. The previous section indicates the calculation of the AB and the daily benchmark returns the S&P Europe 350 is used. For the normal return [-300:-60] the research used, 300 trading days prior the event to 60 trading days prior to the announcement date.

Summary statistics

Variables	Obs	Minimum	Maximum	Mean	Std. Deviation
CBA number	807	0.000	26	2.28	5.435
ROA	599	-24.681	6.146	0.5636	1.9834
ROE	509	-5.996	0.8189	0.0523	0.4526
Political ideology	660	0.000	5.81	1.1815	2.0292
Enforcing contracts	807	48.1	81.3	65.858	8.8448
CAAR 21d	141	-0.2906	0.1574	**0.0054**	0.0601

The summary statistics are mentioned in Table 4. The CAAR is calculated via the event study method descripted under section 4.3.1. The 21-day CAAR indicates that for one acquirer bank the stock price is negatively impacted with 29.06% over a period of 21 trading days (event period). The negatively yield is potentially impacted by the financial crisis of 2008 as this particular CBA was announced in 2008. The indicated maximum CAAR out of the 141 CBAs banks is 15.7%. The 15.74% implies a positive stock price impact over a period of 21 trading days. The ROE is calculated dividing net profit by total equity, with higher ROE indicating the ability to make profit out of the invested equity. The sum of the ROE is on average 5.23%. The sum of the law effectiveness score among the target home country is on average 65.86. It is noted that the ROA indicates some unusual minimum and maximum results, which implies errors in the data sample.

Table 5: Correlation matrix

Variables	1	2	3	4	5	6
(1) CBA number	1					
(2) ROE	0.114*	1				
(3) ROA	0.231**	0.498**	1			
(4) Political ideology	-0.040	-0.011	-0.039	1		
(5) Enforcing contracts	0.127**	0.035	0.021	0.160**	1	
(6) CAAR 21d	0.059	0.189	0.284**	0.048	0.103	1

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

The correlation matrix between the variables is displayed in Table 5. The correlation coefficients are used to measure the strength of the relationship between two variables. The Pearson correlation is used to generate the correlation coefficient. If a value is higher than 0.5, it indicates a strong correlation between the variables. There is no correlation observed which is higher than the threshold of 0.5. For instance, the ROE and the law effectiveness score (enforcing contracts) will have a coefficient of 0.035. This means that the variables said to have a very weak linear relationship. The positive correlation between the 21-day CAAR and ROE (0.189) implies that the values increase together.
It is indicated in Table 4 that the CAAR for the listed companies is slightly positive during the event period. Therefore, there is an indication to signal that CBAs have a positive cumulative average abnormal return on the stock price of the acquirer bank.

5.1.2 Regression

As indicated in section 4, the analysis of the effect of the different relationships is done in SPSS. The regression analysis outcome follows with an elaboration.
To test the hypotheses 1, 2a and 2b, a regression analysis is computed and the results are presented in Table 6 below. The base model is Model 1 and includes the control variables. Model 2 is used to test the relationship between the CAAR and the number of CBAs when measuring the independent variable as the number of CBAs.

Additionally, Model 3 and 4 test the moderating interaction effect of the law effectiveness of the target home country on the relationship between the CAAR and CBAs.

Furthermore, Model 5 and 6 test the moderating interaction effect of political ideology of the target home country on the key relationship between the dependent and the independent variable.

Table 6: Summary of all results testing Models 1-6 with CAAR 21-day as dependent variable

Variables (CAAR 21-day DV)	**(1) Model 1**	**(2) Model 2**	**(3) Model 3**	**(4) Model 4**	**(5) Model5**	**(6) Model 6**
Control variables						
ROA	0.015*	0.015*	0.015*	0.015*	0.022*	0.022*
ROE	0.006	0.011	0.017	0.014	0.059	0.059
Year	0.000	0.000	0.000	0.000	0.000	0.000
Independent variable						
Number of CBAs		-0.004	-0.003	0.026	-0.005	-0.005
Moderating variables						
Enforcement Contracts			0.001	0.001		
Enforcement_ctr x Number CBAs				0.000		
Political ideology					0.003	0.004
Political ideology x Number CBAs						0.000
_cons	-0.484	0.417	-0.206	-0.147	-.346	-0.288
Obs.	67	67	67	67	59	59
R-squared	0.116	0.123	0.144	0.147	0.173	0.173

*p<0.05

The R-squared will imply how the regression model fits the observed data. In Model 1, a R-squared of 0.116 reveals that 11.6% of the data fit the regression model. In general, a higher R-squared (>0.5) indicates a better fit for the model as the R-squared evaluates the scatter of the data points around the regression line.

The outcome of Model 1 shows the effect of the control variables. The results indicate that an acquirer bank with high performance ratios will have a positive effect on shareholder value creation via CBAs. It is observed that the ROA indicates a coefficient higher than zero, (β= 0.015, p<0.05), which was expected based on the literature (Akhigbe et al., 2004).

In Model 2, this relationship is tested by the number of CBAs as the independent variable. In contractionary to what we expected based on the theory, the outcome indicates a not significant negative relationship, (p>0.05); (β= -0.004), between the dependent and the independent variable. Based on the results, the outcome illustrates a negative relationship between the 21 day CAAR and the number of CBAs in the event window period; hence, the results do not support hypothesis 1.

Hypothesis 2a of the thesis is tested via Model 3 and Model 4 to emphasise the moderating effect of law effectiveness of the home country between the number of CBAs and the CAAR. Model 4 includes the interaction effect between the independent variable and the law effectiveness of the home country and shows that the moderating variable is close to zero and not significant (β=0.000, p>0.05). Therefore, there is not an interaction effect observed between the moderator and the main relationship. This result is opposite to what was expected, and based on the outcome, hypothesis 2a is rejected.

Subsequently, in Model 5 and 6, the moderating effect of political ideology of the target home country is examined between the main relationship, the dependent and the independent variable. The test shows that the interaction coefficient is not significant and close to zero, (β=0.000), (p>0.05). Contractionary to what was expected based on literature, the interaction effect is very limited. Therefore, the outcome of the test does not support hypothesis 2b.

6 Discussion

In this section of the study, the presented results are discussed. The starting point is the academic contribution, followed by the practical implication of this thesis. Next, the limitations of this study are shown and the directions for future research are discussed.

6.1 Academic contributions and practical implications

This study uses the key moderator institutions as the theoretical point of view to examine the relationship between shareholder value creation and CBAs. This has not been emphasised in detail in the literature. The outline of the effect of institutions on CBAs helps to address some unexplained aspects related to shareholder value creation via CBAs. Moreover, it also creates an explanation for entering into a CBA following the resource-based view. It creates access to the resources that a bank does not have and creates access to resources with which to realise economies of scale. Furthermore, the theoretical findings indicate that the motives for a CBA have for some aspects a positive relationship with shareholder value creation of the acquirer and for some others a negative relationship. Policymakers should take these factors into account to create more efficient institutions for a stabilised European banking network.

From an empirical context, the thesis takes the approach of looking at CBAs and the effect on shareholder value creation of acquirer banks via the CAR. It studies European CBAs over a 23-year period. Despite the lack of an extensive sample, the quantitative analysis indicates a positive 21-day CAAR, and therefore a positive CBA effect on shareholder value creation of the acquirer banks in the event period. However, the regression analyses shows the influence of the variables on the CAAR including the effect of the number of CBAs on the CAAR. The outcome indicates a negative relationship between the number of CBA's and shareholder value creation. It also examines the moderating factor of institutions of the target country on the relationship between the number of CBAs and shareholder value creation of the acquirer, measured via the CAAR. This thesis makes it possible to show which institutional elements, such as law effectiveness and political ideology of the target home country, are factors of shareholder value creation of the acquirer during a CBA. The interaction effect results are close to zero which might be influenced by the lack of differentiation in the data sample of the moderators.

On the practical side, this thesis supports looking deeper into the effect of home country institutions and the effect on CBAs in general. If the empirics and theories are combined, this study shows the economic reasons for, amongst others, European policymakers, banks, and national central banks to look into how institutions could affect overall CBA progress in the European banking market.

The general banking concern of being ‘too big to fail’ will attract extra attention if more banks achieve ‘big’ status. As indicated, CBAs are a way for banks to grow. The analysis shows an indication of the effect of the institution moderation factors on shareholder value creation for an acquirer, which could influence the acquirer’s considerations. Therefore, it should be questioned whether more banks will reach the system bank status under the current European institutional environment.

6.2 Limitations and directions for future research

The study focuses on the impact of European CBAs on the shareholder value creation of European banks and the moderating effect of institutions between the main relationship. It does not examine the whole and lengthy performance of the acquirer and the target. The focus is on acquirer stock price variation during the announcement of the CBA, which could indicate a direct relationship between the CBA and the shareholder value of the acquirer. Hence, it is not an overall picture of the relationship between the main relationship and the moderating factor of institutions. This limits the ability to provide a strong proposal to policymakers, central European banks, and banks on the relationship between the number of CBAs and the shareholder value creation for an acquirer bank.

Moreover, the number of qualified European banking CBAs is limited, which influences the significant outcomes of the empirical results. The regression results did not reach statistical significance and therefore further studies, with a higher *n* and a global scope, are needed to verify the outcome. Additionally, there are data limitations, which may have an effect on the empirical findings. The Zephyr outcome shows qualified 807 CBAs, although some of the deal details, such as the historic stock prices of the acquirer could not be found. Therefore, the statistical analysis is not 100% precise. Second, the qualified data sample of this thesis is small and selective. The CBAs are controlled by only selecting finalised European banking CBAs. Without better quality data and a bigger sample, the outcome of the statistical analysis should not be too generalised. Moreover, there is no examination of the long-term effect of CBAs on shareholder value creation. This is based on the difficulty of analysing the long-term shareholder value creation of the data samples. Fourth, there is a limitation concerning the measurement of a moderating variable. The measurement of the variable of law effectiveness of the target country implies a score based on the ranking of economies on the ease of enforcing contracts determined by sorting their scores for enforcing contracts. The average of the scores is taken for each of the component elements, such as costs and time. The time limits are not recorded as set by law, but are recorded in practice. The practice element could create a disadvantage for some countries, as a plaintiff or a defendant legally has more time to respond. As the ECB calls for bigger banks, it is worthwhile to understand how European CBAs could influence shareholder value creation for banks, not only from an economic performance perspective, but also from the economic stability perspective of the banks. These results of this thesis could be the starting point for a detailed study into a potential significant negative relationship in the longer term and the moderating effect of other institutions such as religion, social trust, and globalisation. Moreover, future research could study the relationship between CBAs and institutions in general and not focus only on shareholder value creation of acquirers, instead taking the effect on other industries and stakeholders (client and environmental focus) into account.

7 Conclusion

The first objective of this study was to indicate the effect of European CBAs on shareholder value of the acquirer bank. I established that a CBA is an M&A transaction between banks operating in different countries and the role of related theories on a CBA. A CBA motivated by the resource-based view creates access to resources that a bank does not have and to resources with which to realise economies of scale. Then, the study highlights the determinants of a CBA. The key motives are capitalisation, higher efficiency, size, growth, management incentives, and industry concentration.

The study concludes that CBAs have progressively developed as an important strategy for companies to improve their performance. However, based on the literature, acquirers fail to gain value from CBAs. This study will highlight to what extent acquirers will gain CBA benefits in the form of shareholder value, the effect of the number of CBAs and the moderating effect of institutions such as law enforcement and political ideology between this relationship. The event study reveals a negative relationship between the number of European cross-border banking acquisitions and shareholder value creation. The research concluded that the moderating interaction effect of both institutions is limited on the relationship between the number of CBAs and shareholder value creation, however the regression results did not reach statistical significance.

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Appendices

Appendix A – data sample example (2 CBA’s per acquirer bank)

Acquirer bank	Acquirer country	Deal status	Announced date	year	CBA number	CAAR
BANCO DE SABADELL SA	ES	Completed	20/03/2015	2015	2	
ROYAL BANK of SCOTLAND GROUP PLC, THE	GB	Completed	06/10/2003	2003	2	
SVENSKA HANDELSBANKEN AB	SE	Completed	11/04/2001	2001	2	
LIECHTENSTEINISCHE LANDESBANK AG	LI	Completed	07/12/2006	2006	2	0.017
LIECHTENSTEINISCHE LANDESBANK AG	LI	Completed	22/12/2017	2017	2	
BANKINTER SA	ES	Completed	02/09/2015	2015	2	-0.036
RAIFFEISEN INTERNATIONAL BETEILIGUNGS AG	AT	Completed	17/01/2002	2002	2	
ALPHA CREDIT BANK AE	GR	Completed	18/09/1998	1998	2	0.020
MERKANTIL BANK ZRT	HU	Completed	29/02/2012	2012	2	
MERKANTIL BANK ZRT	HU	Completed	21/01/2010	2010	2	
CREDIT SUISSE GROUP AG	CH	Completed	11/09/1997	1997	2	0.038
FORTIS NV	BE	Completed	12/12/1997	1997	2	0.020
CREDIT SUISSE GROUP AG	CH	Completed	06/11/1998	1998	2	
BANCO DE SABADELL SA	ES	Completed	18/01/2000	2000	2	
SVENSKA HANDELSBANKEN AB	SE	Completed	03/05/1999	1999	2	0.039
ALPHA BANK AE	GR	Completed	05/06/2002	2002	2	
FORTIS NV	BE	Completed	29/11/2002	2002	2	
RAIFFEISEN INTERNATIONAL BETEILIGUNGS AG	AT	Completed	30/04/2003	2003	2	